

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 40<sup>th</sup> Street, 42<sup>nd</sup> Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus

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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.

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## 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<sup>®</sup> 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<sup>®</sup> at par in accordance with the Survivor's Option, as defined in the InterNotes<sup>®</sup> 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    | <p>New York City</p>  |
| 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       | <p>We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.</p>   |
| Business day        | <p>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.</p>   |
| 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                                       | <p>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.</p>   |
| Trustee, Paying Agent, Registrar and Transfer Agent | U.S. Bank National Association  |
| Fundamental change repurchase right of Holders      | <p>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.”</p>  |
| Events of default                                   | <p>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.</p>  |
| Other covenants                                     | <p>In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> |
| Global clearance and settlement procedures          | <p>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</p>  |

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<br>Months Ended<br>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<br>on credit<br>facility   | 156,700     | 411,000     | 368,700     | 92,000      | 124,000     | 96,000      | 84,200      |   |
| Convertible<br>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<br>to Prospect<br>Administration<br>and Prospect<br>Capital<br>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<br>Activity Data:  |             |             |             |             |             |             |             |   |
| No. of portfolio<br>companies at<br>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,<br>repayments,<br>and other<br>disposals                                       | \$528,789   | \$863,144   | \$1,633,073 | \$786,969   | \$931,534   | \$500,952   | \$285,562   |   |
| Total return<br>based on<br>market value(2)   | —           | % (3.94     | )% (20.8    | )% 10.9     | % 6.2       | % 27.2      | % 17.2      | % |
| Total return<br>based on net<br>asset value(2)  | 1.96        | % 2.24      | % 11.5      | % 11.0      | % 10.9      | % 18.0      | % 12.5      | % |
| Weighted<br>average<br>annualized<br>yield at end of<br>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<sup>®</sup>. 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<sup>®</sup> 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<sup>®</sup> 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<br>(in years) | Amount   | Range       | Average<br>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.

Each portfolio company or investment is reviewed by our investment professionals with independent valuation

1. 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<sup>®</sup>) 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 30<sup>th</sup> 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;
- we fail to pay any additional interest (as discussed below) when such interest becomes due and payable, which failure continues for a period of 30 days;
- a failure to pay principal when due (whether at stated maturity or otherwise) or an uncured default that results in the acceleration of maturity, of any indebtedness for borrowed money of the Company or any of our "significant subsidiaries," (which term shall have the meaning specified in Rule 1-02(w) of Regulation S-X), other than subsidiaries that are non-recourse or limited recourse subsidiaries, bankruptcy remote special purpose vehicles and

any subsidiaries that are not consolidated with us for GAAP purposes, in an aggregate amount in excess of \$50,000,000 (or its foreign currency equivalent), unless such indebtedness is discharged, or such acceleration is rescinded, stayed or annulled, within a period of 30 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; or

certain events involving our bankruptcy, insolvency or reorganization of the Company.

We are required to notify the trustee promptly upon becoming aware of the occurrence of any default under the Indenture known to us. The trustee is then required within 90 calendar days of being notified by us of the occurrence of any default to give to the registered holders of the Notes notice of all uncured defaults known to it. However, the trustee may withhold notice to the holders of the Notes of any default, except defaults in payment of principal or interest (including additional interest, if any) on the Notes, if the trustee, in good faith, determines that the withholding of such notice is in the interests of the holders. We are also required to deliver to the trustee, on or before a date not more than 120 calendar days after the end of each fiscal year, a written statement as to compliance with the Indenture, including whether or not any default has occurred.

If an event of default specified in the last bullet point listed above occurs and continues, the principal amount of the Notes and accrued and unpaid interest (including additional interest, if any) on the outstanding Notes will automatically become due and payable. If any other event of default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding Notes may declare the principal amount of the Notes and accrued and unpaid interest (including additional interest, if any) on the outstanding Notes to be due and payable. Thereupon, the trustee may, in its discretion, proceed to protect and enforce the rights of the holders of the Notes by appropriate judicial proceedings.

After a declaration of acceleration, but before a judgment or decree for payment of the money due has been obtained by the trustee, the holders of a majority in aggregate principal amount of the Notes outstanding, by written notice to us and the trustee, may rescind and annul such declaration if:

we have paid (or deposited with the trustee a sum sufficient to pay) (1) all overdue interest (including additional interest, if any) on all Notes; (2) the principal amount of any Notes that have become due otherwise than by such declaration of acceleration; (3) to the extent that payment of such interest is lawful, interest upon overdue interest (including additional interest, if any); and (4) all sums paid or advanced by the trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the trustee, its agents and counsel; and all events of default, other than the non-payment of the principal amount and any accrued and unpaid interest (including additional interest, if any) that have become due solely by such declaration of acceleration, have been cured or waived.

For more information on remedies if an event of default occurs, see “Description of Our Debt Securities-Events of Default” beginning on page 146 of the accompanying prospectus.

Notwithstanding the foregoing and the description in the accompanying prospectus, the Indenture will provide, if we so elect, that the sole remedy for an event of default relating to the failure to comply with the reporting obligations in the Indenture, which are described below under the caption “-Reports,” and for any failure to comply with the requirements of Section 314(a)(1) of the Trust Indenture Act (which also relates to the provision of reports), will, at our option, for the 365 days after the occurrence of such an event of default consist exclusively of the right to receive additional interest on the Notes at an annual rate equal to 0.50% of the principal amount of the Notes. In the event we do not elect to pay the additional interest upon an event of default in accordance with this paragraph, the Notes will be subject to acceleration as provided above. The additional interest will accrue on all outstanding Notes from and including the date on which an event of default relating to a failure to comply with the reporting obligations in the Indenture first occurs to but not including the 365th day thereafter (or such earlier date on which the event of default relating to the reporting obligations shall have been cured or waived). On such 365th day (or earlier, if the event of default relating to the reporting obligations is cured or waived prior to such 365th day), such additional interest will cease to accrue and the Notes will be subject to acceleration as provided above if the event of default is continuing. The provisions of the Indenture described in this paragraph will not affect the rights of holders of Notes in the event of the occurrence of any other event of default.

Waiver

The holders of a majority in aggregate principal amount of the Notes outstanding may, on behalf of the holders of all the Notes, waive any past default or event of default under the Indenture and its consequences, except that a holder cannot waive our failure to pay the repurchase price on the repurchase date in connection with a holder exercising its repurchase rights. For

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other exceptions to a holder's waiver of past default or event of default under the Indenture, see "Description of Our Debt Securities-Events of Default" beginning on page 146 of the accompanying prospectus.

#### Modification

##### Changes Requiring Approval of Each Affected Holder

The Indenture (including the terms and conditions of the Notes) may not be modified or amended without the written consent or the affirmative vote of the holder of each Note affected by such change to:

- reduce any amount payable upon repurchase of any Notes;
- to add to, delete from or revise the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication and delivery of debt securities, as set forth in the indenture;
- change our obligation to repurchase any Notes upon a fundamental change in a manner adverse to the rights of the holders; and
- change our obligation to maintain an office or agency in New York City.

For other changes requiring approval of each affected holder, see "Description of our Debt Securities-Modification or Waiver" on page 148 of the accompanying prospectus.

##### Changes Requiring Majority Approval

The Indenture (including the terms and conditions of the Notes) may be modified or amended, except as described above, with the written consent or affirmative vote of the holders of a majority in aggregate principal amount of the Notes then outstanding. For such changes requiring majority approval, see "Description of Our Debt Securities-Modification or Waiver" on page 148 of the accompanying prospectus.

##### Changes Requiring No Approval

The Indenture (including the terms and conditions of the Notes) may be modified or amended by us and the trustee, without the consent of the holder of any Notes, to, among other things:

- provide for our repurchase obligations in connection with a fundamental change in the event of any reclassification of our common stock, merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entity;
- secure the Notes;
- provide for the assumption of our obligations to the holders of the Notes in the event of a merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entirety;
- surrender any right or power conferred upon us;
- add to our covenants for the benefit of the holders of the Notes;
- cure any ambiguity or correct or supplement any inconsistent or otherwise defective provision contained in the Indenture;
- conform the provisions of the Indenture to the description of the Notes contained in this prospectus supplement;
- make any provision with respect to matters or questions arising under the Indenture that we may deem necessary or desirable and that shall not be inconsistent with provisions of the Indenture; provided that such change or modification does not, in the good faith opinion of our board of directors, adversely affect the interests of the holders of the Notes in any material respect;
- add guarantees of obligations under the Notes; and
- provide for a successor trustee.

#### Other

The consent of the holders of Notes is not necessary under the Indenture to approve the particular form of any proposed modification or amendment. It is sufficient if such consent approves the substance of the proposed modification or amendment. After a modification or amendment under the Indenture becomes effective, we are required to mail to the holders a notice briefly describing such modification or amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the modification or amendment.

#### Notes Not Entitled to Consent

Any Notes held by us or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with us shall be disregarded (from both the numerator and the denominator) for purposes of determining whether the holders of the requisite aggregate principal amount of the outstanding Notes have consented to a modification, amendment or waiver of the terms of the Indenture.

#### Reports

We shall deliver to the trustee, within 30 days after filing with the SEC, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) that we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act; provided, that any such information, documents or reports filed electronically with the SEC pursuant to Section 13 or 15(d) of the Exchange Act shall be deemed filed with and delivered to the trustee and the holders at the same time as filed with the SEC.

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.

#### Other Covenants

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. These provisions generally prohibit us from incurring additional borrowings, including through the issuance of additional securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings.

#### Satisfaction and Discharge

The Indenture shall upon the written request or order signed in the name of the Company, or the "Company Request," cease to be of further effect with respect to any series of Notes specified in such Company Request (except as to any surviving rights of registration of transfer or exchange of Notes of such series expressly provided in the Indenture, any surviving rights of tender for repayment at the option of the holders and any right to receive additional amounts, as provided in the Indenture), and the trustee, upon receipt of a company order, and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of the Indenture as to such series when:

(1) either:

(A) all Notes of such series theretofore authenticated and delivered and all coupons, if any, appertaining thereto (other than (i) coupons appertaining to bearer securities surrendered for exchange for registered securities and maturing after such exchange, whose surrender is not required or has been waived as provided in the Indenture, (ii) Notes and coupons of such series which have been destroyed, lost or stolen and which have been replaced or paid as provided in the Indenture, (iii) coupons appertaining to the Notes called for redemption and maturing after the relevant redemption date, whose surrender has been waived as provided in the Indenture, and (iv) Notes and coupons of such series for whose payment money has theretofore been deposited in trust with the trustee or any paying agent or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust), as provided in the Indenture have been delivered to the trustee for cancellation; or

(B) all Notes of such series and, in the case of (i) or (ii) below, any coupons appertaining thereto not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or



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(ii) will become due and payable at their stated maturity within one year, or  
(iii) if redeemable at the option of the Company, are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the expense, of the Company, and the Company, in the case of (i), (ii) or (iii) above, has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust for such purpose, solely for the benefit of the holders, an amount in the currency in which the Notes of such series are payable, sufficient to pay and discharge the entire indebtedness on such Notes and such coupons not theretofore delivered to the trustee for cancellation, for principal (and premium, if any) and interest, if any, to the date of such deposit (in the case of Notes which have become due and payable) or to the stated maturity or redemption date, as the case may be;

(2) the Company has irrevocably paid or caused to be irrevocably paid all other sums payable under the Indenture by the Company; and

(3) the Company has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent in the Indenture provided for relating to the satisfaction and discharge of the Indenture as to such series have been complied with.

Notwithstanding the satisfaction and discharge of the Indenture, the obligations of the Company to the trustee and any predecessor trustee under the Indenture, the obligations of the Company to any authenticating agent under the Indenture and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1), the obligations of the trustee for application of the funds and the Notes deposited with the trustee and held in trust for payment shall survive any termination of the Indenture.

#### Governing Law

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

#### Form, Denomination and Registration

The Notes will be issued:

- in fully registered form;
- without interest coupons; and
- in denominations of \$25 principal amount and integral multiples of \$25.

## REGISTRATION AND SETTLEMENT

### The Depository Trust Company

The Notes will be issued in book-entry only form. This means that we will not issue certificates for the Notes, except in the limited case described below. Instead, we will issue the global note in registered form. The global note will be held through DTC and will be registered in the name of Cede & Co., as nominee of DTC.

Accordingly, Cede & Co. will be the holder of record of the Notes. The Notes represented by the global note evidences a beneficial interest in the global note.

Beneficial interest in the global note will be shown on, and transfers are effected through, records maintained by DTC or its participants. In order to own a beneficial interest in the Notes, you must be an institution that has an account with DTC or have a direct or indirect account with such an institution. Transfers of ownership interests in the Notes will be accomplished by making entries in DTC participants' books acting on behalf of beneficial owners.

So long as DTC or its nominee is the registered holder of the global note, DTC or its nominee, as the case may be, will be the sole holder and owner of the Notes represented thereby for all purposes, including payment of principal and interest, under the Indenture. Except as otherwise provided below, you will not be entitled to receive physical delivery of certificated Notes and will not be considered the holder of the Notes for any purpose under the indenture.

Accordingly, you must rely on the procedures of DTC and the procedures of the DTC participant through which you own your Note in order to exercise any rights of a holder of a Note under the indenture. The laws of some jurisdictions require that certain purchasers of Notes take physical delivery of such Notes in certificated form. Those limits and laws may impair the ability to transfer beneficial interests in the Notes.

The global note representing the Notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global note or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global note shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the Notes under the Indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the Notes.

The following is based on information furnished by DTC:

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered Notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered global note will be issued for all of the principal amount of the Notes.

The global note representing the Notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global note or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global note shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the Notes under the Indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the Notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's direct participants deposit with DTC.

DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC,

in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or

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indirectly. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Notes under the DTC system must be made by or through direct participants, which will receive a credit for the Notes on DTC's records. The beneficial interest of each actual purchaser of the Notes is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the Notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by direct participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Notes; DTC's records reflect only the identity of the direct participants to whose accounts such Notes will be credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemption, tenders, defaults, and proposed amendments to the security documents. For example, beneficial owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to beneficial owners. In the alternative, beneficial owners may wish to provide their names and addresses to the registrar of the Notes and request that copies of the notices be provided to them directly. Any such request may or may not be successful.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the regular record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

We will pay principal and or interest payments on the Notes in same-day funds directly to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records upon DTC's receipt of funds and corresponding detail information. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of these participants and not of DTC or any other party, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is our responsibility, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the direct or indirect participant.

We will send any redemption notices to DTC. If less than all of the Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

A beneficial owner, or its authorized representative, shall give notice to elect to have its Notes repaid by us, through its direct or indirect participant, to the trustee, and shall effect delivery of such Notes by causing the direct participant to transfer that participant's interest in the global note representing the Notes, on DTC's records, to the trustee. The requirement for physical delivery of the Notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing the Notes are transferred by the direct participants on DTC's

records.

DTC may discontinue providing its services as securities depository for the Notes at any time by giving us reasonable notice. Under such circumstances, if a successor securities depository is not obtained, we will print and deliver certificated Notes. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, we will print and deliver certificated Notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but neither we, the underwriters nor any agent takes any responsibility for its accuracy.

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#### Registration, Transfer and Payment of Certificated Notes

If we ever issue Notes in certificated form, those Notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have originally designated U.S. Bank National Association to act in those capacities for the Notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the Notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any Notes at any time.

We will not be required to: (1) issue, exchange or register the transfer of any Note to be redeemed for a period of 15 days after the selection of the Notes to be redeemed; (2) exchange or register the transfer of any Note that was selected, called or is being called for redemption, except the unredeemed portion of any Note being redeemed in part; or (3) exchange or register the transfer of any Note as to which an election for repayment by the holder has been made, except the unrepaid portion of any Note being repaid in part.

We will pay principal of and interest on any certificated Notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note by check on any interest payment date other than at stated maturity or upon earlier redemption or repayment to the person in whose name the note is registered at the close of business on the regular record date for that payment. We will pay principal and interest at stated maturity or upon earlier redemption or repayment in same-day funds against presentation and surrender of the applicable Notes.

## SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary of U.S. federal income tax considerations supplements the discussion set forth under the heading “Material U.S. Federal Income Tax Considerations” in the accompanying prospectus and is subject to the qualifications and assumptions set forth therein.

The following is a general summary of U.S. federal income tax considerations generally applicable to the purchase, ownership and disposition of the Notes. This discussion is based upon the Code, Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations, possibly with retroactive effect. No ruling from the Internal Revenue Service (“IRS”) has been or will be sought regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

This discussion applies only to a holder of Notes that acquires the Notes for cash pursuant to this offering at the initial offering price and who holds the Notes as a capital asset (generally, property held for investment) under the Code.

This discussion does not address any U.S. federal estate or gift tax consequences or any state, local or non-U.S. tax consequences. In addition, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, including, but not limited to:

- banks, insurance companies or other financial institutions;
- pension plans or trusts;
- U.S. Noteholders (as defined below) whose functional currency is not the U.S. dollar;
- real estate investment trusts;
- regulated investment companies;
- persons subject to the alternative minimum tax;
- cooperatives;
- tax-exempt organizations;
- dealers in securities;
- expatriates;
- foreign persons or entities (except to the extent set forth below);
- persons deemed to sell the Notes under the constructive sale provisions of the Code; or
- persons that hold the Notes as part of a straddle, hedge, conversion transaction or other integrated investment.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns Notes, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns the Notes should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

We encourage investors to consult their tax advisors regarding the specific consequences of an investment in our Notes, including tax reporting requirements, the applicability of U.S. federal, state, local and non-U.S. tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

### Consequences to U.S. Noteholders

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a U.S. Noteholder. U.S. federal income tax consequences generally applicable to non-U.S. Noteholders are described under “Consequences to non-U.S. Noteholders” below. For purposes of this summary, the term “U.S. Noteholder” means a beneficial owner of a Note that is, for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the U.S., any of the States or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the U.S. is able to exercise primary supervision over



its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

#### Stated interest and original issue discount

Payments of stated interest on the Notes will be taxable to a U.S. Noteholder as ordinary interest income at the time such Noteholder receives or accrues such amounts, in accordance with its regular method of accounting. In addition, the Notes may be issued with original issue discount (“OID”) for U.S. federal income tax purposes if the Notes’ stated redemption price at maturity (which is equal to the sum of all payments to be made on the Notes other than “qualified stated interest”) exceeds the issue price of the Notes (which is equal to the first price at which a substantial amount of Notes is sold for cash, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) by more than a statutorily defined de minimis amount.

If the Notes are issued with OID, each U.S. Noteholder, regardless of the U.S. Noteholder’s accounting method, generally must include in ordinary income a portion of the OID for each day during each taxable year in which a Note is held, determined by using a constant yield-to-maturity method that reflects the compounding of interest. This means that, if the Notes are issued with OID, each U.S. Noteholder will be required to include amounts in income without a corresponding receipt of cash attributable to such income. The amount of such inclusions generally will increase over time. A U.S. Noteholder’s adjusted tax basis in a Note generally will equal the amount the U.S. Noteholder pays for the Note, increased by any OID included in income with respect to the Note.

#### Sale, exchange, redemption or other taxable disposition of the Notes

Upon the sale, exchange, redemption or other taxable disposition of a Note, a U.S. Noteholder generally will recognize taxable capital gain or loss equal to the difference, if any, between the amount realized and the Noteholder’s adjusted tax basis in the Note at the time of such disposition. Such gain or loss will be long-term capital gain or loss if the U.S. Noteholder’s holding period with respect to the Note disposed of is more than one year. To the extent that amounts received are attributable to accrued but unpaid interest that the U.S. Noteholder has not yet included in income, such interest will not be taken into account in determining gain or loss, but will instead be taxable as ordinary interest income. The deductibility of capital losses is subject to limitations.

#### Information reporting and backup withholding

Payments of interest (including OID) on, or the proceeds of the sale or other disposition of, a Note are generally subject to information reporting unless the U.S. Noteholder is an exempt recipient (such as a corporation). Such payments, along with principal payments on the Note, may also be subject to U.S. federal backup withholding at the applicable rate if the recipient of such payment fails to supply a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise fails to establish an exemption from backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against that U.S. Noteholder’s U.S. federal income tax liability provided the required information is furnished to the IRS.

#### Medicare tax

Certain U.S. Noteholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on all or a portion of their “net investment income,” which includes interest on the Notes and capital gains from the sale or other disposition of the Notes.

#### Consequences to non-U.S. Noteholders

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a non-U.S. Noteholder. A beneficial owner of a Note that is not a partnership for U.S. federal income tax purposes or a U.S. Noteholder is referred to herein as a “non-U.S. Noteholder.”

#### Stated interest and original issue discount

Stated interest and OID, if any, paid or accrued to a non-U.S. Noteholder generally will not be subject to U.S. federal income or withholding tax if the interest or OID is not effectively connected with its conduct of a trade or business within the United States, and the non-U.S. Noteholder:

- does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;

- is not a “controlled foreign corporation” with respect to which we are, directly or indirectly, a “related person”;



is not a bank whose receipt of interest on the Notes is described in section 881(c)(3)(A) of the Code; and provides its name and address, and certifies, under penalties of perjury, that it is not a U.S. person (on a properly executed IRS Form W-8BEN or W-8BEN-E or other applicable form), or holds its Notes through certain foreign intermediaries and satisfies the certification requirements of applicable Treasury Regulations.

If a non-U.S. Noteholder does not qualify for an exemption under these rules, interest income and OID, if any, from the Notes may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate). Stated interest and OID, if any, effectively connected with a non-U.S. Noteholder's conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, which is attributable to a United States permanent establishment), however, would not be subject to a 30% withholding tax so long as the non-U.S. Noteholder provides us or our paying agent with an adequate certification (currently on IRS Form W-8ECI); such payments of interest and OID, if any, generally would be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if a non-U.S. Noteholder is a foreign corporation and the stated interest and OID, if any, is effectively connected with its conduct of a U.S. trade or business, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. To claim the benefit of a tax treaty, a non-U.S. Noteholder must provide a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form) to us or our paying agent before the payment of stated interest and OID, if any, and may be required to obtain a U.S. taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

**Sale, exchange, redemption or other taxable disposition of the Notes**

Any gain recognized by a non-U.S. Noteholder on the sale, exchange, redemption or other taxable disposition of the Notes (except with respect to accrued and unpaid interest, which would be taxed as described under "Consequences to Non-U.S. Noteholders—Stated interest and OID on the Notes" above) generally will not be subject to U.S. federal income tax unless:

- the non-U.S. Noteholder's gain is effectively connected with its conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment); or

- the non-U.S. Noteholder is a nonresident alien individual present in the U.S. for 183 or more days in the taxable year within which the sale, exchange, redemption or other disposition takes place and certain other requirements are met.

If a non-U.S. Noteholder is a holder described in the first bullet point above, the net gain derived from the sale, exchange, redemption or other taxable disposition of its Notes generally will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if such non-U.S. Noteholder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. If a non-U.S. Noteholder is a holder described in the second bullet point above, it will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, exchange, redemption or other taxable disposition of its Notes, which may be offset by U.S. source capital losses, even though it is not considered a resident of the United States.

Non-U.S. Noteholders should consult any applicable income tax treaties that may provide for different rules. In addition, non-U.S. Noteholders are urged to consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Notes.

**Information reporting and backup withholding**

A non-U.S. Noteholder may be required to comply with certain certification procedures to establish that the holder is not a U.S. person in order to avoid backup withholding with respect to our payment of principal and interest (including OID) on, or the proceeds of the sale or other disposition of, a note. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against that non-U.S. Noteholder's U.S. federal income tax liability provided the required information is timely furnished to the IRS. In certain circumstances, the name and address of the beneficial owner and the amount of interest and OID, if any, paid on a Note, as well as the amount, if any, of tax withheld, may be reported to the IRS. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the non-U.S. Noteholder resides.

**Other withholding rules**

Withholding at a rate of 30% will be required on interest in respect of, and after December 31, 2018, on gross proceeds from the sale of, Notes held by or through certain foreign financial institutions (including investment funds), unless such

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institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in, and accounts maintained by, the institution to the extent such shares or accounts are held by certain United States persons or by certain non-U.S. entities that are wholly or partially owned by United States persons and to withhold on certain payments. Accordingly, the entity through which Notes are held will affect the determination of whether such withholding is required. Similarly, interest in respect of, and, after December 31, 2018, gross proceeds from the sale of, Notes held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any “substantial United States owners” or (ii) provides certain information regarding the entity’s “substantial United States owners,” which we will in turn provide to the Secretary of the Treasury. An intergovernmental agreement between the United States and an applicable foreign country, or future guidance, may modify these requirements. Non-U.S. Noteholders are encouraged to consult with their tax advisors regarding the possible implications of these requirements on their investment in Notes.

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**CERTAIN CONSIDERATIONS APPLICABLE TO  
ERISA, GOVERNMENTAL AND OTHER PLAN INVESTORS**

A fiduciary of a pension plan or other employee benefit plan (including a governmental plan, an individual retirement account or a Keogh plan) proposing to invest in the Notes should consider this section carefully.

A fiduciary of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (commonly referred to as “ERISA”), should consider fiduciary standards under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the Notes. Such fiduciary should consider whether the investment is in accordance with the documents and instruments governing the plan.

In addition, ERISA and the Code prohibit certain transactions (referred to as “prohibited transactions”) involving the assets of a plan subject to ERISA or the assets of an individual retirement account or plan subject to Section 4975 of the Code (referred to as an “ERISA plan”), on the one hand, and persons who have certain specified relationships to the plan (“parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code), on the other. If we (or an affiliate) are considered a party in interest or disqualified person with respect to an ERISA plan, then the investment in Notes by the ERISA plan may give rise to a prohibited transaction. The purchase and holding of Notes by an ERISA plan may be subject to one or more statutory or administrative exemptions from the prohibited transaction rules under ERISA and the Code. Even if the conditions for relief under such exemptions were satisfied, however, there can be no assurance that such exemptions would apply to all of the prohibited transactions that may be deemed to arise in connection with a plan’s investment in the Notes.

By purchasing and holding the Notes, the person making the decision to invest on behalf of an ERISA plan is representing that the purchase and holding of the Notes will not result in a non-exempt prohibited transaction under ERISA or the Code. Therefore, an ERISA plan should not invest in the Notes unless the plan fiduciary or other person acquiring Notes on behalf of the ERISA plan determines that neither we nor an affiliate is or (at any time during the term of the investment) will become a party in interest or a disqualified person or, alternatively, that an exemption from the prohibited transaction rules is available. If an ERISA plan engages in a prohibited transaction, the transaction may require “correction” and may cause the ERISA plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to excise taxes.

Employee benefit plans that are governmental plans and non-U.S. plans, and certain church plans, are not subject to ERISA requirements. However, non-U.S., federal, state or local laws or regulations governing the investment and management of the assets of such plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and Section 4975 of the Code discussed above. By purchasing and holding the Notes, the person making the decision to invest on behalf of any such plan is representing that the purchase and holding of the Notes will not violate any law or regulation applicable to such plan that is similar to the prohibited transaction provisions of ERISA or the Code.

If you are the fiduciary of an employee benefit plan, whether or not subject to ERISA, and you propose to invest in the Notes with the assets of such employee benefit plan, you should consult your own legal counsel for further guidance. The sale of Notes to an employee benefit plan is in no respect a representation by us, the underwriters or any other person that such an investment meets all relevant legal requirements with respect to investments by employee benefit plans generally or any particular plan or that such an investment is appropriate for employee benefit plans generally or any particular plan.

#### USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately \$ (or approximately \$ if the option to purchase up to an additional \$ million in aggregate principal amount of Notes is exercised in full) after deducting estimated underwriting discounts and commissions and estimated offering expenses of approximately \$200,000 payable by us.

We expect to use the net proceeds from the sale of the Notes to redeem the 2015 Notes on December 15, 2015, when they come due and to paydown the outstanding balance on the credit facility.

As of December 2, 2015, we had \$218.7 million of borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, a total of approximately \$514.8 million was available to us for borrowing under our credit facility. Interest on borrowings under the credit 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 credit facility equal to either 50 basis points if at least 35% of the credit facility is used or 100 basis points otherwise.

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## CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2015:

on an actual basis;

on an as adjusted basis giving effect to the issuance of 371,503 shares in connection with our dividend reinvestment plan since September 30, 2015, our repurchase of 300,000 shares of our common stock during the period from October 1, 2015 to December 2, 2015, our issuance of \$15.7 million of Prospect Capital InterNotes® (net of redemptions and with settlement through December 3, 2015), and borrowing of \$62.0 million under our credit facility; and

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of \$ million aggregate principal amount of Notes issued at % but without giving effect to the use of the cash proceeds from such sale as described in “Use of Proceeds” on page S-62.

This table should be read in conjunction with “Use of Proceeds” and our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus. The adjusted information is illustrative only.

As of September 30, 2015

|  | Actual | As Adjusted for<br>Stock Issuances and<br>Repurchases and<br>Borrowings After<br>September 30, 2015 | As Further<br>Adjusted for<br>this Offering(1) |
|--|--------|---|--|
|--|--------|---|--|

(In thousands, except shares and per share data)  
(Unaudited)

Long-term debt, including current maturities:

|   |            |           |  |
|---|------------|-----------|--|
| Borrowings under senior credit facility | \$ 156,700 | 218,700   |  |
| 6.25% Convertible Notes due 2015        | 150,000    | 150,000   |  |
| All other Convertible Notes             | 1,089,500  | 1,089,500 |  |
| Public Notes                            | 548,143    | 548,143   |  |
| Prospect Capital InterNotes®            | 874,948    | 890,659   |  |
| Notes offered hereby                    | —          | —         |  |
| Amount owed to affiliates               | 5,577      | 5,577     |  |
| Total long-term debt                    | 2,824,868  | 2,902,579 |  |

Stockholders’ equity:

|  |             |             |   |
|--|-------------|-------------|---|
| Common stock, par value \$0.001 per share<br>(1,000,000,000 common shares authorized;<br>355,222,482 shares outstanding actual, 355,293,985<br>shares outstanding as adjusted and shares outstanding<br>as further adjusted) | 355         | 355         |   |
| Paid-in capital in excess of par value   | 3,954,051   | 3,954,561   |   |
| Accumulated overdistributed net investment income  | (16,514     | ) (16,514   | ) |
| Accumulated net realized losses on investments and<br>extinguishment of debt   | (312,778    | ) (312,778  | ) |
| Net unrealized (depreciation) appreciation on<br>investments   | (11,093     | ) (11,093   | ) |
| Total stockholders' equity   | 3,614,021   | 3,614,531   |   |
| Total capitalization   | \$6,438,889 | \$6,517,110 |   |

(1) The As Further Adjusted for this Offering calculations exclude any exercise of the underwriters’ option to purchase additional Notes.





## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of September 30, 2015.

| Credit Facility                                   | Total Amount Outstanding(1) | Asset Coverage per Unit(2) | Involuntary Liquidating Preference per Unit(3) | Average Market Value per Unit(4) |
|---|-----------------------------|----------------------------|--|----------------------------------|
| Fiscal 2016 (as of September 30, 2015, unaudited) | \$ 156,700                  | \$ 41,055                  | —  | —                                |
| Fiscal 2015 (as of June 30, 2015)                 | 368,700                     | 18,136                     | —  | —                                |
| Fiscal 2014 (as of June 30, 2014)                 | 92,000                      | 69,470                     | —  | —                                |
| Fiscal 2013 (as of June 30, 2013)                 | 124,000                     | 34,996                     | —  | —                                |
| Fiscal 2012 (as of June 30, 2012)                 | 96,000                      | 22,668                     | —  | —                                |
| Fiscal 2011 (as of June 30, 2011)                 | 84,200                      | 18,065                     | —  | —                                |
| Fiscal 2010 (as of June 30, 2010)                 | 100,300                     | 8,093                      | —  | —                                |
| Fiscal 2009 (as of June 30, 2009)                 | 124,800                     | 5,268                      | —  | —                                |
| Fiscal 2008 (as of June 30, 2008)                 | 91,167                      | 5,712                      | —  | —                                |
| Fiscal 2007 (as of June 30, 2007)                 | —                           | N/A                        | —  | —                                |
| Fiscal 2006 (as of June 30, 2006)                 | 28,500                      | 4,799                      | —  | —                                |
| 2015 Notes  |                             |                            |  |                                  |
| Fiscal 2016 (as of September 30, 2015, unaudited) | \$ 150,000                  | \$ 42,889                  | —  | —                                |
| Fiscal 2015 (as of June 30, 2015)                 | 150,000                     | 44,579                     | —  | —                                |
| Fiscal 2014 (as of June 30, 2014)                 | 150,000                     | 42,608                     | —  | —                                |
| Fiscal 2013 (as of June 30, 2013)                 | 150,000                     | 28,930                     | —  | —                                |
| Fiscal 2012 (as of June 30, 2012)                 | 150,000                     | 14,507                     | —  | —                                |
| Fiscal 2011 (as of June 30, 2011)                 | 150,000                     | 10,140                     | —  | —                                |
| 2016 Notes  |                             |                            |  |                                  |
| Fiscal 2016 (as of September 30, 2015, unaudited) | \$ 167,500                  | \$ 38,408                  | —  | —                                |
| Fiscal 2015 (as of June 30, 2015)                 | 167,500                     | 39,921                     | —  | —                                |
| Fiscal 2014 (as of June 30, 2014)                 | 167,500                     | 38,157                     | —  | —                                |
| Fiscal 2013 (as of June 30, 2013)                 | 167,500                     | 25,907                     | —  | —                                |
| Fiscal 2012 (as of June 30, 2012)                 | 167,500                     | 12,992                     | —  | —                                |
| Fiscal 2011 (as of June 30, 2011)                 | 172,500                     | 8,818                      | —  | —                                |
| 2017 Notes  |                             |                            |  |                                  |
| Fiscal 2016 (as of September 30, 2015, unaudited) | \$ 130,000                  | \$ 49,487                  | —  | —                                |
| Fiscal 2015 (as of June 30, 2015)                 | 130,000                     | 51,437                     | —  | —                                |
| Fiscal 2014 (as of June 30, 2014)                 | 130,000                     | 49,163                     | —  | —                                |
| Fiscal 2013 (as of June 30, 2013)                 | 130,000                     | 33,381                     | —  | —                                |
| Fiscal 2012 (as of June 30, 2012)                 | 130,000                     | 16,739                     | —  | —                                |
| 2018 Notes  |                             |                            |  |                                  |
| Fiscal 2016 (as of September 30, 2015, unaudited) | \$ 200,000                  | \$ 32,167                  | —  | —                                |
| Fiscal 2015 (as of June 30, 2015)                 | 200,000                     | 33,434                     | —  | —                                |

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|  |           |          |   |   |
|--|-----------|----------|---|---|
| Fiscal 2014 (as of June 30, 2014)                    | 200,000   | 31,956   | — | — |
| Fiscal 2013 (as of June 30, 2013)                    | 200,000   | 21,697   | — | — |
| 2019 Notes   |           |          |   |   |
| Fiscal 2016 (as of September 30, 2015,<br>unaudited) | \$200,000 | \$32,167 | — | — |
| Fiscal 2015 (as of June 30, 2015)                    | 200,000   | 33,434   | — | — |
| Fiscal 2014 (as of June 30, 2014)                    | 200,000   | 31,956   | — | — |
| Fiscal 2013 (as of June 30, 2013)                    | 200,000   | 21,697   | — | — |

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|   | Total Amount<br>Outstanding(1) | Asset<br>Coverage per<br>Unit(2) | Involuntary<br>Liquidating<br>Preference per<br>Unit(3) | Average<br>Market<br>Value per<br>Unit(4) |
|---|--------------------------------|----------------------------------|---|---|
| <b>5.00% 2019 Notes</b>                                 |                                |                                  |   |   |
| Fiscal 2016 (as of September 30, 2015,<br>unaudited)    | \$ 300,000                     | \$ 21,444                        | —   | —   |
| Fiscal 2015 (as of June 30, 2015)                       | 300,000                        | 22,289                           | —   | —   |
| Fiscal 2014 (as of June 30, 2014)                       | 300,000                        | 21,304                           | —   | —   |
| <b>2020 Notes</b>                                       |                                |                                  |   |   |
| Fiscal 2016 (as of September 30, 2015,<br>unaudited)    | \$ 392,000                     | \$ 16,412                        | —   | —   |
| Fiscal 2015 (as of June 30, 2015)                       | 392,000                        | 17,058                           | —   | —   |
| Fiscal 2014 (as of June 30, 2014)                       | 400,000                        | 15,978                           | —   | —   |
| <b>2022 Notes(5)</b>                                    |                                |                                  |   |   |
| Fiscal 2016 (as of September 30, 2015,<br>unaudited)    | \$—                            | N/A                              | N/A   | N/A                                       |
| Fiscal 2015 (as of June 30, 2015)                       | —                              | N/A                              | N/A   | N/A                                       |
| Fiscal 2014 (as of June 30, 2014)                       | 100,000                        | 63,912                           | —   | 103,920                                   |
| Fiscal 2013 (as of June 30, 2013)                       | 100,000                        | 43,395                           | —   | 101,800                                   |
| Fiscal 2012 (as of June 30, 2012)                       | 100,000                        | 21,761                           | —   | 99,560                                    |
| <b>2023 Notes</b>                                       |                                |                                  |   |   |
| Fiscal 2016 (as of September 30, 2015,<br>unaudited)    | \$ 248,143                     | \$ 25,926                        | —   | —   |
| Fiscal 2015 (as of June 30, 2015)                       | 248,094                        | 26,953                           | —   | —   |
| Fiscal 2014 (as of June 30, 2014)                       | 247,881                        | 25,783                           | —   | —   |
| Fiscal 2013 (as of June 30, 2013)                       | 247,725                        | 17,517                           | —   | —   |
| <b>Prospect Capital InterNotes®</b>                     |                                |                                  |   |   |
| Fiscal 2016 (as of September 30, 2015,<br>unaudited)    | \$ 874,948                     | \$ 7,353                         | —   | —   |
| Fiscal 2015 (as of June 30, 2015)                       | 827,442                        | 8,081                            | —   | —   |
| Fiscal 2014 (as of June 30, 2014)                       | 785,670                        | 8,135                            | —   | —   |
| Fiscal 2013 (as of June 30, 2013)                       | 363,777                        | 11,929                           | —   | —   |
| Fiscal 2012 (as of June 30, 2012)                       | 20,638                         | 105,442                          | —   | —   |
| <b>All Senior Securities</b>                            |                                |                                  |   |   |
| Fiscal 2016 (as of September 30, 2015,<br>unaudited)(6) | \$ 2,819,291                   | \$ 2,282                         | —   | —   |
| Fiscal 2015 (as of June 30, 2015)                       | 2,983,736                      | 2,241                            | —   | —   |
| Fiscal 2014 (as of June 30, 2014)                       | 2,773,051                      | 2,305                            | —   | —   |
| Fiscal 2013 (as of June 30, 2013)                       | 1,683,002                      | 2,578                            | —   | —   |
| Fiscal 2012 (as of June 30, 2012)                       | 664,138                        | 3,277                            | —   | —   |

(1) Total amount of each class of senior securities outstanding at the end of the year/period presented (in 000's).

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities

representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.

(3) This column is inapplicable.

(4) This column is inapplicable, except for the 2022 Notes. The average market value per unit is presented in thousands.

(5) We redeemed the 2022 Notes on May 15, 2015.

While we do not consider commitments to fund under revolving arrangements to be Senior Securities, if we were

(6) to elect to treat such unfunded commitments as Senior Securities for purposes of Section 18 of the 1940 Act, our asset coverage per unit would be \$2,245.

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## RATIO OF EARNINGS TO FIXED CHARGES

For the three months ended September 30, 2015 and the years ended June 30, 2015, 2014, 2013, 2012 and 2011, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

|                                 | For the three<br>months ended<br>September 30,<br>2015 | For the Year<br>Ended<br>June 30,<br>2015 | For the Year<br>Ended<br>June 30,<br>2014 | For the Year<br>Ended<br>June 30,<br>2013 | For the Year<br>Ended<br>June 30,<br>2012 | For the Year<br>Ended<br>June 30,<br>2011 |
|---------------------------------|--|---|---|---|---|---|
| Earnings to Fixed<br>Charges(1) | 1.66   | 3.04                                      | 3.45                                      | 3.89                                      | 5.95                                      | 7.72                                      |

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

Earnings include the net change in unrealized appreciation or depreciation. Net change in unrealized appreciation or depreciation can vary substantially from year to year. Excluding the net change in unrealized appreciation or (1) depreciation, the earnings to fixed charges ratio would be 3.12 for the three months ended September 30, 2015, 2.06 for the year ended June 30, 2015, 3.72 for the year ended June 30, 2014, 4.91 for the year ended June 30, 2013, 6.79 for the year ended June 30, 2012, and 7.29 for the year ended June 30, 2011.

## UNDERWRITING

UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the aggregate principal amount of Notes set forth opposite its name below.

| Underwriter  | Principal Amount of Notes |
|--|---------------------------|
| UBS Securities LLC                                       | \$                        |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated       |                           |
| Morgan Stanley & Co. LLC                                 |                           |
| RBC Capital Markets, LLC                                 |                           |
| BB&T Capital Markets, a division of BB&T Securities, LLC |                           |
| Deutsche Bank Securities Inc.                            |                           |
| FBR Capital Markets & Co.                                |                           |
| Ladenburg Thalmann & Co. Inc.                            |                           |
| Maxim Group LLC  |                           |
| MLV & Co. LLC  |                           |
| Oppenheimer & Co. Inc.                                   |                           |
| Wunderlich Securities, Inc.                              |                           |
| Total  | \$                        |

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Notes sold under the underwriting agreement if any of these Notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by counsel and other conditions contained in the underwriting agreement. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

We expect that delivery of the Notes will be made against payment therefor on or about , 2015, which will be the fifth business day following the date of the pricing of the Notes (such settlement being herein referred to as "T+5"). Under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the date of delivery hereunder will be required, by virtue of the fact that the Notes initially will settle in T+5 business days, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement.

## Commissions and Discounts

An underwriting discount of % per Note will be paid by us. This underwriting discount will also apply to any Notes purchased pursuant to the option to purchase up to an additional \$ million in aggregate principal amount of Notes. The following table shows the total underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. The information assumes either no exercise or full exercise by the underwriters of their option.

|                                 | Per Note | Total<br>Without Option | Total<br>With Option |
|---------------------------------|----------|-------------------------|----------------------|
| Public offering price           | \$       | \$                      | \$                   |
| Underwriting discount           | \$       | \$                      | \$                   |
| Proceeds, before expense, to us | \$       | \$                      | \$                   |

The underwriters propose to offer some of the Notes to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Notes to certain dealers at the public offering price less a concession not in excess of % of the principal amount of the Notes. The underwriters may allow, and dealers may reallow, a concession not in excess of % of the principal amount of the Notes to certain other dealers. After the initial offering of the Notes to the public, the public offering price and such concessions may be changed. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement.

We estimate that our share of the total expenses of the offering, excluding the underwriting discount, will be approximately \$200,000.

#### Option

We have granted an option to the underwriters to purchase up to an additional \$ total aggregate principal amount of Notes at the public offering price within 30 days from the date of this prospectus supplement. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional Notes proportionate to that underwriter's initial principal amount reflected in the above table.

#### Lock-Up Arrangement

We have agreed that during a period of 30 days from the date of this prospectus supplement, we will not, without the prior written consent of UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC, directly or indirectly, offer, pledge, sell, contract to sell, grant any option for the sale of, or otherwise transfer or dispose of, any senior unsecured debt securities issued or guaranteed by us or any securities convertible into or exercisable or exchangeable for senior unsecured debt securities issued or guaranteed by us or file any registration statement under the Securities Act with respect to any of the foregoing. The foregoing restriction shall not apply to the registration and sale of the Notes to be sold hereunder or to the issuance of Prospect Capital InterNotes® pursuant to that certain Fifth Amended and Restated Selling Agent Agreement, dated as of November 6, 2015, between the Company, Prospect Capital Management, Prospect Administration and the agents named therein.

#### Listing

The Notes are a new issue of securities with no established trading market. We intend to list the Notes on The New York Stock Exchange. We expect trading in the Notes on The New York Stock Exchange to begin within 30 days after the original issue date. Currently there is no public market for the Notes.

We have been advised by the underwriters that they presently intend to make a market in the Notes after completion of the offering as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time in the sole discretion of the underwriters without any notice. Accordingly, no assurance can be given as to the liquidity of, or development of a public trading market for, the Notes. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

#### Price Stabilization, Short Positions

In connection with the offering, the underwriters may purchase and sell Notes in the open market. These transactions may include overallotment, covering transactions and stabilizing transactions. Overallotment involves sales of securities in excess of the aggregate principal amount of securities to be purchased by the underwriters in the offering, which creates a short position for the underwriters. Covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of securities made for the purpose of preventing or retarding a decline in the market price of the securities while the offering is in progress.





The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Any of these activities may cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be affected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time without any notice relating thereto.

#### Electronic Offer, Sale and Distribution of Notes

The underwriters may make prospectuses available in electronic (PDF) format. A prospectus in electronic (PDF) format may be made available on a web site maintained by the underwriters, and the underwriters may distribute such prospectuses electronically. The underwriters may allocate a limited principal amount of the Notes for sale to their online brokerage customers.

#### Other Relationships

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for the issuer and its affiliates, for which they received or may in the future receive customary fees and expenses. In particular, affiliates of certain of the underwriters are lenders under our credit facility and may receive a portion of the net proceeds from the offering made pursuant to this prospectus supplement and the accompanying prospectus through the repayment of any borrowings.

In the ordinary course of its various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer or its affiliates. If the underwriters or their affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. The underwriters and their affiliates may hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The underwriters and certain of their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The principal business address of UBS Securities LLC is 1285 Avenue of the Americas, New York, New York 10019. The principal business address of Merrill Lynch, Pierce, Fenner & Smith Incorporated is One Bryant Park, New York, New York 10036. The principal business address of Morgan Stanley & Co. LLC is 1585 Broadway, New York, New York 10036. The principal business address of RBC Capital Markets, LLC is Three World Financial Center, 200 Vesey Street, 8th Floor, New York, New York.

#### Other Jurisdictions

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the Notes offered by this prospectus supplement in any jurisdiction where action for that purpose is required. The Notes offered by this prospectus supplement may not be offered or sold, directly or indirectly, nor may this prospectus supplement or any other offering material or advertisements in connection with the offer and sale of any such Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus supplement comes are advised to inform themselves about and to observe any restriction relating to the offering and the distribution of this prospectus supplement. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of an offer to buy the Notes offered by this prospectus supplement and the accompanying prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.



### Selling Restrictions

This prospectus does not constitute an offer to sell to, or a solicitation of an offer to buy from, anyone in any country or jurisdiction (i) in which such an offer or solicitation is not authorized, (ii) in which any person making such offer or solicitation is not qualified to do so or (iii) in which any such offer or solicitation would otherwise be unlawful. No action has been taken that would, or is intended to, permit a public offer of the Notes or possession or distribution of this prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction (other than the United States) where any such action for that purpose is required. Accordingly, the underwriters have undertaken that they will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by the underwriters will be made on the same terms.

#### Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

#### Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area (each, a "Relevant Member State"), no offer of the Notes may be made to the public in that Relevant Member State other than:

- A. to any legal entity which is a qualified investor as defined in the Prospectus Directive,
- B. to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives, or in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of the
- C. Notes shall require us or the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any Notes or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any Notes being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Notes acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Notes to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

We, the representatives and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgments and agreements.



This prospectus supplement has been prepared on the basis that any offer of the Notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes which are the subject of the offering contemplated in this prospectus supplement may only do so in circumstances in which no obligation arises for us or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither we nor the underwriters have authorized, nor do we or they authorize, the making of any offer of Notes in circumstances in which an obligation arises for us or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by the 2010 PD Amending Directive) and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

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## LEGAL MATTERS

The legality of the Notes will be passed upon for the Company by Joseph Ferraro, our General Counsel. Skadden, Arps, Slate, Meagher & Flom LLP (“Skadden, Arps”), New York, New York, and Venable LLP, as special Maryland counsel, Baltimore, Maryland, will pass on certain matters for the Company. Certain legal matters in connection with the offering will be passed upon for the underwriters by Troutman Sanders LLP. Skadden, Arps and Venable LLP each have from time to time acted as counsel for us and our subsidiaries and may do so in the future.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO USA, LLP is the independent registered public accounting firm for the Company.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the Notes offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and the Notes being registered by this prospectus supplement and the accompanying prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2015, are available free of charge by contacting us at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC’s Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC’s Public Reference Section, Washington, D.C. 20549-0102.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

|   | September 30,<br>2015<br>(Unaudited) | June 30, 2015<br>(Audited) |
|---|--------------------------------------|----------------------------|
| Assets  |                                      |                            |
| Investments at fair value:  |                                      |                            |
| Control investments (amortized cost of \$1,973,325 and \$1,894,644, respectively)   | \$2,012,700                          | \$1,974,202                |
| Affiliate investments (amortized cost of \$2,228 and \$45,150, respectively)  | 3,128                                | 45,945                     |
| Non-control/non-affiliate investments (amortized cost of \$4,466,440 and \$4,619,582, respectively)   | 4,415,072                            | 4,589,411                  |
| Total investments at fair value (amortized cost of \$6,441,993 and \$6,559,376, respectively)   | 6,430,900                            | 6,609,558                  |
| Cash and cash equivalents   | 71,828                               | 110,026                    |
| Receivables for:  |                                      |                            |
| Interest, net   | 14,379                               | 20,408                     |
| Other   | 907                                  | 2,885                      |
| Prepaid expenses  | 725                                  | 757                        |
| Deferred financing costs  | 51,740                               | 54,420                     |
| Total Assets  | 6,570,479                            | 6,798,054                  |
| Liabilities   |                                      |                            |
| Revolving Credit Facility (Notes 4 and 8)   | 156,700                              | 368,700                    |
| Convertible Notes (Notes 5 and 8)   | 1,239,500                            | 1,239,500                  |
| Public Notes (Notes 6 and 8)  | 548,143                              | 548,094                    |
| Prospect Capital InterNotes® (Notes 7 and 8)  | 874,948                              | 827,442                    |
| Commitments and Contingencies (Note 3)  | —                                    | —                          |
| Due to broker   | 55,253                               | 26,778                     |
| Interest payable  | 35,639                               | 39,659                     |
| Dividends payable   | 29,601                               | 29,923                     |
| Due to Prospect Administration (Note 13)  | 5,415                                | 4,238                      |
| Due to Prospect Capital Management (Note 13)  | 162                                  | 2,550                      |
| Accrued expenses  | 3,363                                | 3,408                      |
| Other liabilities   | 7,734                                | 4,713                      |
| Total Liabilities   | 2,956,458                            | 3,095,005                  |
| Net Assets  | \$3,614,021                          | \$3,703,049                |
| Components of Net Assets  |                                      |                            |
| Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 355,222,482 and 359,090,759 issued and outstanding, respectively) (Note 9) | \$355                                | \$359                      |
| Paid-in capital in excess of par (Note 9)   | 3,954,051                            | 3,975,672                  |
| Accumulated overdistributed net investment income   | (16,514)                             | (21,077)                   |
| Accumulated net realized loss on investments and extinguishment of debt   | (312,778)                            | (302,087)                  |
| Net unrealized (depreciation) appreciation on investments   | (11,093)                             | 50,182                     |
| Net Assets  | \$3,614,021                          | \$3,703,049                |
| Net Asset Value Per Share (Note 16)   | \$10.17                              | \$10.31                    |

See notes to consolidated financial statements.



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except share and per share data)  
(Unaudited)

|   | Three Months Ended September 30, |            |   |
|---|----------------------------------|------------|---|
|   | 2015                             | 2014       |   |
| Investment Income   |                                  |            |   |
| Interest income:  |                                  |            |   |
| Control investments   | \$ 51,944                        | \$ 45,128  |   |
| Affiliate investments   | 885                              | 837        |   |
| Non-control/non-affiliate investments                               | 93,708                           | 98,778     |   |
| Structured credit securities  | 44,766                           | 39,397     |   |
| Total interest income   | 191,303                          | 184,140    |   |
| Dividend income:  |                                  |            |   |
| Control investments   | 3,213                            | 759        |   |
| Affiliate investments   | —                                | 1,429      |   |
| Non-control/non-affiliate investments                               | —                                | 22         |   |
| Money market funds  | 2                                | 15         |   |
| Total dividend income   | 3,215                            | 2,225      |   |
| Other income:   |                                  |            |   |
| Control investments   | 2,409                            | 5,663      |   |
| Affiliate investments   | —                                | 226        |   |
| Non-control/non-affiliate investments                               | 3,324                            | 9,767      |   |
| Total other income (Note 10)  | 5,733                            | 15,656     |   |
| Total Investment Income   | 200,251                          | 202,021    |   |
| Operating Expenses  |                                  |            |   |
| Investment advisory fees:   |                                  |            |   |
| Base management fee (Note 13)                                       | 32,954                           | 33,165     |   |
| Income incentive fee (Note 13)                                      | 22,810                           | 23,616     |   |
| Total investment advisory fees                                      | 55,764                           | 56,781     |   |
| Interest and credit facility expenses                               | 41,957                           | 42,914     |   |
| Legal fees  | 1,415                            | 1,163      |   |
| Valuation services  | 463                              | 450        |   |
| Audit, compliance and tax related fees                              | 1,877                            | 667        |   |
| Allocation of overhead from Prospect Administration (Note 13)       | 4,178                            | 3,016      |   |
| Insurance expense   | 226                              | 131        |   |
| Directors' fees   | 94                               | 94         |   |
| Other general and administrative expenses                           | 3,035                            | 2,342      |   |
| Total Operating Expenses  | 109,009                          | 107,558    |   |
| Net Investment Income   | 91,242                           | 94,463     |   |
| Net realized losses on investments                                  | (2,135                           | ) (22,911  | ) |
| Net change in unrealized (depreciation) appreciation on investments | (61,275                          | ) 12,556   | ) |
| Net realized and unrealized losses on investments                   | (63,410                          | ) (10,355  | ) |
| Net realized losses on extinguishment of debt                       | (15                              | ) —        | ) |
| Net Increase in Net Assets Resulting from Operations                | \$ 27,817                        | \$ 84,108  |   |
| Net increase in net assets resulting from operations per share      | \$ 0.08                          | \$ 0.24    |   |
| Dividends declared per share  | \$ (0.25                         | ) \$ (0.33 | ) |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except share data)  
(Unaudited)

|  | Three Months Ended September 30, |            |
|--|----------------------------------|------------|
|  | 2015                             | 2014       |
| <b>Operations</b>  |                                  |            |
| Net investment income  | \$91,242                         | \$94,463   |
| Net realized losses on investments   | (2,135                           | ) (22,911  |
| Net change in unrealized (depreciation) appreciation on investments            | (61,275                          | ) 12,556   |
| Net realized losses on extinguishment of debt                                  | (15                              | ) —        |
| Net Increase in Net Assets Resulting from Operations                           | 27,817                           | 84,108     |
| <b>Distributions to Shareholders</b>   |                                  |            |
| Distribution from net investment income  | (89,115                          | ) (114,266 |
| Distribution of return of capital  | —                                | —          |
| Net Decrease in Net Assets Resulting from Distributions to Shareholders        | (89,115                          | ) (114,266 |
| <b>Common Stock Transactions</b>   |                                  |            |
| Issuance of common stock, net of underwriting costs                            | —                                | 56,305     |
| Less: Offering costs from issuance of common stock                             | 118                              | (210       |
| Repurchase of common stock under stock repurchase program                      | (31,530                          | ) —        |
| Value of shares issued through reinvestment of dividends                       | 3,682                            | 3,640      |
| Net (Decrease) Increase in Net Assets Resulting from Common Stock Transactions | (27,730                          | ) 59,735   |