

PROSPECT CAPITAL CORP
 Form 497
 December 03, 2015

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated December 3, 2015
 Filed pursuant to Rule 497
 File No. 333-206661

PRELIMINARY PROSPECTUS SUPPLEMENT
 (To Prospectus dated November 3, 2015)

\$
 Prospect Capital Corporation
 % Notes due 2024

This is an offering by Prospect Capital Corporation of \$ _____ in aggregate principal amount of its % Notes due 2024, which we refer to in this prospectus supplement as the Notes. The Notes will mature on June 15, 2024. We will pay interest on the Notes on March 15, June 15, September 15 and December 15 of each year, beginning March 15, 2016. We may redeem the Notes in whole or in part at any time or from time to time on or after December 15, 2018, at the redemption price discussed under the caption “Specific Terms of the Notes and the Offering-Optional redemption” in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof. We may offer other debt securities from time to time other than the Notes under our Registration Statement or in private placements.

The Notes will be our direct unsecured obligations and rank pari passu with all outstanding and future unsecured unsubordinated indebtedness issued by Prospect Capital Corporation.

We intend to list the Notes on The New York Stock Exchange and we expect trading in the Notes on The New York Stock Exchange to begin within 30 days of the original issue date. The Notes are expected to trade “flat.” This means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not reflected in the trading price. Currently, there is no public market for the Notes and it is not expected that a market for the Notes will develop unless and until the Notes are listed on The New York Stock Exchange.

Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940.

Prospect Capital Management L.P. manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

Investing in the Notes involves risks, including those described in the “Risk Factors” section beginning on page S-8 of this prospectus supplement and page 10 of the accompanying prospectus.

	Per Note	Total(2)
Public offering price(1)	%	\$
Underwriting discounts and commissions (sales load)	%	\$
Proceeds to Prospect Capital Corporation (before expenses)(3)	%	\$

(1) The public offering price set forth above does not include accrued interest, if any.

(2) Assumes no exercise of the underwriters option to purchase additional Notes as described below.

(3) Expenses payable by us related to this offering are estimated to be \$200,000.

The underwriters may also purchase up to an additional \$ total aggregate principal amount of Notes within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be \$, the total underwriting discounts and commissions (sales load) paid by us will be \$, and total proceeds, before expenses, will be \$.

THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about , 2015.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read this prospectus supplement and the accompanying prospectus before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 42nd Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus

supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

UBS Investment Bank BofA Merrill Lynch Morgan Stanley RBC Capital Markets

Co-Managers

BB&T Capital Markets Deutsche Bank Securities FBR Ladenburg Thalmann

Maxim Group LLC MLV & Co. Oppenheimer & Co. Wunderlich

Prospectus Supplement dated , 2015.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the “Exchange Act,” which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as “intends,” “intend,” “intended,” “goal,” “estimate,” “estimates,” “expects,” “expect,” “expected,” “project,” “projected,” “projects,” “seeks,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable future,” “believe,” “believe in,” “scheduled” and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- our future operating results,
- our business prospects and the prospects of our portfolio companies,
- the impact of investments that we expect to make,
- our contractual arrangements and relationships with third parties,
- the dependence of our future success on the general economy and its impact on the industries in which we invest,
- the ability of our portfolio companies to achieve their objectives,
- difficulty in obtaining financing or raising capital, especially in the current credit and equity environment,
- the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets,
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise,
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us,
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company,
- the adequacy of our cash resources and working capital,
- the timing of cash flows, if any, from the operations of our portfolio companies,
- the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments,
- authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, Internal Revenue Service, the NASDAQ Global Select Market, the New York Stock Exchange and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and
- the risks, uncertainties and other factors we identify in “Risk Factors” and elsewhere in this prospectus supplement and the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, ability to obtain certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying prospectus, respectively, should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not

place undue reliance on these forward-looking statements, which apply

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only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in the prospectus.

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PROSPECTUS SUMMARY

This summary highlights some of the information contained elsewhere in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under “Risk Factors” in this prospectus supplement and in the accompanying prospectus and the other information included in this prospectus supplement and the accompanying prospectus.

The terms “we,” “us,” “our” and “Company” refer to Prospect Capital Corporation; “Prospect Capital Management,” “Investment Adviser” and “PCM” refer to Prospect Capital Management L.P., formerly Prospect Capital Management LLC; and “Prospect Administration” and the “Administrator” refer to Prospect Administration LLC.

The Company

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. We are one of the largest BDCs with approximately \$6.6 billion of total assets as of September 30, 2015.

We are externally managed by our investment adviser, Prospect Capital Management. Prospect Administration provides administrative services and facilities necessary for us to operate.

On May 15, 2007, we formed a wholly-owned subsidiary Prospect Capital Funding LLC (“PCF”), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the revolving credit facility at PCF. Our wholly-owned subsidiary Prospect Small Business Lending, LLC (“PSBL”) was formed on January 27, 2014 and purchases small business whole loans on a recurring basis from online small business loan originators, including On Deck Capital, Inc. (“OnDeck”) and Direct Capital Corporation (“Direct Capital”). On September 30, 2014, we formed a wholly-owned subsidiary Prospect Yield Corporation, LLC (“Prospect Yield”) and effective October 23, 2014, Prospect Yield holds our investments in collateralized loan obligations (“CLOs”). Each of these subsidiaries have been consolidated since operations commenced.

We currently have nine origination strategies in which we make investments: (1) lending in private equity sponsored transactions, (2) lending directly to companies not owned by private equity firms, (3) control investments in corporate operating companies, (4) control investments in financial companies, (5) investments in structured credit, (6) real estate investments, (7) investments in syndicated debt, (8) aircraft leasing and (9) online lending. We continue to evaluate other origination strategies in the ordinary course of business with no specific tops-down allocation to any single origination strategy.

Lending in Private Equity Sponsored Transactions – We make loans to companies which are controlled by leading private equity firms. This debt can take the form of first lien, second lien, unitranche or unsecured loans. In making these investments, we look for a diversified customer base, recurring demand for the product or service, barriers to entry, strong historical cash flow and experienced management teams. These loans typically have significant equity subordinate to our loan position. Historically, this strategy has comprised approximately 50%-60% of our business, but more recently it is less than 50% of our business.

Lending Directly to Companies – We provide debt financing to companies owned by non-private equity firms, the company founder, a management team or a family. Here, in addition to the strengths we look for in a sponsored transaction, we also look for the alignment with the management team with significant invested capital. This strategy often has less competition than the private equity sponsor strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. Direct lending can result in higher returns and lower leverage than sponsor transactions and may include warrants or equity to us. Historically, this strategy has comprised approximately 5%-15% of our business, but more recently it is less than 5% of our business.

Control Investments in Corporate Operating Companies – This strategy involves acquiring controlling stakes in non-financial operating companies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. We provide enhanced certainty of closure to our counterparties, give the seller

personal liquidity and generally look for management to continue on in their current roles. This strategy has comprised approximately 10%-15% of our business.

Control Investments in Financial Companies – This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, sub-prime auto lending and other strategies. Our investments in these companies are

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generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 5%-15% of our business.

Investments in Structured Credit – We make investments in CLOs, generally taking a significant position in the subordinated interests (equity) of the CLOs. The CLOs include a diversified portfolio of broadly syndicated loans and do not have direct exposure to real estate, mortgages, debt or consumer based debt. The CLOs in which we invest are managed by top-tier collateral managers that have been thoroughly diligenced prior to investment. This strategy has comprised approximately 10%-20% of our business.

Real Estate Investments – We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts (“REITs”), American Property REIT Corp. (“APRC”), National Property REIT Corp. (“NPRC”) and United Property REIT Corp. (“UPRC” and, collectively with APRC and NPRC, “our REITs”). Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs co-invest with established and experienced property managers that manage such properties after acquisition. This investment strategy has comprised approximately 5%-10% of our business.

Investments in Syndicated Debt – On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

Aircraft Leasing – We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1% of our business in the fiscal year ended June 30, 2015 and approximately 1% as of September 30, 2015.

Online Lending – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) aggregators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the aggregators of the loans. This strategy comprised approximately 5% of our business in the fiscal year ended June 30, 2015 and approximately 5% as of September 30, 2015.

Typically, we concentrate on making investments in companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. Our typical investment involves a secured loan of less than \$250 million. We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as “target” or “middle market” companies and these investments as “middle market investments.” We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are constantly pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of September 30, 2015, we had investments in 131 portfolio companies. The aggregate fair value as of September 30, 2015 of investments in these portfolio companies held on that date is approximately \$6.4 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 13.0% as of September 30, 2015.

Recent Developments

Investment Transactions

On October 2, 2015, we provided \$17.5 million of first lien senior secured debt to Easy Gardener Products, Inc., a designer, marketer, and manufacturer of branded lawn and garden products.

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On October 9, 2015, BAART Programs, Inc. repaid the \$42.8 million loans receivable to us.

On October 16, 2015, we made a \$37.0 million second lien secured debt investment in Universal Fiber Systems, LLC, a manufacturer of custom and specialty fiber products used in high performance applications.

On November 2, 2015, we provided \$50.0 million of first lien senior secured debt to Coverall North America, Inc., a leading franchiser of commercial cleaning businesses. As part of the transaction, we received repayment of the \$49.6 million loan outstanding.

On November 6, 2015, we made a \$20.0 million second lien secured debt investment in Sirius Computer Systems, a value-added reseller of data center-focused hardware, software and related services.

On November 16, 2015 and November 25, 2015, we sold our \$14.8 million debt investment in American Gilsonite Company. We realized a loss of \$4.1 million on the sale.

On November 30, 2015, Tolt Solutions, Inc. repaid the \$96.4 million loan receivable to us.

During the period from October 1, 2015 through November 30, 2015, we made eight follow-on investments in NPRC totaling \$70.9 million to support the online consumer lending initiative. We invested \$10.6 million of equity through NPH Property Holdings, LLC and \$56.0 million of debt to ACL Loan Holdings, Inc., a wholly-owned subsidiary of NPRC, with the remaining \$4.3 million of debt directly to NPRC. In addition, during this period, we received partial repayments of \$62.6 million of the NPRC loan previously outstanding and \$7.1 million as a return of capital on the equity investment in NPRC.

During the period from October 1, 2015 through November 30, 2015, our wholly-owned subsidiary PSBL purchased \$17.0 million of small business whole loans from OnDeck.

Common Stock Repurchases

During the period from October 1, 2015 through November 30, 2015 (with settlement dates of October 1, 2015 to December 2, 2015), we repurchased 300,000 shares of our common stock at an average price of \$7.48 per share, including commissions.

Debt and Equity

On November 3, 2015, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$5.0 billion of additional debt and equity securities in the public market.

During the period from October 1, 2015 through November 30, 2015, we issued \$17.4 million aggregate principal amount of Prospect Capital InterNotes[®] for net proceeds of \$17.2 million.

During the period from October 1, 2015 through November 30, 2015, we repaid \$1.7 million aggregate principal amount of Prospect Capital InterNotes[®] at par in accordance with the Survivor's Option, as defined in the InterNotes[®] Offering prospectus.

Dividends

On November 4, 2015, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.08333 per share for November 2015 to holders of record on November 30, 2015 with a payment date of December 24, 2015;

\$0.08333 per share for December 2015 to holders of record on December 31, 2015 with a payment date of January 21, 2016; and

\$0.08333 per share for January 2016 to holders of record on January 29, 2016 with a payment date of February 18, 2016.

SPECIFIC TERMS OF THE NOTES AND THE OFFERING

This prospectus supplement sets forth certain terms of the Notes that Prospect Capital Corporation is offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes under the heading “Description of the Notes” in this prospectus supplement and in the accompanying prospectus under the heading “Description of Our Debt Securities” before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing, or the supplemental indenture establishing, the terms of the Notes (collectively, the indenture and the supplemental indenture is referred to as the “Indenture”).

Issuer	Prospect Capital Corporation
Title of securities	% Notes due 2024
Initial aggregate principal amount being offered	\$
Option to purchase additional Notes	The underwriters may also purchase from us up to an additional \$ aggregate principal amount of Notes within 30 days of the date of this prospectus supplement.
Initial public offering price	% of the aggregate principal amount of Notes.
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in The City of New York as we may designate.
Type of Note	Fixed rate note
Listing	We intend to list the Notes on The New York Stock Exchange within 30 days of the original issue date. The Notes will not be listed or quoted for trading on any national securities exchange or trading market on the original issue date.
Interest rate	% per year
Day count basis	360-day year of twelve 30-day months
Original issue date	, 2015
Stated maturity date	June 15, 2024
Date interest starts accruing	, 2015
Interest payment dates	Every March 15, June 15, September 15 and December 15, commencing March 15, 2016. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Interest periods	

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The initial interest period will be the period from and including _____, 2015, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

Regular record dates for interest	Every March 1, June 1, September 1 and December 1, commencing March 1, 2016.
Specified currency	U.S. Dollars

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Place of payment	New York City
Ranking of Notes	<p>The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future, unsecured indebtedness (including, but not limited to, our \$150 million in aggregate principal amount of 6.25% Convertible Notes due 2015 (the “2015 Notes”), our \$167.5 million in aggregate principal amount of 5.5% Convertible Notes due 2016 (the “2016 Notes”), our \$130 million in aggregate principal amount of 5.375% Convertible Notes due 2017 (the “2017 Notes”), our \$200 million aggregate principal amount of 5.75% Convertible Notes due 2018 (the “2018 Notes”), our \$200 million aggregate principal amount of 5.875% Convertible Notes due 2019 (the “2019 Notes”), our \$300 million aggregate principal amount of 5.00% Unsecured Notes due 2019 (the “5.00% 2019 Notes”), our \$392 million aggregate principal amount of 4.75% Convertible Notes due 2020 (the “2020 Notes”), our \$250 million aggregate principal amount of 5.875% Unsecured Notes due 2023 (the “2023 Notes”) and our Prospect Capital InterNote®) and senior in right of payment to any of our subordinated indebtedness. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries.</p> <p>As of December 2, 2015, we and our subsidiaries had approximately \$2,897.0 million of senior indebtedness outstanding, \$2,678.3 million of which was unsecured indebtedness.</p>
Denominations	We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.
Business day	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.
Optional redemption	<p>The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after December 15, 2018 upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of \$25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to, but excluding, the date fixed for redemption.</p> <p>You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.</p> <p>Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act, to the extent applicable.</p> <p>If we redeem only some of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the 1940</p>

Act to the extent applicable. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Sinking fund

The Notes will not be subject to any sinking fund.

Repayment at option of Holders

Holder will not have the option to have the Notes repaid prior to the stated maturity date unless we undergo a fundamental change (as defined in this prospectus supplement). See “-Fundamental change repurchase right of Holders”.

Defeasance

The Notes are subject to defeasance by us.

Covenant defeasance

The Notes are subject to covenant defeasance by us.

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Form of Notes	The Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company (“DTC”) or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC.
Trustee, Paying Agent, Registrar and Transfer Agent	U.S. Bank National Association
Fundamental change repurchase right of Holders	If we undergo a fundamental change (as defined in this prospectus supplement) prior to maturity, you will have the right, at your option, to require us to repurchase for cash some or all of your Notes at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. See “Description of the Notes-Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change.”
Events of default	If an event of default on the Notes occurs, the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the Indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving the Company as defined in the Indenture.
Other covenants	In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes: <ul style="list-style-type: none"> • We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions. • If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end. All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.
Global clearance and settlement procedures	Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the Trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures

governing their operations.

Governing law

The Notes and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

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SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2015, 2014, 2013, 2012 and 2011 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months ended September 30, 2015 and 2014 has been derived from unaudited financial data. Interim results for the three months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending June 30, 2016. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” starting on page S-12 for more information.

	For the Three Months Ended September 30,		For the Year Ended June 30,				
	2015	2014	2015	2014	2013	2012	2011
(in thousands except data relating to shares, per share and number of portfolio companies)							
Performance Data:							
Interest income	\$ 191,303	\$ 184,140	\$ 748,974	\$ 613,741	\$ 435,455	\$ 219,536	\$ 134,454
Dividend income	3,215	2,225	7,663	26,837	82,705	64,881	15,092
Other income	5,733	15,656	34,447	71,713	58,176	36,493	19,930
Total investment income	200,251	202,021	791,084	712,291	576,336	320,910	169,476
Interest and credit facility expenses	(41,957)	(42,914)	(170,660)	(130,103)	(76,341)	(38,534)	(17,598)
Investment advisory expense	(55,764)	(56,781)	(225,277)	(198,296)	(151,031)	(82,507)	(46,051)
Other expenses	(11,288)	(7,863)	(32,400)	(26,669)	(24,040)	(13,185)	(11,606)
Total expenses	(109,009)	(107,558)	(428,337)	(355,068)	(251,412)	(134,226)	(75,255)
Net investment income	91,242	94,463	362,747	357,223	324,924	186,684	94,221
Realized and unrealized (losses) gains	(63,425)	(10,355)	(16,408)	(38,203)	(104,068)	4,220	24,017
Net increase in net assets from operations	\$ 27,817	\$ 84,108	\$ 346,339	\$ 319,020	\$ 220,856	\$ 190,904	\$ 118,238
Per Share Data:							
Net increase in net assets from operations(1)	\$ 0.08	\$ 0.24	\$ 0.98	\$ 1.06	\$ 1.07	\$ 1.67	\$ 1.38
Distributions declared per share	\$(0.25)	\$(0.33)	\$(1.19)	\$(1.32)	\$(1.28)	\$(1.22)	\$(1.21)
Average weighted shares	356,962,242	343,359,061	353,648,522	300,283,941	207,069,971	114,394,554	85,978,757

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outstanding for
the period
Assets and
Liabilities

Data:

Investments	\$6,430,900	\$6,253,493	\$6,609,558	\$6,253,739	\$4,172,852	\$2,094,221	\$1,463,010	
Other assets	139,579	579,572	188,496	223,530	275,365	161,033	86,307	
Total assets	6,570,479	6,833,065	6,798,054	6,477,269	4,448,217	2,255,254	1,549,317	
Amount drawn on credit facility	156,700	411,000	368,700	92,000	124,000	96,000	84,200	
Convertible notes	1,239,500	1,247,500	1,239,500	1,247,500	847,500	447,500	322,500	
Public notes	548,143	647,950	548,094	647,881	347,725	100,000	—	
InterNotes®	874,948	784,305	827,442	785,670	363,777	20,638	—	
Amount owed to Prospect Administration and Prospect Capital Management	5,577	6,187	6,788	2,211	6,690	8,571	7,918	
Other liabilities	131,590	88,364	104,481	83,825	102,031	70,571	20,342	
Total liabilities	2,956,458	3,185,306	3,095,005	2,859,087	1,791,723	743,280	434,960	
Net assets	\$3,614,021	\$3,647,759	\$3,703,049	\$3,618,182	\$2,656,494	\$1,511,974	\$1,114,357	
Investment Activity Data:								
No. of portfolio companies at period end	131	140	131	142	124	85	72	
Acquisitions	\$437,613	\$887,205	\$2,088,988	\$2,952,356	\$3,103,217	\$1,120,659	\$953,337	
Sales, repayments, and other disposals	\$528,789	\$863,144	\$1,633,073	\$786,969	\$931,534	\$500,952	\$285,562	
Total return based on market value(2)	—	% (3.94)% (20.8)% 10.9	% 6.2	% 27.2	% 17.2	%
Total return based on net asset value(2)	1.96	% 2.24	% 11.5	% 11.0	% 10.9	% 18.0	% 12.5	%
Weighted average annualized yield at end of period(3)	13.0	% 11.9	% 12.7	% 12.1	% 13.6	% 13.9	% 12.8	%

(1) Per share data is based on average weighted shares for the period.

(2) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are

reinvested in accordance with our dividend reinvestment plan. For periods less than a year, the return is not annualized.

(3) Excludes equity investments and non-performing loans.

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RISK FACTORS

Your investment in the Notes will involve certain risks. This prospectus supplement and the accompanying prospectus do not describe all of those risks.

You should, in consultation with your own financial and legal advisors, carefully consider the following discussion of risks before deciding whether an investment in the Notes is suitable for you. The Notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the Notes or financial matters in general. You should not purchase the Notes unless you understand, and know that you can bear, these investment risks.

Our amount of debt outstanding will increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our other debt.

As of December 2, 2015, we and our subsidiaries had \$218.7 million of secured indebtedness outstanding and approximately \$2,678.3 million of unsecured indebtedness outstanding.

The use of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;
- reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our other debt.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or amended senior credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including any Notes sold, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us or the Notes, if any, could cause the liquidity or market value of the Notes to decline significantly.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. Neither we nor the underwriters undertake any obligation to maintain the ratings or to advise holders of Notes of any changes in ratings.

The Notes will be rated by Standard & Poor's Ratings Services, or "S&P," and Kroll Bond Rating Agency, Inc., or "Kroll." There can be no assurance that their rating will remain for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P or Kroll if in their respective judgment future circumstances relating to the basis of the rating, such as adverse changes in our company, so warrant.

The Notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries.

The Notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured indebtedness, including without limitation, the \$150.0 million aggregate principal amount of 6.25% Convertible Notes due 2015 (the "2015 Notes"), the \$167.5 million aggregate principal amount of 5.50% Convertible Notes due 2016 (the "2016 Notes"), the \$130.0 million aggregate principal amount of 5.375% Convertible Notes due 2017 (the "2017 Notes"), the \$200.0 million aggregate principal amount of 5.75% Convertible Notes due 2018 (the "2018 Notes"), the \$200.0 million aggregate principal amount of 5.875% Convertible Notes due 2019 (the "2019 Notes"), the \$300.0 million aggregate principal amount of 5.00% Unsecured Notes due 2019 (the "5.00% 2019 Notes"), the \$392.0 million aggregate principal amount of 4.75% Convertible Notes due 2020 (the "2020 Notes"), the \$250.0 million aggregate principal amount of 5.875% Unsecured Notes due 2023 (the "2023 Notes") and the Prospect Capital InterNotes[®]. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. Effective subordination means that in any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity with respect to the subsidiary's assets. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The Notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the Notes. As of December 2, 2015, we had \$218.7 million borrowings under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the Notes to the extent of the value of such assets.

Each of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes and the Prospect Capital InterNotes[®] may be due prior to the Notes. We do not currently know whether we will be able to replace any such notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes or the Prospect Capital InterNotes[®] at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the Notes and our ability to qualify as a regulated investment company, or "RIC." The Indenture under which the Notes will be issued will contain limited protection for holders of the Notes.

The Indenture under which the Notes will be issued offers limited protection to holders of the Notes. The terms of the Indenture and the Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the Notes. In particular, the terms of the Indenture and the Notes will not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
enter into transactions with affiliates;
create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

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make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

Furthermore, the terms of the Indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the Indenture and the Notes. See in the accompanying prospectus “Risk Factors-Risks Relating to Our Business-The Notes present other risks to holders of our common stock, including the possibility that the Notes could discourage an acquisition of the Company by a third party and accounting uncertainty” and “-In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations.” In addition, other debt we issue or incur in the future could contain more protections for its holders than the Indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

We may be subject to certain corporate-level taxes which could adversely affect our cash flow and consequently adversely affect our ability to make payments on the Notes.

We may be subject to certain corporate-level taxes regardless of whether we continue to qualify as a RIC.

Additionally, should we fail to qualify as a RIC, we would be subject to corporate-level taxes on all of our taxable income. The imposition of corporate-level taxes could adversely affect our cash flow and consequently adversely affect our ability to make payments on the Notes.

The Notes may not be approved by The New York Stock Exchange and an active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them.

The Notes are a new issue of debt securities for which there currently is no trading market. Although we expect the Notes to be listed on The New York Stock Exchange, we cannot provide any assurances that The New York Stock Exchange will approve the listing of the Notes or that an active trading market will develop for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. The underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

We may choose to redeem the Notes when prevailing interest rates are relatively low.

Beginning December 15, 2018, we may choose to redeem the Notes from time to time, especially when prevailing interest rates are lower than the rate borne by the Notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Notes. Our redemption right also may adversely impact your ability to sell the Notes.

The Indenture governing the Notes will not contain restrictive covenants and will provide only limited protection in the event of a change of control.

The Indenture under which the Notes will be issued will not contain any financial or operating covenants or any other restrictive covenants that would limit our ability to engage in certain transactions that may adversely affect you. In particular, the Indenture will not contain covenants that limit our ability to pay dividends or make distributions on or redeem our capital stock or that limit our ability to incur additional indebtedness, including in a highly leveraged

transaction or other similar transaction. We will only be required to offer to repurchase the Notes upon a change of control in the case of the transactions

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specified in the definition of a “fundamental change” under “Description of the Notes-Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change.”

Accordingly, subject to restrictions contained in our other debt agreements, we will be permitted to engage in certain transactions, such as acquisitions, refinancings or recapitalizations, that could affect our capital structure and the value of the Notes but would not constitute a fundamental change under the Notes.

We may be unable to repurchase the Notes following a fundamental change.

Holder of the Notes have the right to require us to repurchase the Notes prior to their maturity upon the occurrence of a fundamental change as described under “Description of the Notes-Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change.” Any of our future debt agreements may contain similar provisions. We may not have sufficient funds or the ability to arrange necessary financing on acceptable terms at the time we are required to make repurchases of tendered Notes. In addition, our ability to repurchase the Notes may be limited by law or the terms of other agreements relating to our debt outstanding at the time, including our credit facility. If we fail to repurchase the Notes as required by the Indenture, it would constitute an event of default under the Indenture governing the Notes, which, in turn, would constitute an event of default under our credit facility.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Notes.

Upon the occurrence of a fundamental change, you have the right to require us to offer to repurchase the Notes.

However, the fundamental change provisions will not afford protection to holders of the Notes in the event of certain transactions. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us would not constitute a fundamental change event which may require us to repurchase the Notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of the Notes.

Provisions of the Notes could discourage an acquisition of us by a third party.

Certain provisions of the Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change event, holders of the Notes will have the right, at their option, to require us to repurchase all of their Notes or any portion of the principal amount of such Notes in integral multiples of \$25.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All figures in this item are in thousands except share, per share and other data.)

References herein to "we," "us" or "our" refer to Prospect Capital Corporation and its subsidiary unless the context specifically requires otherwise.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

Overview

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). As a BDC, we have elected to be treated as a regulated investment company ("RIC"), under Subchapter M of the Internal Revenue Code of 1986 (the "Code"). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004.

On May 15, 2007, we formed a wholly-owned subsidiary Prospect Capital Funding LLC ("PCF"), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the revolving credit facility at PCF. Our wholly-owned subsidiary Prospect Small Business Lending, LLC ("PSBL") was formed on January 27, 2014 and purchases small business whole loans on a recurring basis from online small business loan originators, including On Deck Capital, Inc. ("OnDeck") and Direct Capital Corporation ("Direct Capital"). On September 30, 2014, we formed a wholly-owned subsidiary Prospect Yield Corporation, LLC ("PYC") and effective October 23, 2014, PYC holds our investments in collateralized loan obligations ("CLOs"). Each of these subsidiaries have been consolidated since operations commenced.

Effective July 1, 2014, we began consolidating certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies have been included in our consolidated financial statements since July 1, 2014: AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC; Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. ("SB Forging"). As such, we began consolidating SB Forging on October 11, 2014. We collectively refer to these entities as the "Consolidated Holding Companies."

We are externally managed by our investment adviser, Prospect Capital Management L.P. ("Prospect Capital Management" or the "Investment Adviser"). Prospect Administration LLC ("Prospect Administration" or the "Administrator") provides administrative services and facilities necessary for us to operate.

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We invest primarily in senior and subordinated debt and equity of private companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We currently have nine origination strategies in which we make investments: (1) lending in private equity sponsored transactions, (2) lending directly to companies not owned by private equity firms, (3) control investments in corporate operating companies, (4) control investments in financial companies, (5) investments in structured credit, (6) real estate investments, (7) investments in syndicated debt, (8) aircraft leasing and (9) online lending. We continue to evaluate other origination strategies in the ordinary course of business with no specific tops-down allocation to any single origination strategy.

Lending in Private Equity Sponsored Transactions – We make loans to companies which are controlled by leading private equity firms. This debt can take the form of first lien, second lien, unitranche or unsecured loans. In making these investments, we look for a diversified customer base, recurring demand for the product or service, barriers to entry, strong historical cash flow and experienced management teams. These loans typically have significant equity subordinate to our loan position. Historically, this strategy has comprised approximately 50%-60% of our business, but more recently it is less than 50% of our business.

Lending Directly to Companies – We provide debt financing to companies owned by non-private equity firms, the company founder, a management team or a family. Here, in addition to the strengths we look for in a sponsored transaction, we also look for the alignment with the management team with significant invested capital. This strategy often has less competition than the private equity sponsor strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. Direct lending can result in higher returns and lower leverage than sponsor transactions and may include warrants or equity to us. Historically, this strategy has comprised approximately 5%-15% of our business, but more recently it is less than 5% of our business.

Control Investments in Corporate Operating Companies – This strategy involves acquiring controlling stakes in non-financial operating companies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. We provide enhanced certainty of closure to our counterparties, give the seller personal liquidity and generally look for management to continue on in their current roles. This strategy has comprised approximately 10%-15% of our business.

Control Investments in Financial Companies – This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, sub-prime auto lending and other strategies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 5%-15% of our business.

Investments in Structured Credit – We make investments in CLOs, generally taking a significant position in the subordinated interests (equity) of the CLOs. The CLOs include a diversified portfolio of broadly syndicated loans and do not have direct exposure to real estate, mortgages, debt or consumer based debt. The CLOs in which we invest are managed by top-tier collateral managers that have been thoroughly diligenced prior to investment. This strategy has comprised approximately 10%-20% of our business.

Real Estate Investments – We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts (“REITs”), American Property REIT Corp. (“APRC”), National Property REIT Corp. (“NPRC”) and United Property REIT Corp. (“UPRC” and collectively with APRC and NPRC, “our REITs”). Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs co-invest with established and experienced property managers that manage such properties after acquisition. This investment strategy has comprised approximately 5%-10% of our business.

Investments in Syndicated Debt – On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

Aircraft Leasing – We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1% of our business in the fiscal year ended June 30, 2015 and approximately 1% as of September 30, 2015.

Online Lending – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) aggregators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the aggregators of the loans. This strategy comprised approximately

5% of our business in the fiscal year ended June 30, 2015 and approximately 5% as of September 30, 2015.

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We invest primarily in first and second lien secured loans and unsecured debt, which in some cases includes an equity component. First and second lien secured loans generally are senior debt instruments that rank ahead of unsecured debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Our investments in CLOs are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B.

We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment in the holding company, generally as equity, its equity investment in the operating company and along with any debt from us directly to the operating company structure represents our total exposure for the investment. As of September 30, 2015, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$1,973,325 and \$2,012,700, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this Quarterly Report. On July 1, 2014, we began consolidating all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There were no significant effects of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies. We seek to be a long-term investor with our portfolio companies. The aggregate fair value of our portfolio investments was \$6,430,900 and \$6,609,558 as of September 30, 2015 and June 30, 2015, respectively. During the three months ended September 30, 2015, our net cost of investments decreased by \$117,383, or 1.8%, as a result of the following: three new investments, several follow-on investments, and two revolver advances totaling \$437,613 (including structuring fees of \$3,556); payment-in-kind interest of \$1,279; net amortization of discounts and premiums of \$24,072; and full repayments on six investments, sale of one investments, and several partial prepayments and amortization payments totaling \$528,789, net of realized losses totaling \$2,135.

Compared to the end of last fiscal year (ended June 30, 2015), net assets decreased by \$89,028, or 2.4%, during the three months ended September 30, 2015, from \$3,703,049 to \$3,614,021. This decrease results from \$89,115 in dividend distributions to our stockholders and the repurchase of shares of our common stock in the amount of \$31,530. These decreases, in turn, were offset by \$27,817 from operations and dividend reinvestments of \$3,682. The \$27,817 from operations is net of the following: net investment income of \$91,242, net realized losses on investments of \$2,135, net change in unrealized depreciation on investments of \$61,275, and net realized losses on extinguishment of debt of \$15.

First Quarter Highlights

Investment Transactions

During the three months ended September 30, 2015, we acquired \$229,334 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$203,600, funded \$3,400 of revolver advances, and recorded PIK interest of \$1,279, resulting in gross investment originations of \$437,613. During the three months ended September 30, 2015, we received full repayments on six investments and received several partial prepayments and amortization payments totaling \$437,729, including realized losses totaling \$2,135. The more significant of these transactions are discussed in "Portfolio Investment Activity."

Debt Issuances and Redemptions

During the three months ended September 30, 2015, we issued \$48,134 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$47,381. These notes were issued with stated interest rates ranging from 4.625% to 5.25% with a weighted average interest rate of 5.06%. These notes mature between July 15, 2020 and March 15, 2022. The following table summarizes the Prospect Capital InterNotes® issued during the three months ended September 30, 2015.

Tenor at	Principal	Interest Rate	Weighted	Maturity Date Range
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Origination (in years)	Amount	Range	Average Interest Rate	
5	\$17,784	4.63%–4.75%	4.741	% July 15, 2020 – September 15, 2020
6.5	30,350	5.10%–5.25%	5.24	% January 15, 2022 – March 15, 2022
	\$48,134			

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During the three months ended September 30, 2015, we repaid \$628 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended September 30, 2015 was \$15.

Share Repurchase Program

On August 24, 2011, our Board of Directors approved a share repurchase plan (the "Repurchase Program") under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value per share. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. Our last notice was delivered with our annual proxy mailing on September 10, 2015. This notice lasts for six months after notice is given. During the three months ended September 30, 2015, we repurchased 4,358,750 shares of our common stock pursuant to our Repurchase Program for \$31,530, or approximately \$7.23 weighted average price per share at an approximately 30% discount to net asset value. Our net asset value per share was increased by approximately \$0.04 as a result of the share repurchases.

Equity Issuances

On July 23, 2015, August 20, 2015 and September 17, 2015, we issued 193,892, 152,896 and 143,685 shares of our common stock in connection with the dividend reinvestment plan, respectively.

"Spin-Offs" of Certain Business Strategies

We previously announced that we intend to unlock value by "spinning off" certain "pure play" business strategies to our shareholders. We desire through these transactions to (i) transform some of the business strategies we have successfully grown and developed inside Prospect into pure play public companies with the potential for increased earnings multiples, (ii) allow for continued revenue and earnings growth through more flexible non-BDC formats (which are expected to benefit from not having one or more of the (a) 30% basket, (b) leverage, and (c) control basket constraining BDCs, and (iii) free up our 30% basket and leverage capacity for new originations at Prospect. The business strategies we intend to enable our shareholders to participate in on a "pure play" basis have grown faster than our overall growth rate in the past few years, with outlets in less constricting structures required to continue this strong growth. We anticipate these non-BDC companies will have tax efficient structures.

We initially intend to focus our "spin-off" efforts on the launch of up to three separate companies owning portions of our (i) consumer online lending business, (ii) real estate business and (iii) structured credit business. We are seeking to divest these businesses in conjunction with rights offering capital raises in which existing Prospect shareholders could elect to participate in each offering or sell their rights. The goals of these "spin-offs" include leverage and earnings neutrality for Prospect. Our primary objective is to maximize the valuation of each offering (declining to proceed with any offering if we find any valuation not to be attractive).

The sizes and likelihood of these dispositions, some of which are expected to be partial rather than complete spin-offs, remain to be determined, but we currently expect the collective size of these three dispositions to be 10% or less of our asset base. We seek to complete the first of these "spin-offs" early in calendar year 2016 and the others subsequently in a sequential fashion. The consummation of any of the spin-offs depends upon, among other things: market conditions, regulatory and exchange listing approval, and sufficient investor demand, and there can be no guarantee that we will consummate any of these spin-offs.

On March 11, 2015, Prospect Yield Corporation, LLC ("Prospect Yield"), our wholly-owned subsidiary, filed a registration statement with the SEC in connection with our rights offering disposition of a portion of our structured credit business, and Prospect Yield filed an amendment on April 17, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, during calendar year 2016.

On May 6, 2015, Prospect Finance Company, LLC ("Prospect Finance"), our indirect wholly-owned subsidiary, filed a confidential registration statement with the SEC in connection with our rights offering disposition of our online consumer lending business, and Prospect Finance filed confidential amendments on June 16, July 20 and August 12, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, late in calendar year 2016.

On May 6, 2015, Prospect Realty Income Trust Corp. (“Prospect Realty”), our wholly-owned subsidiary, filed a confidential registration statement with the SEC in connection with our rights offering disposition of a portion of our real estate

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business, and Prospect Realty filed confidential amendments on June 30, July 27 and August 12, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, during calendar year 2016.

On May 19, 2015, Prospect, Prospect Capital Management, Prospect Yield, Prospect Finance and Prospect Realty filed an application for an exemptive order authorizing a joint transaction that may otherwise be prohibited by Section 57(a)(4) of the 1940 Act in order to complete each of the rights offerings described above and, on October 2, 2015, an amended and restated application for the exemptive order was filed in response to comments from the SEC. There is no guarantee that the SEC will grant the relief requested in the exemptive order application.

We expect to continue as a BDC in the future to pursue our multi-line origination strategy (including continuing to invest in the businesses discussed above) as a value-added differentiating factor compared with other BDCs.

Investment Holdings

As of September 30, 2015, we continue to pursue our investment strategy. At September 30, 2015, approximately \$6,430,900, or 177.9%, of our net assets are invested in 131 long-term portfolio investments and CLOs.

During the three months ended September 30, 2015, we originated \$437,614 of new investments, primarily composed of \$197,473 of debt and equity financing to non-controlled portfolio investments, \$143,519 of debt and equity financing to controlled investments, and \$96,622 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending to non-control investments to reduce the risk in the portfolio by investing primarily in first lien loans, though we also continue to close select junior debt and equity investments. Our annualized current yield was 12.7% and 13.0% as of June 30, 2015 and September 30, 2015, respectively, across all performing interest bearing investments. The increase in our current yield is primarily the result of sales of lower yielding investments and originations replacing these investments at higher yields. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, we classify our investments by level of control. As defined in the 1940 Act, "Control Investments" are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee company. Under the 1940 Act, "Affiliate Investments" are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person. "Non-Control/Non-Affiliate Investments" are those that are neither Control Investments nor Affiliate Investments.

As of September 30, 2015, we own controlling interests in the following portfolio companies: American Property REIT Corp. ("APRC"); Arctic Energy Services, LLC; CCPI Inc.; CP Energy Services Inc. ("CP Energy"); Credit Central Loan Company, LLC; Echelon Aviation LLC ("Echelon"); Edmentum Ultimate Holdings, LLC; First Tower Finance Company LLC ("First Tower Finance"); Freedom Marine Solutions, LLC; Gulf Coast Machine & Supply Company; Harbortouch Payments, LLC ("Harbortouch"); MITY, Inc.; National Property REIT Corp. ("NPRC"); Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC); NMMB, Inc.; R-V Industries, Inc. ("R-V"); United Property REIT Corp. ("UPRC"); Valley Electric Company, Inc. ("Valley Electric"); and Wolf Energy, LLC. We also own an affiliated interest in BNN Holdings Corp.

The following shows the composition of our investment portfolio by level of control as of September 30, 2015 and June 30, 2015:

Level of Control	September 30, 2015				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Control Investments	\$1,973,325	30.7	%\$2,012,700	31.3	% \$1,894,644	30.7	%\$1,974,202	31.3	%
Affiliate Investments	2,228	—	%3,128	—	% 45,150	—	%45,945	—	%
Non-Control/Non-Affiliate Investments	4,466,440	69.3	%4,415,072	68.7	% 4,619,582	69.3	%4,589,411	68.7	%
Total Investments	\$6,441,993	100.0	%\$6,430,900	100.0	% \$6,559,376	100.0	%\$6,609,558	100.0	%

The following shows the composition of our investment portfolio by type of investment as of September 30, 2015 and June 30, 2015:

Type of Investment	September 30, 2015				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Revolving Line of Credit	\$9,650	0.1	%\$9,650	0.2	% \$30,546	0.5	%\$30,546	0.5	%
Senior Secured Debt	3,560,126	55.4	%3,475,767	54.0	% 3,617,111	55.1	%3,533,447	53.5	%
Subordinated Secured Debt	1,158,854	18.0	%1,121,886	17.4	% 1,234,701	18.8	%1,205,303	18.2	%
Subordinated Unsecured Debt	73,397	1.1	%71,148	1.1	% 145,644	2.2	%144,271	2.2	%
Small Business Loans	18,409	0.3	%16,974	0.3	% 50,558	0.8	%50,892	0.8	%
CLO Debt	28,746	0.4	%32,782	0.5	% 28,613	0.4	%32,398	0.5	%
CLO Residual Interest	1,144,790	17.9	%1,171,770	18.2	% 1,072,734	16.4	%1,113,023	16.8	%
Preferred Stock	41,047	0.6	%5,434	0.1	% 41,047	0.6	%4,361	0.1	%
Common Stock	241,048	3.7	%273,627	4.3	% 181,404	2.8	%164,984	2.5	%
Membership Interest	157,100	2.4	%200,655	3.1	% 148,192	2.3	%278,537	4.2	%
Participating Interest(1)	—	—	%44,066	0.7	% —	—	%42,787	0.6	%
Escrow Receivable	7,144	0.1	%6,123	0.1	% 7,144	0.1	%5,984	0.1	%
Warrants	1,682	—	%1,018	—	% 1,682	—	%3,025	—	%
Total Investments	\$6,441,993	100.0	%\$6,430,900	100.0	% \$6,559,376	100.0	%\$6,609,558	100.0	%

(1) Participating Interest includes our participating equity investments, such as net profits interests, net operating income interests, net revenue interests, and overriding royalty interests.

The following shows our investments in interest bearing securities by type of investment as of September 30, 2015 and June 30, 2015:

Type of Investment	September 30, 2015				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
First Lien	\$3,569,776	59.6	%\$3,485,417	59.1	% \$3,642,761	58.9	%\$3,559,097	58.3	%
Second Lien	1,158,854	19.3	%1,121,886	19.0	% 1,239,597	20.0	%1,210,199	19.8	%
Unsecured	73,397	1.2	%71,148	1.2	% 145,644	2.4	%144,271	2.4	%
Small Business Loans	18,409	0.3	%16,974	0.3	% 50,558	0.8	%50,892	0.8	%
CLO Debt	28,746	0.5	%32,782	0.5	% 28,613	0.5	%32,398	0.5	%
CLO Residual Interest	1,144,790	19.1	%1,171,770	19.9	% 1,072,734	17.4	%1,113,023	18.2	%
Total Debt Investments	\$5,993,972	100.0	%\$5,899,977	100.0	% \$6,179,907	100.0	%\$6,109,880	100.0	%

The following shows the composition of our investment portfolio by geographic location as of September 30, 2015 and June 30, 2015:

Geographic Location	September 30, 2015				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Canada	\$15,000	0.2	% \$15,000	0.2	% \$15,000	0.2	% \$15,000	0.2	%
Cayman Islands	1,173,536	18.2	% 1,204,552	18.7	% 1,101,347	16.8	% 1,145,421	17.3	%
France	10,132	0.2	% 10,051	0.2	% 10,145	0.2	% 9,734	0.2	%
MidWest US	669,003	10.4	% 689,555	10.7	% 749,036	11.4	% 767,419	11.6	%
NorthEast US	1,113,588	17.3	% 1,145,283	17.8	% 1,085,569	16.5	% 1,151,510	17.4	%
NorthWest US	43,000	0.7	% 43,000	0.7	% —	—	% —	—	%
Puerto Rico	40,812	0.6	% 38,213	0.6	% 40,911	0.6	% 37,539	0.6	%
SouthEast US	1,613,488	25.0	% 1,653,448	25.7	% 1,609,956	24.5	% 1,661,477	25.1	%
SouthWest US	561,671	8.7	% 482,850	7.5	% 762,454	11.6	% 693,138	10.5	%
Western US	1,201,763	18.7	% 1,148,948	17.9	% 1,184,958	18.1	% 1,128,320	17.1	%
Total Investments	\$6,441,993	100.0	% \$6,430,900	100.0	% \$6,559,376	99.9	% \$6,609,558	100.0	%

The following shows the composition of our investment portfolio by industry as of September 30, 2015 and June 30, 2015:

Industry	September 30, 2015				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Aerospace & Defense	\$70,847	1.1	%\$70,604	1.1	% \$70,860	1.1	% \$78,675	1.2	%
Business Services	599,194	9.3	%651,842	10.2	% 646,021	9.8	%711,541	10.8	%
Chemicals	4,963	0.1	%4,972	0.1	% 4,963	0.1	%5,000	0.1	%
Commercial Services	245,460	3.8	%239,574	3.7	% 245,913	3.8	%241,620	3.6	%
Construction & Engineering	59,377	0.9	%37,396	0.6	% 58,837	0.9	%30,497	0.4	%
Consumer Finance	426,320	6.5	%485,114	7.6	% 426,697	6.5	%486,977	7.4	%
Consumer Services	185,608	2.9	%185,320	2.9	% 190,037	2.9	%190,216	2.9	%
Diversified Financial Services	119,609	1.9	%119,091	1.9	% 120,327	1.8	%119,919	1.8	%
Durable Consumer Products	441,552	6.9	%422,177	6.6	% 439,172	6.7	%422,033	6.4	%
Food Products	282,087	4.4	%279,433	4.3	% 282,185	4.3	%281,365	4.3	%
Healthcare	333,825	5.2	%334,286	5.2	% 435,893	6.6	%434,446	6.6	%
Hotels, Restaurants & Leisure	140,192	2.2	%140,324	2.2	% 177,748	2.7	%177,926	2.7	%
Machinery	376	—	%533	—	% 376	—	%563	—	%
Manufacturing	213,391	3.3	%171,934	2.7	%163,380	2.5	%126,921	1.9	%
Media	331,892	5.2	%321,385	5.0	% 361,825	5.5	%350,365	5.3	%
Metal Services & Minerals	24,674	0.4	%22,192	0.3	% 25,670	0.4	%23,745	0.4	%
Oil and Gas Production	3,000	—	%2,411	—	% 3,000	—	%22	—	%
Oil and Gas Services	286,514	4.4	%232,928	3.5	% 289,803	4.4	%246,817	3.7	%
Online Lending	249,148	3.8	%247,713	3.7	% 213,143	3.2	%213,477	3.2	%
Personal & Nondurable Consumer Products	216,248	3.4	%195,259	3.0	% 213,796	3.4	%193,046	2.8	%
Pharmaceuticals	74,264	1.2	%74,264	1.2	% 74,951	1.1	%74,588	1.1	%
Property Management	5,880	0.1	%3,901	0.1	% 5,880	0.1	%3,814	0.1	%
Real Estate	484,570	7.5	%526,852	8.3	% 462,895	7.1	%512,245	7.8	%
Retail	—	—	%—	—	% 63	—	%260	—	%
Software & Computer Services	143,793	2.2	%143,964	2.2	% 217,429	3.3	%217,472	3.3	%
Telecommunication Services	4,573	0.1	%4,595	0.1	% 4,573	0.1	%4,595	0.1	%
Textiles, Apparel & Luxury Goods	251,075	3.9	%249,164	3.9	% 252,200	3.8	%252,200	3.8	%
Transportation	70,025	1.1	%59,120	0.9	% 70,392	1.1	%63,792	1.0	%
Subtotal	\$5,268,457	81.8	%\$5,226,348	81.3	% \$5,458,029	83.2	%\$5,464,137	82.7	%
Structured Finance(1)	1,173,536	18.2	%1,204,552	18.7	% 1,101,347	16.8	%1,145,421	17.3	%
Total Investments	\$6,441,993	100.0	%\$6,430,900	100.0	% \$6,559,376	100.0	%\$6,609,558	100.0	%

(1)Our CLO investments do not have industry concentrations and as such have been separated in the table above.

Portfolio Investment Activity

During the three months ended September 30, 2015, we acquired \$229,334 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$203,600, funded \$3,400 of revolver advances, and recorded PIK interest of \$1,279, resulting in gross investment originations of \$437,613. The more significant of these transactions are briefly described below.

On July 1, 2015, we provided \$31,000 of first lien senior secured financing to Intelius, Inc. ("Intelius"), an online information commerce company, of which \$30,200 was funded at closing. On August 11, 2015, we made a \$13,500 follow-on first lien senior secured debt investment in Intelius, of which \$13,000 was funded at closing, to support an acquisition. The \$21,500 Term Loan A note bears interest at the greater of 6.5% or Libor plus 5.5% and has a final maturity of July 1, 2020. The \$21,500 Term Loan B note bears interest at the greater of 12.5% or Libor plus 11.5% and has a final maturity of July 1, 2020. The \$1,500 senior secured revolver, which was not funded at closing, bears interest at 9.5% or Libor plus 8.5% and has a final maturity of July 1, 2016.

On July 23, 2015, we made an investment of \$37,969 to purchase 80.73% of the subordinated notes issued by Halcyon Loan Advisors Funding 2015-3 Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management L.P.

On August 6, 2015, we provided \$92,500 of first lien senior secured debt to support the refinancing of Crosman Corporation. Concurrent with the refinancing, we received repayment of the \$40,000 second lien term loan previously outstanding. The \$52,500 Term Loan A note bears interest at the greater of 9.0% or Libor plus 8.7% and interest payment in kind of 4.0%, and has a final maturity of August 5, 2020. The \$40,000 Term Loan B note bears interest at the greater of 16.0% or Libor plus 15.7% and interest payment in kind of 4.0%, and has a final maturity of August 5, 2020.

On August 12, 2015, we made an investment of \$22,898 to purchase 50.04% of the subordinated notes issued by Octagon Investment Partners XVIII, Ltd.

On August 12, 2015, we sold 780 of our small business whole loans (with a cost of \$30,968) purchased from OnDeck to Jefferies Asset Funding LLC for proceeds of \$26,619, net of related transaction expenses, and a trust certificate representing a 41.54% interest in the MarketPlace Loan Trust, Series 2015-OD2. We realized a loss of \$775 on the sale.

On August 21, 2015, we committed to funding a \$16,000 second lien secured investment in Sitel Worldwide Corporation, a provider of customer care outsourcing services. The \$16,000 second lien term loan bears interest at the greater of 10.5% or Libor plus 9.5% and has a final maturity of September 18, 2022.

On September 16, 2015, we made an investment of \$26,773 to purchase 75.09% of the subordinated notes issued by Apidos CLO XXII in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management L.P.

In addition to the purchases noted above, during the three months ended September 30, 2015, we made eleven follow-on investments in NPRC totaling \$85,569 to support the online consumer lending initiative. We invested \$17,415 of equity through NPH Property Holdings, LLC and \$68,154 of debt directly to NPRC and its wholly-owned subsidiaries.

Additionally, during the three months ended September 30, 2015, our wholly-owned subsidiary PSBL purchased \$19,378 of small business whole loans from OnDeck and Direct Capital.

During the three months ended September 30, 2015, we received full repayments on six investments, sold one investments, and received several partial prepayments and amortization payments totaling \$528,789, net of realized losses totaling \$2,135. The more significant of these transactions are briefly described below.

On July 8, 2015, we sold 27.45% of the outstanding principal balance of the senior secured Term Loan A investment in InterDent, Inc. for \$34,415. We realized no gain or loss on the sale.

On July 24, 2015, TB Corp. repaid the \$23,628 loan receivable to us.

On August 7, 2015, Ryan, LLC repaid the \$72,701 loan receivable to us.

On September 1, 2015, BNN Holdings Corp. repaid the \$42,922 loans receivable to us.

On September 16, 2015, GTP Operations, LLC repaid the \$116,411 loan receivable to us.

On September 22, 2015, we sold 19.4% of the outstanding principal balance of the senior secured Term Loan A investment in Instant Web, LLC for \$29,447. We realized no gain or loss on the sale.

On September 25, 2015, we sold an additional 8.39% of the total outstanding principal balance of the senior secured Term Loan A investment in InterDent, Inc. for \$10,516. We realized no gain or loss on the sale.

On September 25, 2015, Therakos, Inc. repaid the \$13,000 loan receivable to us.

The following table provides a summary of our investment activity for each quarter within the three years ending June 30, 2016:

Quarter Ended	Acquisitions(1)	Dispositions(2)
September 30, 2013	\$ 556,843	\$ 164,167
December 31, 2013	608,153	255,238
March 31, 2014	1,343,256	197,947
June 30, 2014	444,104	169,617
September 30, 2014	887,205	863,144
December 31, 2014	522,705	224,076
March 31, 2015	219,111	108,124
June 30, 2015	459,967	437,729
September 30, 2015	437,613	528,789

(1) Includes investments in new portfolio companies, follow-on investments in existing portfolio companies, refinancings and PIK interest.

(2) Includes sales, scheduled principal payments, prepayments and refinancings.

Investment Valuation

In determining the fair value of our portfolio investments at September 30, 2015, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$6,072,444 to \$6,546,805, excluding money market investments.

In determining the range of value for debt instruments except CLOs and debt investments in controlled portfolio companies, management and the independent valuation firm generally estimate corporate and security credit ratings and identify corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine range of value. For non-traded equity investments, the enterprise value was determined by applying EBITDA multiples or book value multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared.

In determining the range of value for our investments in CLOs, management and the independent valuation firm used a discounted cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. A waterfall engine is used to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates to anticipated maturity and call dates.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analyses, applied to each investment, was a total valuation of \$6,430,900.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$150,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Transactions between our controlled investments and us have been detailed in Note 14 to the accompanying consolidated financial statements. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

American Property REIT Corp.

APRC is a Maryland corporation and a qualified REIT for federal income tax purposes. APRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. APRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. APRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. As of September 30, 2015, we own 100% of the fully-diluted common equity of APRC.

During the three months ended September 30, 2015, we provided \$799 of equity financing to APRC to fund capital expenditures for existing properties.

As of September 30, 2015, APRC's real estate portfolio was comprised of twelve multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by APRC as of September 30, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	1557 Terrell Mill Road, LLC	Marietta, GA	12/28/2012	\$ 23,500	\$ 15,099
2	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	16,965
3	Vista Palma Sola, LLC	Bradenton, FL	4/30/2013	27,000	17,550
4	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
5	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	9,026
6	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	11,488
7	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	19,400
8	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	13,622
9	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	11,817
10	Verandas at Rocky Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
11	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	4,950
12	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	4,928
13	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
				\$ 223,699	\$ 144,700

Due to an increase in same property values driven by an increase in net operating income for the properties, the Board of Directors increased the fair value of our investment in APRC to \$120,348 as of September 30, 2015, a premium of \$18,801 to its amortized cost, compared to a premium of \$18,605 to its amortized cost recorded at June 30, 2015.

First Tower Finance Company LLC

We own 80.1% of First Tower Finance Company LLC (“First Tower Finance”), which owns 100% of First Tower, LLC (“First Tower”), the operating company. First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 170 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower’s businesses. As part of the transaction, we received \$4,038 in structuring fee income from First Tower. On October 18, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. On December 30, 2013, we funded an additional \$10,000 to again support seasonal demand and received \$8,000 of structuring fees related to the renegotiation and expansion of First Tower’s revolver with a third party which was recognized as other income. As of September 30, 2015, First Tower had total assets of approximately \$640,367 including \$434,581 of finance receivables net of unearned charges. As of September 30, 2015, First Tower’s total debt outstanding to parties senior to us was \$367,179.

Due to increased regulatory scrutiny and a corresponding decrease in public comparable multiples, the Board of Directors slightly decreased the fair value of our investment in First Tower Finance to \$363,624 as of September 30, 2015, a premium of \$45,905 to its amortized cost, compared to the \$47,899 unrealized appreciation recorded at June 30, 2015.

Harbortouch Payments, LLC

Harbortouch is a merchant processor headquartered in Allentown, Pennsylvania. The company offers a range of payment processing equipment and services that facilitate the exchange of goods and services provided by small to medium-sized merchants located in the United States for payments made by credit, debit, prepaid, electronic gift, and loyalty cards. Harbortouch provides point-of-sale equipment free of cost to merchants and then manages the process whereby transaction information is sent to a consumer’s bank from the point-of-sale (front-end processing), and then funds are transferred from the consumer’s account to the merchant’s account (back-end processing).

On March 31, 2014, we acquired a controlling interest in Harbortouch for \$147,898 in cash and 2,306,294 unregistered shares of our common stock. We recorded \$130,796 of senior secured term debt, \$123,000 of subordinated term debt and \$24,898 of equity at closing. As part of the transaction, we received \$7,536 of structuring fee income from Harbortouch. On April 1, 2014, we restructured our investment in Harbortouch and \$14,226 of equity was converted into additional debt investment. On September 30, 2014, we made a \$26,431 follow-on investment in Harbortouch to support an acquisition. As part of the transaction, we received \$529 of structuring fee income and \$50 of amendment fee income from Harbortouch which was recorded as other income. On December 19, 2014, we made an additional \$1,292 equity investment in Harbortouch Class C voting units. As of September 30, 2015, we own 100% of the Class C voting units of Harbortouch, which provide for a 53.5% residual profits allocation.

Due to market developments, the Board of Directors decreased the fair value of our investment in Harbortouch to \$358,359 as of September 30, 2015, a premium of \$54,187 to its amortized cost, compared to the \$71,477 unrealized appreciation recorded at June 30, 2015.

National Property REIT Corp.

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. NPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans. As of September 30, 2015, we own 100% of the fully-diluted common equity of NPRC.

During the three months ended September 30, 2015 we made 11 follow-on investments in NPRC totaling \$85,569 to support the online consumer lending initiative, We invested \$17,415 of equity through NPH Property Holdings, LLC and \$68,154 of debt directly into NPRC and its wholly-owned subsidiaries.

The online consumer loan investments held by certain of NPRC's wholly-owned subsidiaries are unsecured obligations of individual borrowers that are issued in amounts ranging from \$1 to \$50, with fixed terms ranging from 24 to 85 months. As of September 30, 2015, the investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries was comprised of 51,522 individual loans and had an aggregate fair value of \$459,307. The average outstanding individual loan balance is approximately \$9 and the loans mature on dates ranging from October 31, 2016 to October 25, 2022 with an average outstanding term of 37 months as of September 30, 2015. Fixed interest rates range from 4.0% to 29.0% with a weighted-average current interest rate of 19.5%.

During the three months ended September 30, 2015, we provided \$159 of equity financing to NPRC to fund capital expenditures for existing properties.

As of September 30, 2015, NPRC's real estate portfolio was comprised of eleven multi-family properties, twelve self-storage properties, and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by NPRC as of September 30, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway, LLC	Forest Park, GA	10/24/2012	\$7,400	\$—
2	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	39,600
3	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	157,500
4	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	22,020
5	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	17,571
6	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	18,533
7	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	26,640
8	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	27,471
9	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	36,148
10	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	53,863
11	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	28,432
12	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,879
13	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
14	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
15	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
16	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
17	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
18	Ann Arbor Kalamazoo Self Storage, LLC	Scio, MI	8/29/2014	8,927	6,695
19	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
20	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
21	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
22	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
23	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
24	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
				\$680,710	\$485,167

Due to an increase in the observed market cap rate for our largest property and an increase in the market yield for the online consumer loans, the Board of Directors marked down the fair value of our investment in NPRC to \$547,296 as of September 30, 2015, a premium of \$11,204 to its amortized cost, compared to a recorded premium of \$22,229 to its amortized cost at June 30, 2015.

United Property REIT Corp.

UPRC is a Delaware limited liability company and a qualified REIT for federal income tax purposes. UPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. UPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. UPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. As of September 30, 2015, we own 100% of the fully-diluted common equity of UPRC. During the three months ended September 30, 2015, we provided \$1,738 and \$306 of debt and equity financing, respectively, to UPRC to fund capital expenditures for existing properties.

As of September 30, 2015, UPRC's real estate portfolio was comprised of fifteen multi-families properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by UPRC as of September 30, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	\$25,957	\$19,785
2	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	9,193
3	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	3,619
4	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	10,180
5	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	11,141
6	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	13,575
7	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
8	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	65,825
9	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	10,440
10	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	11,000
11	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	20,142
12	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	10,080
13	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	10,480
14	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	15,480
15	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	12,240
16	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	8,040
				\$288,532	\$231,220

Due to an increase in same property values driven by an increase in net operating income for the properties, the Board of Directors increased the fair value of our investment in UPRC to \$89,947 as of September 30, 2015, a premium of \$12,276 to its amortized cost, compared to a recorded premium of \$9,057 to its amortized cost at June 30, 2015.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric Company, Inc. ("Valley Electric") as of September 30, 2015. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. ("Valley"). Valley is a leading provider of specialty electrical services in the state of Washington and is among the top 50 electrical contractors in the U.S. The company, with its headquarters in Everett, Washington, offers a comprehensive array of contracting services, primarily for commercial, industrial, and transportation infrastructure applications, including new installation, engineering and design, design-build, traffic lighting and signalization, low to medium voltage power distribution, construction management, energy management and control systems, 24-hour electrical maintenance and testing, as well as special projects and tenant improvement services. Valley was founded in 1982 by the Ward family, who held the company until the end of 2012.

On December 31, 2012, we acquired 96.3% of the outstanding shares of Valley. We funded the recapitalization of Valley with \$42,572 of debt and \$9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. On June 24, 2014, Prospect and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Valley management made an additional equity investment in Valley Electric, reducing our ownership to

94.99%.

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Due to stronger operating results, the Board of Directors increased the fair value of our investment in Valley Electric to \$37,396 as of September 30, 2015, a discount of \$21,981 from its amortized cost, compared to the \$28,340 unrealized depreciation recorded at June 30, 2015.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Several of our controlled companies experienced such volatility and we recorded corresponding fluctuations in valuations during the three months ended September 30, 2015. See above for discussions regarding the fluctuations in Harbortouch, NPRC, UPRC, and Valley Electric. During the three months ended September 30, 2015, the value of our investment in CP Energy decreased by \$5,330 as a result of depressed earnings resulting from softness of the energy markets; Echelon decreased by \$8,388 due to an early lease termination for one aircraft; and R-V decreased by \$7,478 due to lower sales profitability. In total, nine of the controlled investments are valued at the original investment amounts or higher, and six of the controlled investments have been valued at discounts to the original investment. Overall, at September 30, 2015, control investments are valued at \$39,375 above their amortized cost.

We hold one affiliate investment at September 30, 2015. Our affiliate portfolio company did not experience a significant change in valuation during the three months ended September 30, 2015.

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/non-affiliate investments did not experience significant changes and are generally performing as expected or better than expected. During the three months ended September 30, 2015, the value of our CLO investments decreased by \$13,058 due to market fluctuations. Overall, at September 30, 2015, non-control/non-affiliate investments are valued \$51,368 below their amortized cost.

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt as of September 30, 2015 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in March 2013 and April 2014; and Prospect Capital InterNotes® which we issue from time to time. Our equity capital is comprised entirely of common equity.

The following table shows the maximum draw amounts and outstanding borrowings of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of September 30, 2015 and June 30, 2015.

	September 30, 2015		June 30, 2015	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 885,000	\$ 156,700	\$ 885,000	\$ 368,700
Convertible Notes	1,239,500	1,239,500	1,239,500	1,239,500
Public Notes	548,143	548,143	548,094	548,094
Prospect Capital InterNotes®	874,948	874,948	827,442	827,442
Total	\$ 3,547,591	\$ 2,819,291	\$ 3,500,036	\$ 2,983,736

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of September 30, 2015.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$ 156,700	\$—	\$—	\$ 156,700	\$—
Convertible Notes	1,239,500	317,500	530,000	392,000	—
Public Notes	548,094	—	—	300,000	248,094
Prospect Capital InterNotes®	874,948	—	54,509	539,202	281,237
Total Contractual Obligations	\$ 2,819,242	\$ 317,500	\$ 584,509	\$ 1,387,902	\$ 529,331

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2015.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$ 368,700	\$—	\$—	\$ 368,700	\$—
Convertible Notes	1,239,500	150,000	497,500	592,000	—
Public Notes	548,094	—	—	300,000	248,094
Prospect Capital InterNotes®	827,442	—	54,509	369,938	402,995
Total Contractual Obligations	\$ 2,983,736	\$ 150,000	\$ 552,009	\$ 1,630,638	\$ 651,089

Historically, we have funded a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of September 30, 2015, we can issue up to \$4,774,492 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

Each of our Unsecured Notes (as defined below) are our general, unsecured obligations and rank equal in right of payment with all of our existing and future unsecured indebtedness and will be senior in right of payment to any of our subordinated indebtedness that may be issued in the future. The Unsecured Notes are effectively subordinated to our existing secured indebtedness, such as our credit facility, and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of any of our subsidiaries.

Revolving Credit Facility

On March 27, 2012, we closed on an extended and expanded credit facility with a syndicate of lenders through PCF (the “2012 Facility”). The lenders had extended commitments of \$857,500 under the 2012 Facility as of June 30, 2014, which was increased to \$877,500 in July 2014. The 2012 Facility included an accordion feature which allowed commitments to be increased up to \$1,000,000 in the aggregate. Interest on borrowings under the 2012 Facility was one-month LIBOR plus 275 basis points with no minimum LIBOR floor. Additionally, the lenders charged a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise.

On August 29, 2014, we renegotiated the 2012 Facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” and collectively with the 2012 Facility, the “Revolving Credit Facility”). The lenders have extended commitments of \$885,000 under the 2014 Facility as of September 30, 2015. The 2014 Facility includes an accordion feature which allows commitments to be increased up to \$1,500,000 in the aggregate. The revolving period of the 2014 Facility extends through March 2019, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period,

the remaining balance will become due, if required by the lenders.

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The 2014 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2014 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2014 Facility. The 2014 Facility also requires the maintenance of a minimum liquidity requirement. As of September 30, 2015, we were in compliance with the applicable covenants.

Interest on borrowings under the 2014 Facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the 2014 Facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise. The 2014 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

As of September 30, 2015 and June 30, 2015, we had \$724,982 and \$721,800, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was \$156,700 and \$368,700, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$885,000. As of September 30, 2015, the investments, including money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,511,917, which represents 23.3% of our total investments and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$12,405 of new fees and \$3,539 of fees carried over for continuing participants from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, of which \$9,587 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of September 30, 2015. In accordance with ASC 470-50, we expensed \$332 of fees relating to credit providers in the 2012 Facility who did not commit to the 2014 Facility.

During the three months ended September 30, 2015 and September 30, 2014, we recorded \$3,701 and \$4,011, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Convertible Notes

On December 21, 2010, we issued \$150,000 aggregate principal amount of convertible notes that mature on December 15, 2015 (the "2015 Notes"), unless previously converted or repurchased in accordance with their terms. The 2015 Notes bear interest at a rate of 6.25% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were \$145,200.

On February 18, 2011, we issued \$172,500 aggregate principal amount of convertible notes that mature on August 15, 2016 (the "2016 Notes"), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear interest at a rate of 5.50% per year, payable semi-annually on February 15 and August 15 of each year, beginning August 15, 2011. Total proceeds from the issuance of the 2016 Notes, net of underwriting discounts and offering costs, were \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 aggregate principal amount of the 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012.

On April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that mature on October 15, 2017 (the "2017 Notes"), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035.

On August 14, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on March 15, 2018 (the "2018 Notes"), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year,

beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600.

On December 21, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on January 15, 2019 (the "2019 Notes"), unless previously converted or repurchased in accordance with their terms. The 2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and offering costs, were \$193,600.

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On April 11, 2014, we issued \$400,000 aggregate principal amount of convertible notes that mature on April 15, 2020 (the “2020 Notes”), unless previously converted or repurchased in accordance with their terms. The 2020 Notes bear interest at a rate of 4.75% per year, payable semi-annually on April 15 and October 15 each year, beginning October 15, 2014. Total proceeds from the issuance of the 2020 Notes, net of underwriting discounts and offering costs, were \$387,500. On January 30, 2015, we repurchased \$8,000 aggregate principal amount of the 2020 Notes at a price of 93.0, including commissions. As a result of this transaction, we recorded a gain in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net gain on the extinguishment of the 2020 Notes in the year ended June 30, 2015 was \$332.

Certain key terms related to the convertible features for the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2020 Notes (collectively, the “Convertible Notes”) are listed below.

	2015 Notes	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	88.0902	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$ 11.35	\$ 12.76	\$ 11.65	\$ 12.14	\$ 12.54	\$ 12.40
Conversion rate at September 30, 2015(1)(2)	89.9752	80.2196	87.7516	84.1497	79.8248	80.6670
Conversion price at September 30, 2015(2)(3)	\$ 11.11	\$ 12.47	\$ 11.40	\$ 11.88	\$ 12.53	\$ 12.40
Last conversion price calculation date	12/21/2014	2/18/2015	4/16/2015	8/14/2015	12/21/2014	4/11/2015
Dividend threshold amount (per share)(4)	\$ 0.101125	\$ 0.101150	\$ 0.101500	\$ 0.101600	\$ 0.110025	\$ 0.110525

(1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Convertible Notes converted.

(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

The conversion price in effect at September 30, 2015 was calculated on the last anniversary of the issuance and (3) will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per \$1 principal amount of the 2015 Notes (the “conversion rate cap”), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the “Guidance”) permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate increasing the conversion rate beyond what it would have been in the absence of such transaction unless we have engaged in a reverse stock split or share combination transaction such that in our reasonable best estimation, the conversion rate following the adjustment for such transaction will not be any closer to the conversion rate cap than it would have been in the absence of such transaction.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the notes surrendered for conversion representing accrued and unpaid interest to, but not including, the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Convertible Notes.

No holder of Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. We will not issue any shares in connection with the conversion or

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redemption of the Convertible Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Convertible Notes upon a fundamental change at a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest up to, but excluding, the fundamental change repurchase date. In addition, upon a fundamental change that constitutes a non-stock change of control we will also pay holders an amount in cash equal to the present value of all remaining interest payments (without duplication of the foregoing amounts) on such Convertible Notes through and including the maturity date.

In connection with the issuance of the Convertible Notes, we incurred \$39,678 of fees which are being amortized over the terms of the notes, of which \$19,407 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of September 30, 2015.

During the three months ended September 30, 2015 and September 30, 2014, we recorded \$18,729 and \$18,589, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Public Notes

On May 1, 2012, we issued \$100,000 aggregate principal amount of unsecured notes that were scheduled to mature on November 15, 2022 (the "2022 Notes"). The 2022 Notes bore interest at a rate of 6.95% per year, payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2012. Total proceeds from the issuance of the 2022 Notes, net of underwriting discounts and offering costs, were \$97,000. On May 15, 2015, we redeemed \$100,000 aggregate principal amount of the 2022 Notes at par. In connection with this transaction, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of the 2022 Notes in the year ended June 30, 2015 was \$2,600.

On March 15, 2013, we issued \$250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "2023 Notes"). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were \$245,885.

On April 7, 2014, we issued \$300,000 aggregate principal amount of unsecured notes that mature on July 15, 2019 (the "5.00% 2019 Notes"). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$250,775.

The 2022 Notes, the 2023 Notes and the 5.00% 2019 Notes (collectively, the "Public Notes") are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding.

In connection with the issuance of the 2023 Notes and the 5.00% 2019 Notes, we incurred \$8,036 of fees which are being amortized over the term of the notes, of which \$6,254 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of September 30, 2015.

During the three months ended September 30, 2015 and September 30, 2014, we recorded \$7,821 and \$9,458, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

Prospect Capital InterNotes®

On February 16, 2012, we entered into a selling agent agreement (the "Selling Agent Agreement") with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to \$500,000 of Prospect Capital InterNotes® (the "InterNotes® Offering"), which was increased to \$1,500,000 in May 2014. Additional agents may be appointed by us from time to time in connection with the InterNotes® Offering and become parties to the Selling Agent Agreement.

These notes are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

During the three months ended September 30, 2015, we issued \$48,134 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$47,381. These notes were issued with stated interest rates ranging from 4.625% to 5.25% with a weighted average interest rate of 5.06%. These notes mature between July 15, 2020 and March 15, 2022. The following table summarizes the Prospect Capital InterNotes® issued during the three months ended September 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 17,784	4.63%–4.75%	4.741	% July 15, 2020 – September 15, 2020
6.5	30,350	5.10%–5.25%	5.24	% January 15, 2022 – March 15, 2022
	\$48,134			

During the three months ended September 30, 2014, we did not issue any Prospect Capital InterNotes®. During the three months ended September 30, 2014, we repaid 1,365 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus.

During the three months ended September 30, 2015, we repaid \$628 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended September 30, 2015 was \$15. The following table summarizes the Prospect Capital InterNotes® outstanding as of September 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00	% October 15, 2016
3.5	3,109	4.00%	4.00	% April 15, 2017
4	45,690	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	225,472	4.25%–5.00%	4.90	% July 15, 2018 – September 15, 2020
5.20	4,440	4.63%	4.63	% August 15, 2020 – September 15, 2020
5.3	2,686	4.63%	4.63	% September 15, 2020
5.4	5,000	4.75%	4.75	% August 15, 2019
5.5	110,184	4.25%–5.00%	4.65	% February 15, 2019 – November 15, 2020
6	2,197	3.38%	3.38	% April 15, 2021 – May 15, 2021
7	36,062	5.10%–5.50%	5.24	% February 15, 2020 – March 15, 2022
7	191,524	4.00%–5.85%	5.13	% September 15, 2019 – June 15, 2022
7.5	1,996	5.75%	5.75	% February 15, 2021
10	36,836	3.29%–7.00%	6.12	% March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	17,365	5.00%–6.00%	5.14	% May 15, 2028 – November 15, 2028
18	22,689	4.13%–6.25%	5.52	% December 15, 2030 – August 15, 2031
20	4,530	5.75%–6.00%	5.89	% November 15, 2032 – October 15, 2033
25	36,182	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	120,298	5.50%–6.75%	6.23	% November 15, 2042 – October 15, 2043
	\$874,948			

The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00	% October 15, 2016
3.5	3,109	4.00%	4.00	% April 15, 2017
4	45,690	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	207,719	4.25%–5.00%	4.92	% July 15, 2018 – May 15, 2019
5.25	7,126	4.63%–4.625%	4.63	% August 15, 2020 – September 15, 2020
5.5	115,184	4.25%–5.00%	4.65	% February 15, 2019 – November 15, 2020
6.0	2,197	3.38%–3.375%	3.38	% April 15, 2021 – May 15, 2021
6.5	5,712	5.10%–5.50%	5.23	% February 15, 2020 – December 15, 2021
7.0	191,549	4.00%–5.85%	5.13	% September 15, 2019 – June 15, 2022
7.5	1,996	5.75%	5.75	% February 15, 2021
10	36,925	3.29%–7.00%	6.11	% March 15, 2022 – May 15, 2024
12.0	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	17,385	5.00%–6.00%	5.14	% May 15, 2028 – November 15, 2028
18	22,729	4.13%–6.25%	5.52	% December 15, 2030 – August 15, 2031
20	4,530	5.75%–6.00%	5.89	% November 15, 2032 – October 15, 2033
25	36,320	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	120,583	5.50%–6.75%	6.23	% November 15, 2042 – October 15, 2043
	\$ 827,442			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$21,054 of fees which are being amortized over the term of the notes, of which \$16,507 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of September 30, 2015.

During the three months ended September 30, 2015 and September 30, 2014, we recorded \$11,706 and \$10,856, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Net Asset Value

During the three months ended September 30, 2015, we repurchased 4,358,750 shares of our common stock pursuant to our Repurchase Program for \$31,530, or approximately \$7.23 weighted average price per share at an approximately 30% discount to net asset value. Our net asset value per share was increased by approximately \$0.04 as a result of the share repurchases. During the three months ended September 30, 2015, we issued 490,473 shares of our common stock in connection with the dividend reinvestment plan. The following table shows the calculation of net asset value per share as of September 30, 2015 and June 30, 2015.

	September 30, 2015	June 30, 2015
Net assets	\$3,614,021	\$3,703,049
Shares of common stock issued and outstanding	355,222,482	359,090,759
Net asset value per share	\$ 10.17	\$ 10.31

Results of Operations

Net increase in net assets resulting from operations for the three months ended September 30, 2015 and September 30, 2014 was \$27,817 and \$84,108. During the three months ended September 30, 2015, the \$56,291 decrease is primarily due to a \$53,055 decrease in net realized and unrealized gains and losses on investments when comparing results for the quarters ended September 30, 2015 and September 30, 2014. (See “Net Realized Losses” and “Net Change in Unrealized Appreciation (Depreciation)” for further discussion.)

While we seek to maximize gains and minimize losses, our investments in portfolio companies can expose our capital to risks greater than those we may anticipate. These companies are typically not issuing securities rated investment grade, have limited resources, have limited operating history, have concentrated product lines or customers, are generally private companies

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with limited operating information available and are likely to depend on a small core of management talents. Changes in any of these factors can have a significant impact on the value of the portfolio company.

Investment Income

We generate revenue in the form of interest income on the debt securities that we own, dividend income on any common or preferred stock that we own, and fees generated from the structuring of new deals. Our investments, if in the form of debt securities, will typically have a term of one to ten years and bear interest at a fixed or floating rate. To the extent achievable, we will seek to collateralize our investments by obtaining security interests in our portfolio companies' assets. We also may acquire minority or majority equity interests in our portfolio companies, which may pay cash or in-kind dividends on a recurring or otherwise negotiated basis. In addition, we may generate revenue in other forms including prepayment penalties and possibly consulting fees. Any such fees generated in connection with our investments are recognized as earned.

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$200,251 and \$202,021 for the three months ended September 30, 2015 and September 30, 2014, respectively. The increases are primarily the result of a larger income producing portfolio. The following table describes the various components of investment income and the related levels of debt investments:

	Three Months Ended	
	September 30,	
	2015	2014
Interest income	\$ 191,303	\$ 184,140
Dividend income	3,215	2,225
Other income	5,733	15,656
Total investment income	\$ 200,251	\$ 202,021
Average debt principal of performing investments	\$ 6,385,514	\$ 6,005,104
Weighted average interest rate earned on performing debt and equity investments	11.98	% 12.27 %

Average interest income producing assets increased from to \$6,005,104 for the three months ended September 30, 2014 to \$6,385,514 for the three months ended September 30, 2015. The average interest earned on interest bearing performing assets decreased from 12.27% for the three months ended September 30, 2014 to 11.98% for the three months ended September 30, 2015. The decrease is primarily due to a decrease in interest income from our investment in CP Energy offset by originations in higher yielding investments.

Investment income is also generated from dividends and other income. Dividend income increased from \$2,225 for the three months ended September 30, 2014 to \$3,215 for the three months ended September 30, 2015. The increase in dividend income is primarily attributed to a \$2,782 dividend received from our investment in CCPI. No such dividends were received from CCPI during the three months ended September 30, 2014. We received a \$357 dividend related to our investment in Nationwide during the three months ended September 30, 2015. The increase in dividend income was partially offset by a decrease in the level of dividends received from our investments in Biotronic and Nationwide during the three months ended September 30, 2015. We received dividends of \$1,430 and \$671 received from our investments in Biotronic and Nationwide, respectively, during the three months ended September 30, 2014. The dividends received from Biotronic and Nationwide include distributions as part of follow-on financings in August and September 2014. No such dividends were received from Biotronic during the three months ended September 30, 2015.

Other income has come primarily from structuring fees, royalty interests, and settlement of net profits interests. Income from other sources decreased from \$15,656 for the three months ended September 30, 2014 to \$5,733 for the three months ended September 30, 2015. The decrease is primarily due to a \$10,562 decrease in structuring fees. In November 2014, we elected to suspend our equity raising activities. The curtailment of capital raising activities reduced our origination activity. These fees are primarily generated from originations and will fluctuate as levels of originations and types of originations fluctuate. During the three months ended September 30, 2015 and September 30, 2014, we recognized structuring fees of \$3,596 and \$14,158, respectively, from new originations, restructurings, and follow-on investments. The \$3,596 of structuring fees recognized during the three months ended September 30, 2015 resulted from follow-on investments and new originations, primarily from our investments in Crosman, Intelius, NPRC and System One, as discussed above. Included within the \$14,158 of structuring fees recognized during the three months ended September 30, 2014 is a \$3,000 fee from Airmall related to the sale of the operating company for which a fee was received in August 2014. The remaining \$11,158 of structuring fees recognized during the three months ended September 30, 2014 resulted from follow-on investments in existing portfolio companies and new originations, primarily from our investments in Pacific World, Trinity and UPRC.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate the Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$109,009 and \$107,558 for the three months ended September 30, 2015 and September 30, 2014, respectively. The net base management fee was \$32,954 and \$33,165 for the three months ended September 30, 2015 and September 30, 2014, respectively (\$0.09 and \$0.10 per weighted average share, respectively). Total gross base management fee was \$33,416 and \$33,165 for the three months ended September 30, 2015. The \$251 increase in total gross base management fee is directly related to an increase in average total assets. The Investment Adviser has entered into a servicing agreement with certain institutions, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. During the three months ended September 30, 2015, we received payments of \$462 from these institutions, on behalf of the Investment Adviser, for providing such services under the servicing agreement resulting in net total base management fee of \$32,954 for the three months ended September 30, 2015. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser during the three months ended September 30, 2015. No such payments were received during the three months ended September 30, 2014.

For the three months ended September 30, 2015 and September 30, 2014, we incurred \$22,810 and \$23,616 of income incentive fees, respectively (\$0.06 and \$0.07 per weighted average share, respectively). Income incentive fees remained stable year-over-year on a dollars basis, but the per share decrease was driven by a corresponding decrease in pre-incentive fee net investment income from \$0.34 per weighted average share for the three months ended September 30, 2014 to \$0.32 per weighted average share for the three months ended September 30, 2015, primarily due to decreases in other income per share. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended September 30, 2015 and September 30, 2014, we incurred \$41,957 and \$42,914, respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Notes"). These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken in those periods.

The table below describes the various expenses of our Notes and the related indicators of leveraging capacity and indebtedness during these periods.

	Three Months Ended	
	September 30,	
	2015	2014
Interest on borrowings	\$37,316	\$37,010
Amortization of deferred financing costs	3,556	3,829
Accretion of discount on Public Notes	49	69
Facility commitment fees	1,041	2,006
Total interest and credit facility expenses	\$41,962	\$42,914
Average principal debt outstanding	\$2,956,726	\$2,731,720
Weighted average stated interest rate on borrowings(1)	5.05	% 5.42
Weighted average interest rate on borrowings(2)	5.68	% 6.28
Revolving Credit Facility amount at beginning of period	\$885,000	\$857,500

(1) Includes only the stated interest expense.

(2) Includes the stated interest expense, amortization of deferred financing costs, accretion of discount on Public Notes and commitment fees on the undrawn portion of our Revolving Credit Facility.

Interest expense during the three months ended September 30, 2015 and 2014 is relatively stable due to increase utilization of our Revolving Credit Facility during the three months ended September 30, 2015 and the redemption of our 2022 Notes in May 2015. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.42% for the three months ended September 30, 2014 to 5.05% for the three months ended September 30, 2015. This decrease is primarily due to issuances of debt at lower rates and utilization of our Revolving Credit Facility.

The allocation of overhead expense from Prospect Administration was \$4,907 and \$3,471 for the three months ended September 30, 2015 and September 30, 2014, respectively. During the three months ended September 30, 2015 and September 30, 2014, we also incurred \$600 managerial assistance due to Prospect Administration related to our consolidated entity First Tower Delaware, respectively, and \$379 of overhead expense related to our consolidated entity SB Forging during the three months ended September 30, 2015, further increasing our overhead. Prospect Administration received estimated payments of \$1,708 and \$1,055 directly from our portfolio companies for legal, tax and portfolio level accounting services during the three months ended September 30, 2015 and 2014, respectively. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration, resulting in net overhead expense of \$4,178 and \$3,016 during the three months ended September 30, 2015 and 2014, respectively. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts. As our portfolio continues to grow, we expect Prospect Administration to continue to increase the size of its administrative and financial staff.

During the three months ended September 30, 2014, we amended our excise tax returns resulting in the \$4,200 reversal of previously recognized expense and we recorded a \$2,200 prepaid asset for the amount our \$4,500 excise tax payment exceeded the excise tax liability estimated through June 30, 2014. During the three months ended September 30, 2015, we determined that our accrued excise tax liability of \$305 from June 30, 2015 was sufficient through September 30, 2015 and no additional excise tax expense was accrued.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration and excise tax ("Other Operating Expenses") were \$7,110 and \$4,847 for the three months ended September 30, 2015 and September 30, 2014, respectively. The increase of \$2,263 during the three months ended September 30, 2015 is primarily due to an increase in our audit and tax related fees due to the growing size and complexity of our portfolio.

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$91,242 and \$94,463 for the three months ended September 30, 2015 and September 30, 2014, respectively. The \$3,221 decrease during the three months ended September 30, 2015, is primarily the result of a \$9,923 decrease in other income offset by a \$7,163 increase in interest income. (Refer to "Investment Income" above for further discussion.)

Net Realized Losses

During the three months ended September 30, 2015 and September 30, 2014, we recognized net realized losses on investments of \$2,135 and \$22,911, respectively. The net realized loss during the three months ended September 30, 2015 was primarily due to our small business whole loans. The net realized loss during the three months ended September 30, 2014 was primarily due to the sale of our investments in Airmall, Borga and BXC for which we recognized total realized losses of \$23,011, as discussed above. During the three months ended September 30, 2014, we determined that our investment in Appalachian Energy LLC ("AEH") was impaired and recorded a realized loss of \$2,042 for the amount that the amortized cost exceeded the fair value. These losses were partially offset by net realized gains from the proceeds collected on warrants redeemed from Snacks Parent Corporation, litigation settlements and the release of escrowed amounts due to us from several portfolio companies for which we recognized total realized gains of \$2,142.

During the three months ended September 30, 2015, we redeemed \$539 aggregate principal amount of Prospect Capital InterNotes® (including amounts repaid in accordance with the Survivor's Option). As a result of these transactions, we recognized net realized losses on debt extinguishment of \$15 during the three months ended September 30, 2015. We did not recognize any gains or losses on debt extinguishment during the three months ended September 30, 2014.

Net Change in Unrealized (Depreciation) Appreciation

Net change in unrealized (depreciation) appreciation was (\$61,275) and \$12,556 for the three months ended September 30, 2015 and September 30, 2014, respectively. The variability in results is primarily due to the valuation of equity positions in our controlled company portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the three months ended September 30, 2015, the (\$61,275) net change in unrealized depreciation was driven primarily by our investments in Echelon, Harbortouch, NPRC, R-V and our CLO equity investments, as discussed above. For the three months ended September 30, 2014, the \$12,556 net change in unrealized appreciation was driven by the sale of our investments in Airmall, Borga and BXC for which we eliminated the unrealized depreciation balances related to these investments. We also experienced significant write-ups in our investments in Ajax, Harbortouch, MITY and NPRC for the three months ended September 30, 2014. These instances of unrealized appreciation were partially offset by unrealized depreciation related to APRC, Echelon, Gulf Coast and Valley Electric.

Financial Condition, Liquidity and Capital Resources

For the three months ended September 30, 2015 and September 30, 2014, our operating activities provided \$244,354 and \$97,411 of cash, respectively. There were no investing activities for the three months ended September 30, 2015 and September 30, 2014. Financing activities used \$(284,408) and provided \$256,470 of cash during the three months ended September 30, 2015 and September 30, 2014, respectively, which included dividend payments of \$85,755 and \$109,951, respectively.

Our primary uses of funds have been to continue to invest in portfolio companies, through both debt and equity investments, repay outstanding borrowings and to make cash distributions to holders of our common stock.

Our primary sources of funds have historically been issuances of debt and equity. More recently, we have and may continue to fund a portion of our cash needs through repayments and opportunistic sales of our existing investment portfolio. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the three months ended September 30, 2015, we borrowed \$200,000 and made repayments totaling \$412,000 under our Revolving Credit Facility. As of September 30, 2015, we had \$156,700 outstanding on our Revolving Credit Facility, \$1,239,500 outstanding on the Convertible Notes, Public Notes with a carrying value of \$548,143, and \$874,948 outstanding on the Prospect Capital InterNotes®. (See "Capitalization" above.)

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of September 30, 2015 and June 30, 2015, we had \$84,184 and \$88,288, respectively, of

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undrawn revolver and delayed draw term loan commitments to our portfolio companies. Our undrawn committed revolvers and delayed draw term loans are fair valued with zero value as of September 30, 2015 and June 30, 2015, respectively.

Our shareholders' equity accounts as of September 30, 2015 and June 30, 2015 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan (the "Repurchase Program") under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value per share. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. Our last notice was delivered on June 16, 2015. This notice lasts for six months after notice is given. During the three months ended September 30, 2015, we repurchased 4,358,750 shares of our common stock pursuant to the Repurchase Program. Our net asset value per share was increased by approximately \$0.04 as a result of the share repurchases.

On November 4, 2014, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,774,492 of additional debt and equity securities in the public market as of September 30, 2015. See Recent Developments for updates to our Registration Statement subsequent to September 30, 2015.

Off-Balance Sheet Arrangements

As of September 30, 2015, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

On October 2, 2015, we provided \$17,500 of first lien senior secured debt to Easy Gardener Products, Inc., a designer, marketer, and manufacturer of branded lawn and garden products.

On October 9, 2015, BAART Programs, Inc. repaid the \$42,866 loans receivable to us.

On October 16, 2015, we made a \$37,000 second lien secured debt investment in Universal Fiber Systems, LLC, a manufacturer of custom and specialty fiber products used in high performance applications.

On November 2, 2015, we provided \$50,000 of first lien senior secured debt to Coverall North America, Inc., a leading franchiser of commercial cleaning businesses. As part of the transaction, we received repayment of the \$49,600 loan outstanding.

On November 3, 2015, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$5,000,000 of additional debt and equity securities in the public market.

On November 4, 2015, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.08333 per share for November 2015 to holders of record on November 30, 2015 with a payment date of December 24, 2015;

\$0.08333 per share for December 2015 to holders of record on December 31, 2015 with a payment date of January 21, 2016; and

\$0.08333 per share for January 2016 to holders of record on January 29, 2016 with a payment date of February 18, 2016.

On November 6, 2015, we made a \$20,000 second lien secured debt investment in Sirius Computer Systems, a value-added reseller of data center-focused hardware, software and related services.

On November 16, 2015 and November 25, 2015, we sold our \$14,755 debt investment in American Gilsonite Company. We realized a loss of \$4,127 on the sale.

On November 30, 2015, Tolt Solutions, Inc. repaid the \$96,382 loan receivable to us.

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During the period from October 1, 2015 through November 30, 2015, we made eight follow-on investments in NPRC totaling \$70,904 to support the online consumer lending initiative. We invested \$10,636 of equity through NPH Property Holdings, LLC and \$55,964 of debt to ACL Loan Holdings, Inc., a wholly-owned subsidiary of NPRC, with the remaining \$4,304 of debt directly to NPRC. In addition, during this period, we received partial repayments of \$62,558 of the NPRC loan previously outstanding and \$7,140 as a return of capital on the equity investment in NPRC. During the period from October 1, 2015 through November 30, 2015, our wholly-owned subsidiary PSBL purchased \$16,988 of small business whole loans from OnDeck.

During the period from October 1, 2015 through November 30, 2015, we issued \$17,431 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$17,177.

During the period from October 1, 2015 through November 30, 2015, we repaid \$1,720 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus.

During the period from October 1, 2015 through November 30, 2015 (with settlement dates of October 1, 2015 to December 2, 2015, we repurchased 300,000 shares of our common stock at an average price of \$7.48 per share, including commissions.

Critical Accounting Policies and Estimates

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") pursuant to the requirements for reporting on Form 10-K, ASC 946, Financial Services—Investment Companies ("ASC 946"), and Articles 6, 10 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income, expenses, and gains and losses during the reported period. Changes in the economic environment, financial markets, creditworthiness of our portfolio companies and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

Cash and Cash Equivalents

Cash and cash equivalents include funds deposited with financial institutions and short-term, highly-liquid overnight investments in money market funds. Cash and cash equivalents are carried at cost which approximates fair value.

Investment Classification

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, we classify our investments by level of control. As defined in the 1940 Act, "Control Investments" are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of more than 25% of the voting securities of an investee company. Under the 1940 Act, "Affiliate Investments" are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person. "Non-Control/Non-Affiliate Investments" are those that are neither Control Investments nor Affiliate Investments.

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Amounts for investments recognized or derecognized but not yet settled are

reported in due to broker for investments purchased or as a receivable for investments sold in the consolidated statements of assets and liabilities.

Investment Risks

Our investments are subject to a variety of risks. Those risks include the following:

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Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument.

Credit Risk

Credit risk represents the risk that we would incur if the counterparties failed to perform pursuant to the terms of their agreements with us.

Liquidity Risk

Liquidity risk represents the possibility that we may not be able to rapidly adjust the size of our investment positions in times of high volatility and financial stress at a reasonable price.

Interest Rate Risk

Interest rate risk represents a change in interest rates, which could result in an adverse change in the fair value of an interest-bearing financial instrument.

Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making the security less likely to be an income producing instrument.

Investment Valuation

To value our investments, we follow the guidance of ASC 820, Fair Value Measurement (“ASC 820”), that defines fair value, establishes a framework for measuring fair value in conformity with GAAP, and requires disclosures about fair value measurements. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by us at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

Our Board of Directors has established procedures for the valuation of our investment portfolio. These procedures are detailed below.

Investments for which market quotations are readily available are valued at such market quotations.

For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board of Directors has approved a multi-step valuation process each quarter, as described below.

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.

2. The independent valuation firms conduct independent valuations and make their own independent assessments.

3. The Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of the Investment Adviser and that of the independent valuation firms.

4. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

Our non-CLO investments are valued utilizing a yield analysis, enterprise value (“EV”) analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads, dividend yields for certain investments and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market multiples approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The liquidation analysis is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow analysis uses valuation techniques to convert future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in valuing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

Our investments in CLOs are classified as ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date. For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

Valuation of Other Financial Assets and Financial Liabilities

ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the “Fair Value Option”). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 for further discussion of our financial liabilities that are measured using another measurement attribute.

Our undrawn committed revolvers and delayed draw term loans are fair valued with zero value. See Note 3 for further discussion.

Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. The Convertible Notes were analyzed for any features that would require bifurcation and such features were determined to be immaterial. See Note 5 for further discussion.

Revenue Recognition

Realized gains or losses on the sale of investments are calculated using the specific identification method.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or amortization of premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. (“Patriot”) was determined based on the difference between par value and fair value as of December 2, 2009, and continued to accrete until maturity or repayment of the respective loans. As of December 31, 2013, the purchase discount for the assets acquired from Patriot had been fully accreted. See Note 3 for further discussion.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management’s judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management’s judgment, is likely to remain current. As of September 30, 2015, approximately 1.4% of our total assets are in non-accrual status.

Interest income from investments in the “equity” class of security of CLO funds (typically preferred shares, income notes or subordinated notes) and “equity” class of security of securitized trust is recorded based upon an estimation of an effective yield to expected maturity utilizing assumed cash flows in accordance with ASC 325-40, Beneficial Interests in Securitized Financial Assets. We monitor the expected cash inflows from our CLO and securitized equity investments, including the expected residual payments, and the effective yield is determined and updated periodically. Dividend income is recorded on the ex-dividend date.

Structuring fees and similar fees are recognized as income as earned, usually when paid. Structuring fees, excess deal deposits, net profits interests and overriding royalty interests are included in other income. See Note 10 for further discussion.

Federal and State Income Taxes

We have elected to be treated as a regulated investment company and intend to continue to comply with the requirements of the Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gain to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. For the calendar year ended December 31, 2014, we incurred an excise tax expense of \$461 because our annual taxable income exceeded our distributions. As of September 30, 2015, we had a payable of \$305 for excise taxes as our expected excise tax liability exceeded our excise tax payments through September 30, 2015. This amount is included within accrued expenses on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years. We follow ASC 740, Income Taxes ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of September 30, 2014 and September 30, 2015 and for the years then ended, we did not have a liability for any tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for our federal tax years ending August 31, 2012 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a monthly dividend or distribution is approved by our Board of Directors quarterly and is generally based upon our management's estimate of our future earnings. Net realized capital gains, if any, are distributed at least annually.

Financing Costs

We record origination expenses related to our Revolving Credit Facility and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Unsecured Notes") as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, Modification and Extinguishments ("ASC 470-50"). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid assets are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed.

Guarantees and Indemnification Agreements

We follow ASC 460, Guarantees ("ASC 460"). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

Per Share Information

Net increase or decrease in net assets resulting from operations per share is calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, convertible securities are not considered in the calculation of net asset value per share.

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Recent Accounting Pronouncements

In April 2015, the FASB issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. The new guidance will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance must be applied on a retrospective basis to all prior periods presented in the financial statements. The adoption of the amended guidance in ASU 2015-03 is not expected to have a significant effect on our consolidated financial statements and disclosures.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. Some of the loans in our portfolio have floating interest rates.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended September 30, 2015, we did not engage in hedging activities.

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DESCRIPTION OF THE NOTES

The Notes will be issued under the Indenture referred to in the accompanying prospectus between us and U.S. Bank National Association, as trustee, and a supplemental indenture establishing the terms of the Notes (collectively, the indenture and supplemental indenture is referred to as the “Indenture”). The following description of particular terms of the Notes supplements the more general description of the debt securities contained in the accompanying prospectus. If there are any inconsistencies between the information in this section and the information in the accompanying prospectus, the information in this section controls. You should read this section together with the section entitled “Description of Our Debt Securities” in the accompanying prospectus.

Together with the “Description of Our Debt Securities” in the accompanying prospectus, the following description provides a summary of the material provisions of the Notes and the Indenture and does not purport to be complete. We urge you to read the Indenture (including the form of global note contained therein), because it, and not this description, defines your rights as a holder of the Notes.

Brief Description of the Notes

The Notes will:

- initially be limited to \$ million aggregate principal amount (\$ million if the option is exercised in full);
- bear interest at a rate of % per year, payable every March 15, June 15, September 15 and December 15, commencing on March 15, 2016, in each case having a record date of March 1, June 1, September 1, and December 1;
- be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof;
- be redeemed in whole or in part at any time or from time to time at our option on or after December 15, 2018, upon not less than 30 days nor more than 60 days’ written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption. See the description under “-Optional Redemption” below;
- be our general unsecured obligations, ranking equally with all of our other unsecured indebtedness (including, but not limited to, the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes and the Prospect Capital InterNotes[®]) and senior in right of payment to any of our subordinated indebtedness, effectively subordinated in right of payment to our existing and future secured indebtedness and structurally subordinated to all existing and future debt of our subsidiaries;
- be subject to repurchase by us at your option if a fundamental change occurs, at a cash repurchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date;
- are expected to be listed on The New York Stock Exchange; and
- be due June 15, 2024.

Neither we nor our subsidiaries will be subject to any financial covenants under the Indenture. In addition, neither we nor our subsidiaries will be restricted under the Indenture from paying dividends, incurring debt or issuing or repurchasing our securities. You are not afforded protection under the Indenture in the event of a highly leveraged transaction or a change in control of us, except to the extent described below under “-Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change.”

No sinking fund is provided for the Notes and the Notes will be subject to defeasance.

The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC. For information regarding registration of transfer and exchange of the global note held in DTC, see “Registration and Settlement” on page S-54.

Additional Notes

We may, without the consent of the holders of the Notes, increase the principal amount of the Notes by issuing additional Notes in the future on the same terms and conditions, except for any differences in the issue price and interest accrued prior to the issue date of the additional Notes and the original issue date; provided that such differences do not cause the additional Notes to constitute a different class of securities than the Notes for U.S. federal income tax purposes. The Notes offered by this prospectus supplement and any additional Notes would rank equally and ratably and would be treated as a single class for all purposes under the Indenture. No additional Notes may be issued if any event of default has occurred with respect to the Notes.

Ranking

The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future unsecured indebtedness (including, but not limited to, our 2015 Notes, 2016 Notes, 2017 Notes, 2018 Notes, 2019 Notes, the 5.00% 2019 Notes, 2020 Notes, 2023 Notes and any Prospect Capital InterNotes®) and senior in right of payment to any of our subordinated indebtedness. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. As of December 2, 2015, we and our subsidiaries had approximately \$2,897.0 million of indebtedness outstanding, \$218.7 million of which was secured indebtedness and \$2,678.3 million of which was unsecured indebtedness.

Payment at Maturity

On the maturity date, each holder will be entitled to receive on such date \$25 in cash for each \$25 in principal amount of Notes, together with accrued and unpaid interest (including additional interest, if any) to, but not including, the maturity date. With respect to the global note, principal and interest (including additional interest, if any) will be paid to DTC in immediately available funds.

Optional Redemption

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after December 15, 2018, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

A holder of the Notes may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, the holder will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of the holder's remaining unredeemed Notes.

Any exercise of our option to redeem the Notes will be done in compliance with 1940 Act, to the extent applicable. If the Company redeems only some of the Notes, the trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the 1940 Act and the rules and regulations promulgated thereunder, to the extent applicable. Unless the Company defaults in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change

If a fundamental change (as defined below) occurs at any time prior to the maturity of the Notes, you will have the right to require us to repurchase, at the repurchase price described below, all or part of your Notes for which you have properly delivered and not withdrawn a written repurchase notice. The Notes submitted for repurchase must be \$25 in principal amount or \$25 integral multiples in excess thereof.

The repurchase price will be payable in cash and will equal 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date. However, if the repurchase date is after a record date and on or prior to the corresponding interest payment date, the interest (including additional interest, if any) will be paid on the repurchase date to the holder of record on the record date.

We may be unable to repurchase your Notes in cash upon a fundamental change. Our ability to repurchase the Notes in cash in the future may be limited by the terms of our then-existing borrowing agreements. In addition, the occurrence of a fundamental change could cause an event of default under the terms of our then-existing borrowing agreements. We cannot

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assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price in cash. See “Risk Factors-We may be unable to repurchase the Notes following a fundamental change” on page S-11 of this prospectus supplement.

A “fundamental change” will be deemed to have occurred upon the occurrence of both (a) a below investment grade ratings event (as defined below) and (b) any of the following events (each such events listed below shall be deemed a “fundamental change event”):

1. the consummation of any transaction (including, without limitation, any merger or consolidation other than those excluded under clause (3) below) the result of which is that any “person” becomes the “beneficial owner” (as these terms are defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of our capital stock that is at the time entitled to vote by the holder thereof in the election of our board of directors (or comparable body);
2. the adoption of a plan relating to our liquidation or dissolution; or
3. the consolidation or merger of us with or into any other person, or the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiaries taken as a whole to any “person” (as this term is used in Section 13(d)(3) of the Exchange Act), other than:
 - any transaction that does not result in any reclassification, conversion, exchange or cancellation of all or substantially all of the outstanding shares of our capital stock;
 - any changes resulting from a subdivision or combination or a change solely in par value;
 - any transaction pursuant to which the holders of 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors immediately prior to such transaction have the right to exercise, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of the continuing or surviving person immediately after giving effect to such transaction entitled to vote generally in elections of directors; or
 - any merger primarily for the purpose of changing our jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity.

For purposes of determining the occurrence of a fundamental change, the term “below investment grade ratings event” means the Notes are downgraded below investment grade (as defined below) by each of the rating agencies (as defined below) on any date from the date of the public notice of an arrangement that results in the occurrence of a fundamental change event until the end of the 60-day period following public notice of the occurrence of a fundamental change event (which period shall be extended so long as any rating of the Notes is under publicly announced consideration for possible downgrade by a rating agency); provided that a downgrade contemplated by this paragraph otherwise arising by virtue of a particular reduction in a rating shall not be deemed to have occurred in respect of a particular fundamental change event (and thus shall not be deemed a downgrade as contemplated by this paragraph for purposes of the definition of fundamental change hereunder) if one of the rating agencies making a reduction in a rating to which this paragraph would otherwise apply does not announce or publicly confirm or inform the trustee in writing at its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable fundamental change event (whether or not the applicable fundamental change event shall have occurred at the time of any downgrade contemplated by this paragraph). “Rating agencies” means Standard & Poor’s Rating Service, a division of McGraw-Hill, Inc., and Kroll Bond Rating Agency, Inc. or any successors thereto and “investment grade” means a rating of BBB- or better by the rating agencies (or if any such rating agency ceases to rate the Notes for reasons outside of the Company’s control, the equivalent investment grade rating from any “nationally recognized statistical rating organization” as defined in Section (3)(a)(62) of the Exchange Act selected by the Company as a replacement for such rating agency).

The definition of “fundamental change” includes a phrase relating to the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require us to repurchase the Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our assets and those of our subsidiaries taken as a whole to another person or group may be uncertain.

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On or before the 30th calendar day after the occurrence of a fundamental change, we will provide to all record holders of the Notes on the date of the fundamental change at their addresses shown in the register of the registrar and to beneficial owners to the extent required by applicable law, the trustee and the paying agent, a written notice of the occurrence of the fundamental change and the resulting repurchase right. Such notice shall state, among other things, the event causing the fundamental change and the procedures you must follow to require us to repurchase your Notes. The repurchase date will be a date specified by us in the notice of a fundamental change that is not less than 20 nor more than 35 calendar days after the date of the notice of a fundamental change.

To exercise your repurchase right, you must deliver, prior to 5:00 p.m., New York City time, on the repurchase date, a written notice to the paying agent of your exercise of your repurchase right (together with the Notes to be repurchased, if certificated Notes have been issued). The repurchase notice must state:

- if you hold a beneficial interest in a global Note, your repurchase notice must comply with appropriate DTC procedures; if you hold certificated Notes, the Notes certificate numbers;

- the portion of the principal amount of the Notes to be repurchased, which must be \$25 or \$25 integral multiples in excess thereof; and

- that the Notes are to be repurchased by us pursuant to the applicable provisions of the Notes and the Indenture.

You may withdraw your repurchase notice at any time prior to 5:00 p.m., New York City time, on the repurchase date by delivering a written notice of withdrawal to the paying agent. If a repurchase notice is given and withdrawn during that period, we will not be obligated to repurchase the Notes listed in the repurchase notice. The withdrawal notice must state:

- if you hold a beneficial interest in a global Note, your withdrawal notice must comply with appropriate DTC procedures; if you hold certificated Notes, the certificate numbers of the withdrawn Notes;

- the principal amount of the withdrawn Notes; and

- the principal amount, if any, which remains subject to the repurchase notice.

Payment of the repurchase price for Notes for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the Notes, together with necessary endorsements, to the paying agent, as the case may be. Payment of the repurchase price for the Notes will be made promptly following the later of the repurchase date and the time of book-entry transfer or delivery of the Notes, as the case may be.

If the paying agent holds on the business day immediately following the repurchase date cash sufficient to pay the repurchase price of the Notes that holders have elected to require us to repurchase, then, as of the repurchase date: the Notes will cease to be outstanding and interest (including additional interest, if any) will cease to accrue, whether or not book-entry transfer of the Notes has been made or the Notes have been delivered to the paying agent, as the case may be; and

- all other rights of the holders of Notes will terminate, other than the right to receive the repurchase price upon delivery or transfer of the Notes.

In connection with any repurchase, we will, to the extent applicable:

- comply with the provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act that may be applicable at the time of the offer to repurchase the Notes;

- file a Schedule TO or any other schedule required in connection with any offer by us to repurchase the Notes; and

- comply with all other federal and state securities laws in connection with any offer by us to repurchase the Notes.

This fundamental change repurchase right could discourage a potential acquirer of the Company. However, this fundamental change repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions. See "Risk Factors-Provisions of the Notes could discourage an acquisition of us by a third party" on page S-11 of this prospectus supplement.

Our obligation to repurchase the Notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged or other transaction involving us that may adversely affect holders. We also could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a fundamental change but would increase the amount of our (or our subsidiaries') outstanding debt. The incurrence of significant amounts of additional debt could adversely affect our ability to service our then existing debt, including the Notes. See "Risk Factors-Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to repurchase the Notes" on page S-11 of this prospectus supplement.

Consolidation, Merger and Sale of Assets by the Company

The Indenture will provide that we may not, in a single transaction or a series of related transactions, consolidate with or merge with or into any other person or sell, convey, transfer or lease our property and assets substantially as an entirety to another person, unless:

either (a) we are the continuing corporation or (b) the resulting, surviving or transferee person (if other than us) is a corporation or limited liability company organized and existing under the laws of the United States, any state thereof or the District of Columbia and such person assumes, by a supplemental indenture in a form reasonably satisfactory to the trustee, all of our obligations under the Notes and the Indenture;

- immediately after giving effect to such transaction, no default or event of default has occurred and is continuing; and
- we have delivered to the trustee certain certificates and opinions of counsel if so requested by the trustee.

In the event of any transaction described in and complying with the conditions listed in the immediately preceding paragraph in which the Company is not the continuing corporation, the successor person formed or remaining shall succeed, and be substituted for, and may exercise every right and power of, the Company, and the Company shall be discharged from its obligations, under the Notes and the Indenture.

This covenant includes a phrase relating to the sale, conveyance, transfer and lease of the property and assets of the Company "substantially as an entirety." There is no precise, established definition of the phrase "substantially as an entirety" under New York law, which governs the Indenture and the Notes, or under the laws of Maryland, the Company's state of incorporation. Accordingly, the ability of a holder of the Notes to require us to repurchase the Notes as a result of a sale, conveyance, transfer or lease of less than all of the property and assets of the Company may be uncertain.

An assumption by any person of the Company's obligations under the Notes and the Indenture might be deemed for U.S. federal income tax purposes to be an exchange of the Notes for new Notes by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

Events of Default; Notice and Waiver

In addition to the events of default and the other information with respect to events of default, see "Description of Our Debt Securities-Events of Default" beginning on page 146 of the accompanying prospectus, the following will be events of default under the Indenture:

- we fail to pay the repurchase price payable in respect of any Notes when due;
- we fail to provide notice of the effective date or actual effective date of a fundamental change on a timely basis as required in the Indenture;
- we fail to perform or observe any other term, covenant or agreement in the Notes or the Indenture for a period of 60 calendar days after written notice of such failure is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding;