

PROSPECT CAPITAL CORP
Form 497
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PROSPECTUS SUPPLEMENT
(To Prospectus dated November 3, 2015)

Up to \$100,000,000

Prospect Capital Corporation
6.25% Notes due 2024

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.

We have entered into a Debt Distribution Agreement, dated June 22, 2016, pursuant to which we may offer for sale, from time to time, up to \$100,000,000 in aggregate principal amount of our 6.25% Notes due 2024, which we refer to as the “Notes,” through FBR Capital Markets & Co., acting as our sales agent or the “Agent.” Sales of the Notes, if any, may be made in negotiated transactions or transactions that are deemed to be “at the market offerings” as defined in Rule 415 under the Securities Act of 1933, as amended, or the “Securities Act”, including sales made directly on the New York Stock Exchange, or “NYSE,” or similar securities exchange or sales made to or through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices. If any of the Notes are sold at prices above the par value of \$25 per Note, the effective yield on such Notes to the purchasers may be less than 6.25%.

The Agent will receive a commission from us equal to up to 2.0% of the gross sales price of any Notes sold through the Agent under the Debt Distribution Agreement. The Agent is not required to sell any specific principal amount of Notes, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the Notes offered by this prospectus supplement and the accompanying prospectus. See “Plan of Distribution” beginning on page S-71 of this prospectus supplement.

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 September 15, 2016. Interest on the Notes will accrue from the most recent interest payment date immediately preceding the date of issuance of the Notes from time to time, except that, if you purchase Notes after the record dates noted below (or your settlement of a purchase of Notes otherwise occurs after such record date), your Notes will not accrue interest for the period from such purchase date to the interest payment date immediately following such record date. The interest payable on each interest payment date will be paid only to holders of record of the Notes at the close of business on March 1, June 1, September 1 and December 1 of each year, as the case may be, immediately preceding the applicable interest payment date. As a general matter, holders of the Notes will not be entitled to receive any payments of principal on the Notes prior to the stated maturity date. 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 offered hereby will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the indenture including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with \$160,000,000 in aggregate principal amount of 6.25% Notes due 2024, initially issued by us in December 2015, or the “Existing Notes.” The Existing Notes, as well as any newly issued Notes, will mature on June 15, 2024, and may be redeemed in whole or in part at any time or from time to time at the Company’s option on or after December 15, 2018. The Notes will have terms identical to the Existing Notes and will have the same CUSIP number as, and will be fungible and vote together with, the Existing Notes immediately upon issuance.

The Existing Notes are listed on the NYSE and trade on the NYSE under the symbol “PBB.” We intend to list the Notes offered hereby on the NYSE under the same trading symbol. The Notes are expected to trade “flat,” which means that purchasers in

the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not reflected in the trading price.

On June 21, 2016, there were 6,400,000 Existing Notes issued and outstanding and, as of June 21, 2016, the last reported sales price on the NYSE was \$24.75 per Note.

The Notes will be our direct unsecured obligations and rank pari passu, or equal in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by us. We currently do not have any indebtedness outstanding that is subordinated to the Notes and have no intention of issuing any such subordinated indebtedness. The Notes will be effectively subordinated, or junior in right of payment, to our future secured indebtedness and structurally subordinated, or junior in right of payment, to all existing and future indebtedness and other obligations of any of our subsidiaries. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and any indebtedness of any future subsidiaries may assert rights of payment prior to the holders of the Notes. See the related disclosure in "Risk Factors" beginning on page S-10 of this prospectus supplement.

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

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 the third trading date following the date of the purchase.

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

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

FBR

Prospectus Supplement dated June 22, 2016.

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

i

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 Agent has 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 Agent is 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.

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT	
<u>Prospectus Summary</u>	<u>S-1</u>
<u>Selected Condensed Financial Data</u>	<u>S-9</u>
<u>Risk Factors</u>	<u>S-10</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>S-14</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>S-49</u>
<u>Description of the Notes</u>	<u>S-50</u>
<u>Registration and Settlement</u>	<u>S-59</u>
<u>Supplement to Material U.S. Federal Income Tax Considerations</u>	<u>S-62</u>
<u>Certain Considerations Applicable to ERISA, Governmental and Other Plan Investors</u>	<u>S-66</u>
<u>Use of Proceeds</u>	<u>S-67</u>
<u>Senior Securities</u>	<u>S-68</u>
<u>Ratio of Earnings to Fixed Charges</u>	<u>S-71</u>
<u>Plan of Distribution</u>	<u>S-72</u>
<u>Dividend Reinvestment and Direct Stock Purchase Plan</u>	<u>S-74</u>
<u>Legal Matters</u>	<u>S-76</u>
<u>Independent Registered Public Accounting Firm</u>	<u>S-76</u>
<u>Available Information</u>	<u>S-76</u>
<u>Index to Consolidated Financial Statements</u>	<u>F-1</u>
PROSPECTUS	
<u>About This Prospectus</u>	<u>1</u>
<u>Prospectus Summary</u>	<u>2</u>
<u>Selected Condensed Financial Data</u>	<u>9</u>
<u>Risk Factors</u>	<u>10</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>78</u>
<u>Report of Management on Internal Control Over Financial Reporting</u>	<u>78</u>
<u>Use of Proceeds</u>	<u>79</u>
<u>Forward-Looking Statements</u>	<u>80</u>
<u>Distributions</u>	<u>81</u>
<u>Senior Securities</u>	<u>83</u>
<u>Price Range of Common Stock</u>	<u>85</u>
<u>Business</u>	<u>87</u>
<u>Certain Relationships and Transactions</u>	<u>112</u>
<u>Control Persons and Principal Stockholders</u>	<u>113</u>
<u>Portfolio Companies</u>	<u>114</u>
<u>Determination of Net Asset Value</u>	<u>124</u>
<u>Sales of Common Stock Below Net Asset Value</u>	<u>125</u>
<u>Dividend Reinvestment Plan</u>	<u>129</u>
<u>Material U.S. Federal Income Tax Considerations</u>	<u>130</u>
<u>Description of Our Capital Stock</u>	<u>136</u>
<u>Description of Our Preferred Stock</u>	<u>141</u>
<u>Description of Our Debt Securities</u>	<u>141</u>
<u>Description of Our Subscription Rights</u>	<u>151</u>

<u>Description of Our Warrants</u>	<u>152</u>
<u>Description of Our Units</u>	<u>153</u>
<u>Regulation</u>	<u>153</u>
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	<u>157</u>
<u>Brokerage Allocation and Other Practices</u>	<u>158</u>
<u>Plan of Distribution</u>	<u>158</u>
<u>Legal Matters</u>	<u>159</u>
<u>Independent Registered Accounting Firm</u>	<u>159</u>
<u>Available Information</u>	<u>159</u>
<u>Index to Financial Statements</u>	<u>F-1</u>

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.

On December 10, 2015, we and U.S. Bank National Association, as trustee, entered into a supplemental indenture, or the “Existing Notes Supplemental Indenture” to the Indenture referred to in the accompanying prospectus between us and U.S. Bank National Association, or the “base indenture,” relating to our issuance, offer and sale of \$160,000,000 aggregate principal amount of 6.25% Notes due 2024, or the “Existing Notes.” We will issue the Notes offered hereby under the base indenture and an additional supplemental indenture that will contain the same terms and conditions as the Existing Notes Supplemental Indenture. We refer to the base indenture, the Existing Notes Supplemental Indenture and the additional supplemental indenture collectively as the “Indenture.” The Notes offered hereby will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the Indenture including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the Existing Notes.

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 \$6.2 billion of total assets as of March 31, 2016.

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”). 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.

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.

S-1

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 March 31, 2016.

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 March 31, 2016.

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 March 31, 2016, as shown in our Consolidated Schedule of Investments, each of the cost basis and fair value of our investments in controlled companies was approximately \$2.0 billion. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus supplement and the accompanying prospectus. 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. As of March 31, 2016, we had investments in 125 portfolio companies. The aggregate fair value as of March 31, 2016 of investments in these portfolio companies held on that date is approximately \$6.0 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 13.4% as of March 31, 2016.

Recent Developments

Investment Transactions

During the period from April 1, 2016 through June 22, 2016, we made seven follow-on investments in NPRC totaling \$62.8 million to support our online consumer lending initiative. We invested \$9.4 million of equity through NPH Property Holdings, LLC (“NPH”) and \$53.4 million of debt directly to ACL Loan Holdings, Inc. (“ACL”), a wholly-owned subsidiary of NPRC. In addition, during this period, we received a partial repayment of \$11.8 million ACL loan previously outstanding.

On April 6, 2016, we received partial repayments from APRC of \$3.0 million for our loans previously outstanding. On April 6, 2016, we received partial repayments from UPRC of \$7.6 million for our loans previously outstanding. On April 11, 2016, we announced the then current conversion rate on the 2020 Notes as 80.6670 shares of common stock per \$1 principal amount of the 2020 Notes converted, which is equivalent to a conversion price of approximately \$12.40.

On April 16, 2016, we announced the then current conversion rate on the 2017 Notes as 87.7516 shares of common stock per \$1 principal amount of the 2017 Notes converted, which is equivalent to a conversion price of approximately \$11.40.

On April 29, 2016, we invested an additional \$25.0 million of Senior Secured Term Loan A and an additional \$25.0 million of Senior Secured Term Loan B debt investments in Trinity Services Group, Inc. (“Trinity”).

On April 29, 2016, through our delayed draw term loan commitment with Instant Web, LLC (“IWCO”), we funded \$8.0 million of Senior Secured Term Loan A and \$8.0 million of Senior Secured Term Loan B.

During the period from May 3, 2016 through May 10, 2016, we collectively sold 72.10% of the outstanding principal balance of the Senior Secured Term Loan A investment in Trinity for \$25.0 million. There was no gain or loss realized on the sale.

During the period from May 18, 2016 through June 22, 2016, we made a \$34.7 million follow-on first lien senior secured debt investment in Empire Today, LLC.

On May 31, 2016, we sold our investment in Harbortouch Payments, LLC (“Harbortouch”). We expect to receive \$328.0 million in proceeds and fees from the sale (including escrowed amounts), and we have reinvested \$27.5 million in senior secured second-lien debt into Harbortouch.

On June 7, 2016, we made a \$19.0 million second lien secured investment in Generation Brands Holdings, Inc., a leading designer and provider of lighting fixtures for commercial and residential applications.

On June 8, 2016, we made a \$17.0 million first lien senior secured investment in Inpatient Care Management Company, LLC, a company providing general surgery services to hospitals with a focus on emergency care.

On June 17, 2016, we made a \$25.0 million follow-on second lien secured debt investment in IWCO.

During the period from June 10, 2016 through June 16, 2016, we collectively invested an additional \$10.1 million of second lien senior secured debt in NCP Finance Limited Partnership.

S-3

During the period from April 1, 2016 through June 22, 2016, our wholly-owned subsidiary PSBL purchased \$7.6 million of small business whole loans from OnDeck.

Debt and Equity

During the period from April 1, 2016 through June 22, 2016, we issued \$10.4 million aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$10.3 million. In addition, we sold \$1.6 million in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$1.6 million with expected closing on June 23, 2016.

During the period from April 1, 2016 through June 22, 2016, we repaid \$3.3 million aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus.

Dividends

On May 9, 2016, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.08333 per share for May 2016 to holders of record on May 31, 2016 with a payment date of June 23, 2016;

\$0.08333 per share for June 2016 to holders of record on June 30, 2016 with a payment date of July 21, 2016;

\$0.08333 per share for July 2016 to holders of record on July 29, 2016 with a payment date of August 18, 2016; and

\$0.08333 per share for August 2016 to holders of record on August 31, 2016 with a payment date of September 22, 2016.

S-4

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. The Notes offered hereby will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the Indenture including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with \$160,000,000 in aggregate principal amount of 6.25% Notes due 2024, initially issued by us in December 2015, or the “Existing Notes.” Unless otherwise indicated, the Notes offered hereby and the Existing Notes are collectively referred to herein as the “Notes.” 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.

Issuer Prospect Capital Corporation

Title of securities 6.25% Notes due 2024

Initial aggregate principal amount being offered Up to \$100,000,000

Manner of offering “At the market” offering that may be made from time to time through the Agent, as sales agent, using commercially reasonable efforts. See “Plan of Distribution.”

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 The Existing Notes are traded on the New York Stock Exchange, or the “NYSE,” under the trading symbol “PBB.” We intend to list the Notes offered hereby on the NYSE under the same trading symbol.

Interest rate 6.25% per year. However, if any of the Notes are sold at prices above the par value of \$25 per Note, the effective yield on such Notes to the purchasers may be less than 6.25%.

Day count basis 360-day year of twelve 30-day months

Issuance date The third trading date following the date of the “at the market” purchase of the Notes.

Stated maturity date June 15, 2024

Date interest starts accruing on December 10, 2015

Existing
Notes

Interest
payment
dates

March 15, June 15, September 15 and December 15, commencing on the first applicable interest payment date following a given purchase of the Notes under this prospectus supplement. The interest payable on each interest payment date will be paid only to holders of record of the Notes at the close of business on the record date immediately preceding the applicable interest payment date. If Notes are purchased after a record date but before the interest payment date immediately following such record date, the applicable interest payment date for such Notes will be the interest payment date after the interest payment date immediately following such record date. Interest payments on the Existing Notes commenced on 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.

S-5

Interest periods	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. Interest on the Notes will accrue from the most recent interest payment date immediately preceding the date of issuance of the Notes from time to time, except that, if you purchase Notes after a record date (or your settlement of a purchase of Notes otherwise occurs after such record date), your Notes will not accrue interest for the period from such purchase date to the interest payment date immediately following such record date.
Regular record dates for interest	March 1, June 1, September 1 and December 1 of each year, commencing with the first such date to follow a given purchase of the Notes under this prospectus supplement.
Specified currency	U.S. Dollars
Place of payment	New York City
Ranking of Notes	<p>The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future, unsecured indebtedness (including, but not limited to, the Existing 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 InterNot[®] 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 June 22, 2016, together with our subsidiaries, we had approximately \$2.7 billion of unsecured senior indebtedness outstanding and as our credit facility was undrawn, no secured indebtedness outstanding.</p>
Denominations	We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.
Business day	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.

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.

Optional redemption

You may be prevented from exchanging or transferring the Notes when they are subject to a written notice of redemption issued by us even though the Notes are listed for trading on the NYSE. 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.

Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act, to the extent applicable.

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 Act, to the extent applicable, and the rules of the NYSE, and any unredeemed Notes will have the same rights and be entitled to the same benefits that the Notes had prior to any such redemption. 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 (i.e., no amounts will be set aside by us to ensure repayment of the Notes at maturity). As a result, our ability to repay the Notes at maturity will depend on our financial condition on the date that we are required to repay the Notes.

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. “Defeasance” means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the Notes when due and satisfying any additional conditions noted below, we will be deemed to have been discharged from our obligations under the Notes. We are under no obligation to exercise any such rights of defeasance.

Covenant defeasance

The Notes are subject to covenant defeasance by us. In the event of a “covenant defeasance,” upon depositing such funds and satisfying similar conditions discussed below we would be released from the restrictive covenants under the Indenture relating to the Notes. The consequences to the holders of the Notes is that, while they no longer benefit from the restrictive covenants under the Indenture, and while the Notes may not be accelerated for any reason, the holders of Notes nonetheless are guaranteed to receive the principal and interest owed to them. We are under no obligation to exercise any such rights of covenant defeasance.

Form of Notes

The Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company (“DTC”) or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are

participants in DTC.

Trustee, Paying
Agent, Registrar
and Transfer Agent U.S. Bank National Association

S-7

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">• We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions.• If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end. All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.
Global clearance and settlement procedures	<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 governing their operations.</p>
Governing law	<p>The Notes and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.</p>

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 and nine month periods ended March 31, 2016 and 2015 has been derived from unaudited financial data. Interim results for the three and nine month periods ended March 31, 2016 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-14 for more information.

	For the Three Months Ended March 31, 2016		For the Nine Months Ended March 31, 2015		For the Year Ended June 30, 2015			2014	2013	2012
	2016	2015	2016	2015	2015	2014	2013	2012	2011	2010
	(in thousands except data relating to shares, per share and number of portfolio companies)									
Performance Data:										
Interest income	\$ 178,992	\$ 184,993	\$ 556,798	\$ 557,947	\$ 748,974	\$ 613,741	\$ 435,455	\$ 219,811	\$ 219,811	\$ 219,811
Dividend income	8,301	1,371	25,062	5,607	7,663	26,837	82,705	64,811	64,811	64,811
Other income	2,200	4,986	17,075	28,700	34,447	71,713	58,176	36,411	36,411	36,411
Total investment income	189,493	191,350	598,935	592,254	791,084	712,291	576,336	320,033	320,033	320,033
Interest and credit facility expenses	(41,719)	(42,213)	(125,881)	(127,371)	(170,660)	(130,103)	(76,341)	(38,511)	(38,511)	(38,511)
Investment advisory expense	(52,883)	(55,539)	(165,652)	(169,185)	(225,277)	(198,296)	(151,031)	(82,511)	(82,511)	(82,511)
Other expenses	(7,265)	(6,157)	(27,641)	(22,469)	(32,400)	(26,669)	(24,040)	(13,111)	(13,111)	(13,111)
Total expenses	(101,867)	(103,909)	(319,174)	(319,025)	(428,337)	(355,068)	(251,412)	(134,133)	(134,133)	(134,133)
Net investment income	87,626	87,441	279,761	273,229	362,747	357,223	324,924	186,000	186,000	186,000
Realized and unrealized (losses) gains	(12,118)	(5,949)	(271,556)	(21,659)	(16,408)	(38,203)	(104,068)	4,222	4,222	4,222
Net (decrease) increase in net assets from operations	\$ 75,508	\$ 81,492	\$ 8,205	\$ 251,570	\$ 346,339	\$ 319,020	\$ 220,856	\$ 190,222	\$ 190,222	\$ 190,222
Per Share Data:										
Net increase in net assets from operations(1)	\$ 0.21	\$ 0.23	\$ 0.02	\$ 0.71	\$ 0.98	\$ 1.06	\$ 1.07	\$ 1.6	\$ 1.6	\$ 1.6
Distributions declared per share	\$(0.25)	\$(0.28)	\$(0.75)	\$(0.94)	\$(1.19)	\$(1.32)	\$(1.28)	\$(1.1)	\$(1.1)	\$(1.1)
Average weighted	355,779,088	358,449,304	355,994,927	351,922,217	353,648,522	300,283,941	207,069,971	114,000,000	114,000,000	114,000,000

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shares outstanding for the period								
Assets and Liabilities Data:								
Investments	\$6,005,105	\$6,602,771	\$6,005,105	\$6,602,771	\$6,609,558	\$6,253,739	\$4,172,852	\$2,000,000
Other assets	241,223	152,375	241,223	152,375	188,496	223,530	275,365	161,000
Total assets	6,246,328	6,755,146	6,246,328	6,755,146	6,798,054	6,477,269	4,448,217	2,250,000
Amount drawn on credit facility	—	317,700	—	317,700	368,700	92,000	124,000	96,000
Convertible notes	1,089,000	1,239,500	1,089,000	1,239,500	1,239,500	1,247,500	847,500	447,500
Public notes	708,242	648,045	708,242	648,045	548,094	647,881	347,725	100,000
InterNotes®	898,535	778,718	898,535	778,718	827,442	785,670	363,777	20,600
Amount owed to Prospect Administration and Prospect Capital Management	56,920	3,935	56,920	3,935	6,788	2,211	6,690	8,570
Other liabilities	71,215	72,660	71,215	72,660	104,481	83,825	102,031	70,500
Total liabilities	2,823,912	3,060,558	2,823,912	3,060,558	3,095,005	2,859,087	1,791,723	743,000
Net assets	\$3,422,416	\$3,694,588	\$3,422,416	\$3,694,588	\$3,703,049	\$3,618,182	\$2,656,494	\$1,500,000
Investment Activity Data:								
No. of portfolio companies at period end	125	132	125	132	131	142	124	85
Acquisitions	\$23,176	\$219,111	\$685,064	\$1,456,071	\$2,088,988	\$2,952,356	\$3,103,217	\$1,100,000
Sales, repayments, and other disposals	\$163,641	\$108,124	955,415	1,022,394	\$1,633,073	\$786,969	\$931,534	\$500,000
Total return based on market value(2)	8.25	% 5.97	% 9.62	% (11.98))% (20.8))% 10.9	% 6.2	% 27.2
Total return based on net asset value(2)	3.50	% 3.09	% 3.58	% 8.00	% 11.5	% 11.0	% 10.9	% 18.0
Weighted average annualized yield at end of period(3)	13.4	% 12.4	% 13.4	% 12.4	% 12.7	% 12.1	% 13.6	% 13.9

(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.

S-9

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 June 22, 2016, together with our subsidiaries, we had approximately \$2.7 billion of unsecured senior indebtedness outstanding and as our credit facility was undrawn, no secured 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 Agent 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 Existing 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[®]. 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 June 22, 2016, our credit facility was undrawn. 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 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes and the Prospect Capital InterNotes[®] may be due prior to the Notes. We do not currently know whether we will be able to replace any such notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes or the Prospect Capital InterNotes[®] at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the Notes and our ability to qualify as a regulated investment company, or "RIC."

The Indenture under which the Notes will be issued will contain limited protection for holders of the Notes.

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

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

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

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

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

S-11

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.

An active trading market for the Notes may not develop or be maintained, which could limit the market price of the Notes or your ability to sell them.

Although the Existing Notes are listed on the NYSE under the trading symbol “PBB,” we cannot provide any assurances that an active trading market will develop or be maintained 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 sales agent has advised us that it intends to make a market in the Notes, but it is not obligated to do so. The sales agent may discontinue any market-making in the Notes at any time at its sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop or be maintained 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 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.

S-12

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

Holders 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 accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

Overview

The terms "Prospect," "we," "us" and "our" mean Prospect Capital Corporation and its subsidiaries unless the context specifically requires otherwise.

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"). 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 ("NPH"); 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. ("ARRM") 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"), a wholly-owned subsidiary of the Investment Adviser, 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.

S-14

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 March 31, 2016.

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 March 31, 2016.

S-15

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 March 31, 2016, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$1,959,243 and \$1,998,023, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus supplement and the accompanying prospectus. 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.

Third Quarter Highlights

Investment Transactions

We seek to be a long-term investor with our portfolio companies. During the three months ended March 31, 2016, we completed follow-on investments in existing portfolio companies totaling approximately \$17,099, funded \$2,742 of revolver advances, and recorded paid in kind (“PIK”) interest of \$3,335, resulting in gross investment originations of \$23,176. During the three months ended March 31, 2016, we received full repayments on one investment and received several partial prepayments and amortization payments totaling \$163,641, including realized losses totaling \$10,784. The more significant of these transactions are discussed in “Portfolio Investment Activity.”

Debt Issuances and Redemptions

During the three months ended March 31, 2016, we issued \$5,573 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$5,503. These notes were issued with stated interest rates ranging from 5.38% to 5.50% with a weighted average interest rate of 5.41%. These notes mature between January 15, 2021 and March 15, 2021. The following table summarizes the Prospect Capital InterNotes® issued during the three months ended March 31, 2016.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 5,573 \$ 5,573	5.375%–5.500%	5.41 %	January 15, 2021 – March 15, 2021

During the three months ended March 31, 2016, we repaid \$1,163 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 March 31, 2016 was \$32.

On March 28, 2016, we repurchased \$500 aggregate principal amount of the 2017 Notes at a price of 98.25, including commissions. The transaction resulted in our recognizing a \$9 gain, excluding the \$4 write-off of deferred financing

costs associated with the repurchase, for the three months ended March 31, 2016.

Equity Issuances

On January 21, 2016, February 18, 2016 and March 24, 2016, we issued 299,423, 255,743 and 146,899 shares of our common stock in connection with the dividend reinvestment plan, respectively.

S-16

On February 9, 2016, we amended our dividend reinvestment plan that already provides for reinvestment of our dividends or distributions on behalf of our stockholders, unless a stockholder elects to receive cash, to add the ability of stockholders to purchase additional shares by making optional cash investments. Under the revised dividend reinvestment and direct stock repurchase plan, stockholders may elect to purchase additional shares through our transfer agent in the open market or in negotiated transactions.

Affiliate Share Purchases

During three months ended March 31, 2016, Prospect Capital officers purchased 8,454,796 shares of our stock, or 2.4% of total outstanding shares as of March 31, 2016, both through the open market transactions and shares issued in connection with our dividend reinvestment plan.

“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 these “spin-offs” in calendar year 2016 or 2017 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, PYC filed a registration statement with the SEC in connection with our rights offering disposition of a portion of our structured credit business, and PYC filed an amendment on April 17, 2015. We are a selling stockholder under the registration statement. If favorable market conditions exist, we will seek but cannot guarantee consummation of this disposition, which is subject to regulatory review.

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. If favorable market conditions exist, we will seek but cannot guarantee consummation of this disposition, which is subject to regulatory review.

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 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. If favorable market conditions exist, we will seek but cannot guarantee consummation of this disposition, which is subject to regulatory review.

On May 19, 2015, Prospect, Prospect Capital Management, PYC, 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.

S-17

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 March 31, 2016, we continue to pursue our investment strategy. At March 31, 2016, approximately \$6,005,105, or 175.5%, of our net assets are invested in 125 long-term portfolio investments and CLOs.

During the nine months ended March 31, 2016, we originated \$685,064 of new investments, primarily composed of \$360,863 of debt and equity financing to non-controlled portfolio investments, \$227,581 of debt and equity financing to controlled investments, and \$96,620 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 13.4% as of June 30, 2015 and March 31, 2016, respectively, across all performing interest bearing investments. The increase in our current yield is primarily due to market fluctuations and the resulting decline in our portfolio value. 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 March 31, 2016, we own controlling interests in the following portfolio companies: APRC; Arctic Energy Services, LLC ("Arctic Energy"); CCPI Inc. ("CCPI"); CP Energy Services Inc. ("CP Energy"); Credit Central Loan Company, LLC; Echelon Aviation LLC ("Echelon"); Edmentum Ultimate Holdings, LLC ("Edmentum"); First Tower Finance Company LLC ("First Tower Finance"); Freedom Marine Solutions, LLC ("Freedom Marine"); Gulf Coast Machine & Supply Company ("Gulf Coast"); Harbortouch Payments, LLC ("Harbortouch"); MITY, Inc. ("MITY"); NPRC; Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) ("Nationwide"); NMMB, Inc.; R-V Industries, Inc. ("R-V"); UPRC; Valley Electric Company, Inc. ("Valley Electric"); and Wolf Energy, LLC. We also own an affiliated interest in BNN Holdings Corp and Targus International, LLC ("Targus").

The following shows the composition of our investment portfolio by level of control as of March 31, 2016 and June 30, 2015:

Level of Control	March 31, 2016				June 30, 2015			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$ 1,959,243	31.6 %	\$ 1,998,023	33.3 %	\$ 1,894,644	28.9 %	\$ 1,974,202	29.9 %
Affiliate Investments	10,758	0.2 %	12,088	0.2 %	45,150	0.7 %	45,945	0.7 %
Non-Control/Non-Affiliate Investments	4,238,156	68.2 %	3,994,994	66.5 %	4,619,582	70.4 %	4,589,411	69.4 %
Total Investments	\$ 6,208,157	100.0 %	\$ 6,005,105	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 March 31, 2016 and June 30, 2015:

S-18

Type of Investment	March 31, 2016				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Revolving Line of Credit	\$9,592	0.2	% \$9,390	0.2	% \$30,546	0.5	% \$30,546	0.5	%
Senior Secured Debt	3,224,780	51.9	% 3,089,474	51.4	% 3,617,111	55.1	% 3,533,447	53.5	%
Subordinated Secured Debt	1,171,470	18.9	% 1,152,234	19.2	% 1,234,701	18.8	% 1,205,303	18.2	%
Subordinated Unsecured Debt	75,041	1.2	% 69,817	1.2	% 145,644	2.2	% 144,271	2.2	%
Small Business Loans	20,734	0.3	% 20,774	0.3	% 50,558	0.8	% 50,892	0.8	%
CLO Debt	—	—	% —	—	% 28,613	0.4	% 32,398	0.5	%
CLO Residual Interest	1,105,379	17.8	% 995,929	16.6	% 1,072,734	16.4	% 1,113,023	16.8	%
Preferred Stock	139,319	2.2	% 81,506	1.4	% 41,047	0.6	% 4,361	0.1	%
Common Stock	295,300	4.8	% 338,682	5.6	% 181,404	2.8	% 164,984	2.5	%
Membership Interest	159,436	2.6	% 169,531	2.8	% 148,192	2.3	% 278,537	4.2	%
Participating Interest(1)	—	—	% 70,543	1.2	% —	—	% 42,787	0.6	%
Escrow Receivable	5,424	0.1	% 5,431	0.1	% 7,144	0.1	% 5,984	0.1	%
Warrants	1,682	0.0	% 1,794	0.0	% 1,682	0.0	% 3,025	0.0	%
Total Investments	\$6,208,157	100.0	% \$6,005,105	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 March 31, 2016 and June 30, 2015:

Type of Investment	March 31, 2016				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
First Lien	\$3,231,630	57.6	% \$3,096,122	58.0	% \$3,642,761	58.9	% \$3,559,097	58.3	%
Second Lien	1,174,212	21.0	% 1,154,976	21.6	% 1,239,597	20.0	% 1,210,199	19.8	%
Unsecured	75,041	1.3	% 69,817	1.3	% 145,644	2.4	% 144,271	2.4	%
Small Business Loans	20,734	0.4	% 20,774	0.4	% 50,558	0.8	% 50,892	0.8	%
CLO Debt	—	—	% —	—	% 28,613	0.5	% 32,398	0.5	%
CLO Residual Interest	1,105,379	19.7	% 995,929	18.7	% 1,072,734	17.4	% 1,113,023	18.2	%
Total Debt Investments	\$5,606,996	100.0	% \$5,337,618	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 March 31, 2016 and June 30, 2015:

Geographic Location	March 31, 2016				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Canada	\$15,000	0.2	% \$10,244	0.2	% \$15,000	0.2	% \$15,000	0.2	%
Cayman Islands	1,105,379	17.8	% 995,929	16.6	% 1,101,347	16.8	% 1,145,421	17.3	%
France	10,072	0.2	% 9,388	0.2	% 10,145	0.2	% 9,734	0.2	%
MidWest US	685,838	11.0	% 722,597	12.0	% 749,036	11.4	% 767,419	11.6	%
NorthEast US	1,122,733	18.1	% 1,134,149	18.9	% 1,085,569	16.6	% 1,151,510	17.4	%
NorthWest US	42,463	0.7	% 41,720	0.7	% —	—	% —	—	%
Puerto Rico	40,615	0.7	% 40,358	0.7	% 40,911	0.6	% 37,539	0.6	%
SouthEast US	1,467,273	23.6	% 1,502,404	25.0	% 1,609,956	24.5	% 1,661,477	25.1	%
SouthWest US	587,135	9.5	% 500,081	8.3	% 762,454	11.6	% 693,138	10.5	%
Western US	1,131,649	18.2	% 1,048,235	17.5	% 1,184,958	18.1	% 1,128,320	17.1	%
Total Investments	\$6,208,157	100.0	% \$6,005,105	100.1	% \$6,559,376	100.0	% \$6,609,558	100.0	%

S-20

The following shows the composition of our investment portfolio by industry as of March 31, 2016 and June 30, 2015:

Industry	March 31, 2016				June 30, 2015			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Aerospace & Defense	\$67,834	1.1 %	\$66,352	1.1 %	\$70,860	1.1 %	\$78,675	1.2 %
Business Services	524,512	8.4 %	553,170	9.2 %	646,021	9.8 %	711,541	10.8 %
Chemicals	4,966	0.1 %	4,707	0.1 %	4,963	0.1 %	5,000	0.1 %
Commercial Services	245,262	4.1 %	232,621	3.9 %	245,913	3.8 %	241,620	3.6 %
Construction & Engineering	60,235	1.0 %	31,359	0.5 %	58,837	0.9 %	30,497	0.4 %
Consumer Finance	437,565	7.0 %	471,083	7.8 %	426,697	6.5 %	486,977	7.4 %
Consumer Services	190,022	3.1 %	193,288	3.2 %	190,037	2.9 %	190,216	2.9 %
Diversified Financial Services	117,174	2.0 %	117,134	2.0 %	120,327	1.8 %	119,919	1.8 %
Durable Consumer Products	405,705	6.5 %	406,088	6.8 %	439,172	6.7 %	422,033	6.4 %
Food Products	262,676	4.2 %	257,691	4.3 %	282,185	4.3 %	281,365	4.3 %
Healthcare	290,411	4.7 %	291,987	4.9 %	435,893	6.6 %	434,446	6.6 %
Hotels, Restaurants & Leisure	139,957	2.3 %	139,737	2.3 %	177,748	2.7 %	177,926	2.7 %
Machinery	349	0.0 %	482	0.0 %	376	0.0 %	563	0.0 %
Manufacturing	219,538	3.5 %	178,474	3.0 %	163,380	2.5 %	126,921	1.9 %
Media	330,930	5.3 %	320,589	5.3 %	361,825	5.5 %	350,365	5.3 %
Metal Services & Minerals	9,929	0.2 %	8,204	0.1 %	25,670	0.4 %	23,745	0.4 %
Oil and Gas Production	5,460	0.1 %	6,153	0.1 %	3,000	0.0 %	22	0.0 %
Oil and Gas Services	285,971	4.5 %	164,696	2.7 %	289,803	4.4 %	246,817	3.7 %
Online Lending	362,061	5.5 %	343,576	5.7 %	263,958	4.0 %	260,526	3.9 %
Personal & Nondurable Consumer Products	214,078	3.4 %	180,575	3.0 %	213,796	3.4 %	193,046	2.8 %
Pharmaceuticals	72,889	1.2 %	72,822	1.2 %	74,951	1.1 %	74,588	1.1 %
Property Management	4,160	0.1 %	3,061	0.1 %	5,880	0.1 %	3,814	0.1 %
Real Estate	344,184	5.5 %	468,866	7.8 %	412,080	6.3 %	465,196	7.0 %
Retail	—	— %	—	— %	63	0.0 %	260	0.0 %
Software & Computer Services	155,144	2.5 %	153,107	2.5 %	217,429	3.3 %	217,472	3.3 %
Telecommunication Services	4,391	0.1 %	4,296	0.1 %	4,573	0.1 %	4,595	0.1 %
Textiles, Apparel & Luxury Goods	279,755	4.5 %	279,755	4.7 %	252,200	3.8 %	252,200	3.8 %
Transportation	67,620	1.1 %	59,303	1.0 %	70,392	1.1 %	63,792	1.0 %
Subtotal	\$5,102,778	82.0 %	\$5,009,176	83.4 %	\$5,458,029	83.2 %	\$5,464,137	82.6 %
Structured Finance(1)	1,105,379	17.8 %	995,929	16.6 %	1,101,347	16.8 %	1,145,421	17.3 %
Total Investments	\$6,208,157	99.8 %	\$6,005,105	100.0 %	\$6,559,376	100.0 %	\$6,609,558	99.9 %

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

Portfolio Investment Activity

During the nine months ended March 31, 2016, we acquired \$312,479 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$358,968, funded \$6,142 of revolver advances, and recorded PIK interest of \$7,475, resulting in gross investment originations of \$685,064. 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.

On August 6, 2015, we provided \$92,500 of first lien senior secured debt to support the refinancing of Crosman Corporation (“Crosman”). 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 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.

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. The first lien term loan bears interest at the greater of 10.25% or Libor plus 10.0% and has a final maturity of September 30, 2020.

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. The second lien term loan bears interest at the greater of 10.5% or Libor plus 9.5% and has a final maturity of October 2, 2022.

On November 2, 2015, we provided \$50,000 of first lien senior secured debt to Coverall North America, Inc. (“Coverall”), a leading franchiser of commercial cleaning businesses. We invested \$25,000 in Term Loan A and \$25,000 in Term Loan B Notes. Term Loan A bears interest at the greater of 7.0% or Libor plus 6.0% and has a final maturity of November 2, 2020. Term Loan B bears interest at the greater of 12.0% or Libor plus 11.0% and has a final maturity of November 2, 2020. As part of the recapitalization, we received repayment of the \$49,600 loan outstanding.

On November 6, 2015, we made a \$20,000 second lien secured debt investment in SCS Merger Sub, Inc., a value-added reseller of data center-focused hardware, software and related services. The second lien term loan bears interest at the greater of 10.5% or Libor plus 9.5% and has a final maturity of October 30, 2023.

On November 9, 2015 and December 28, 2015, we made a combined \$30,100 million follow-on first lien senior secured debt investment in System One Holdings, LLC (“System One”), to support an acquisition. The first lien term loan bears interest at the greater of 11.25% or Libor plus 10.5% and has a final maturity of November 17, 2020. On December 3, 2015, we provided \$245,900 of first lien senior secured debt to Broder Bros., Co (“Broder”), a leading distributor of imprintable sportswear and accessories in the United States. We invested \$122,950 in Term Loan A and \$122,950 in Term Loan B Notes. Term Loan A bears interest at the greater of 7.0% or Libor plus 5.75% and has a final maturity of June 3, 2021. Term Loan B bears interest at the greater of 13.50% or Libor plus 12.25% and has a final maturity of June 3, 2021. As part of the recapitalization, we sold \$5,000 and received a repayment of \$245,900 of the previous loan outstanding. We realized no gain or loss on the sale.

On February 3, 2016, lenders foreclosed on Targus Group International, Inc., and our \$21,613 first lien term loan was extinguished and exchanged for 1,262,737 common units representing 12.63% equity ownership in Targus Cayman HoldCo Limited, the parent company of Targus. On February 17, 2016, we provided additional debt financing to support the recapitalization of Targus. As part of the recapitalization, we invested an additional \$1,263 in a new senior secured Term Loan A notes and were allocated \$3,788 in new senior secured Term Loan B notes. Term Loan A and Term Loan B bear interest payment in kind of 15.0%, and have a final maturity date of December 31, 2019. During the same period, Targus was written-down for tax purposes and a loss of \$14,194 was therefore realized for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$3,479. During the nine months ended March 31, 2016, we made 23 follow-on investments in NPRC totaling \$180,783 to support the online consumer lending initiative. We invested \$31,697 of equity through NPH and \$149,086 of debt directly to NPRC and its wholly-owned subsidiaries. We also provided \$11,047 of equity financing to NPRC, \$9,017 of which was for the acquisition of Orchard Village Apartments, a multi-family property located in Aurora, Illinois, and \$2,030 to fund capital expenditures for existing properties.

During the nine months ended March 31, 2016, we provided \$2,268 of equity financing to APRC, and \$4,484 debt and \$3,047 of equity financing to UPRC to fund capital expenditures for existing properties.

During the nine months ended March 31, 2016, our wholly-owned subsidiary PSBL purchased \$59,021 of small business whole loans from OnDeck.

During the nine months ended March 31, 2016, we received full repayments on eleven investments, sold four investments, and received several partial prepayments and amortization payments totaling \$955,415, net of realized losses totaling \$18,237. 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. (“Interdent”) 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.

On September 30, 2015, we restructured our investment in Arctic Energy. Concurrent with the restructuring, we exchanged our \$31,640 senior secured loan and our \$20,230 subordinated loan for Class D and Class E equity in Arctic Energy.

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

On October 21, 2015, Aderant North American, Inc. repaid the \$7,000 loan receivable to us.

On October 30, 2015, we restructured our investment in CP Energy. Concurrent with the restructuring, we exchanged our \$86,965 senior secured loan and \$15,924 subordinated loan for Series B Redeemable Preferred Stock in CP Energy.

On October 30, 2015, we restructured our investment in Freedom Marine. Concurrent with the restructuring, we exchanged our \$32,500 senior secured loans for additional membership interest in Freedom Marine.

On November 16, 2015 and November 25, 2015, we sold our \$14,755 debt investment in American Gilsonite Company (“American Gilsonite”). 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.

On December 23, 2015, Stauber Performance Ingredients, Inc. repaid the \$16,811 loan receivable to us.

On January 21, 2016, we sold 100% of our CIFIC Funding 2011-I, Ltd. Class E and Class D notes (collectively “CIFIC”) with a cost basis of \$29,004. We realized a gain of \$3,911 on the sale.

On March 22, 2016 and March 24, 2016, United Sporting Company, Inc. partially repaid the \$17,391 loan receivable to us.

During the three months ended March 31, 2016, we sold our \$10,100 debt investment in ICON Health and Fitness, Inc (“ICON”). We realized a loss of \$1,053 on the sale.

During the three months ended March 31, 2016, our remaining investment in New Century Transportation, Inc. (“NCT”) was written-off for tax purposes and a loss of \$187 was therefore realized.

During the three months ended March 31, 2016, our remaining investment in Wind River Resources Corporation (“Wind River”) was written-off for tax purposes and a loss of \$3,000 was therefore realized.

During the nine months ended March 31, 2016, we received partial repayments of \$103,732 of our loans previously outstanding and \$12,396 as a return of capital on our equity investment in NPRC.

During the nine months ended March 31, 2016, we received a partial repayment of \$26,730 of our loan previously outstanding with APRC and recorded \$11,016 of dividend income from APRC in connection with the sale of its Vista Palma Sola (“Vista”) property.

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

Quarter Ended	Acquisitions(1)	Dispositions(2)
September 30, 2014	714,255	690,194
December 31, 2014	522,705	224,076
March 31, 2015	219,111	108,124
June 30, 2015	411,406	389,168
September 30, 2015	345,743	436,919
December 31, 2015	316,145	354,855
March 31, 2016	23,176	163,641

(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 range of values for debt instruments, except CLOs and debt investments in controlling portfolio companies, management and the independent valuation firm estimated corporate and security credit ratings and identified 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 a range of values. In determining the range of values for debt investments of controlled companies and equity investments, the enterprise value was determined by applying earnings before income tax, depreciation and amortization (“EBITDA”) multiples, the discounted cash flow technique, net income and/or book value multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared. For the private REIT investments, enterprise values were determined based on an average of results from a net asset value analysis of the underlying property investments and a discounted cash flow method utilizing capitalization rates for similar guideline companies and/or similar recent investment transactions.

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 was used 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 proper discount rates to expected maturity or call date.

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 \$6,005,105.

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.

S-25

American Property REIT Corp.

APRC is a Maryland corporation and a qualified REIT for federal income tax purposes. APRC is held for purposes of investing, operating, financing, leasing, managing and selling a portfolio of real estate assets and engages in any and all other activities that may be necessary, incidental, or convenient to perform 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 March 31, 2016, we own 100% of the fully-diluted common equity of APRC.

During the nine months ended March 31, 2016, we provided \$2,268 of equity financing to APRC to fund capital expenditures for existing properties.

As of March 31, 2016, APRC's real estate portfolio was comprised of eleven 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 March 31, 2016. In addition, during the nine months ended March 31, 2016, we received a partial repayment of \$26,730 of our loan previously outstanding and recorded \$11,016 of dividend income in connection with the sale of Vista Palma Sola property.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	1557 Terrell Mill Road, LLC	Marietta, GA	12/28/2012	\$23,500	\$ 14,964
2	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,410
3	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
4	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	11,375
5	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	13,845
6	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	24,700
7	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	17,550
8	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	14,092
9	Verandas at Rocky Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
10	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	4,904
11	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	8,160
12	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
				\$196,699	\$ 149,855

Due to improved operating performance at the property level, the Board of Directors increased the fair value of our investment in APRC to \$107,493 as of March 31, 2016, a premium of \$31,206 from its amortized cost, compared to the \$18,064 unrealized appreciation recorded at June 30, 2015.

First Tower Finance Company LLC

We own 80.1% of 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 March 31, 2016, First Tower had \$428,756 of finance receivables net of unearned charges. As of March 31, 2016, First Tower's total debt outstanding to parties senior to us was \$49,906.

The Board of Directors slightly decreased the fair value of our investment in First Tower Finance to \$358,130 as of March 31, 2016, a premium of \$32,405 to its amortized cost, compared to the \$47,899 unrealized appreciation

recorded at June 30, 2015.

S-26

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 March 31, 2016, 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 \$335,680 as of March 31, 2016, a premium of \$34,249 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 is held for purposes of investing, operating, financing, leasing, managing and selling a portfolio of real estate assets and engages in any and all other activities that may be necessary, incidental, or convenient to perform 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 March 31, 2016, we own 100% of the fully-diluted common equity of NPRC.

During the nine months ended March 31, 2016 we made 23 follow-on investments in NPRC totaling \$180,783 to support the online consumer lending initiative. We invested \$31,697 of equity through NPH and \$134,449 of debt to ACL Loan Holdings, Inc. ("ACL"), a wholly-owned subsidiary of NPRC, with the remaining \$14,637 of debt directly to NPRC and its wholly-owned subsidiaries. In addition, during the nine months ended March 31, 2016, we received partial repayments of \$40,460 of our loans previously outstanding and \$12,396 as a return of capital on our equity investment in NPRC.

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 18 to 85 months. As of March 31, 2016, the investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries was comprised of 80,941 individual loans and had an aggregate fair value of \$642,450. The average outstanding individual loan balance is approximately \$8 and the loans mature on dates ranging from October 31, 2016 to April 2, 2023 with an average outstanding term of 35 months as of March 31, 2016. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 21.0%.

During the nine months ended March 31, 2016, we provided \$11,046 of equity financing to NPRC to fund capital expenditures for existing properties, and received partial repayments of \$63,271 of our loans previously outstanding. As of March 31, 2016, NPRC's real estate portfolio was comprised of twelve 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 March 31, 2016.

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	46,700
3	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	181,793
4	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	32,831
5	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	19,971
6	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,368
7	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	33,045
8	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	29,846
9	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	41,728
10	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	62,578
11	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	28,210
12	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,803
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
25	SSIL I, LLC	Aurora, IL	11/5/2015	34,500	26,450
				\$715,210	\$ 583,833

Due to improved operating performance at the property level, the Board of Directors increased the fair value of our investment in NPRC to \$578,543 as of March 31, 2016, a premium of \$52,478 from its amortized cost, compared to the \$22,229 unrealized appreciation recorded 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 is held for purposes of investing, operating, financing, leasing, managing and selling a portfolio of real estate assets and engages in any and all other activities that may be necessary, incidental, or convenient to perform 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 March 31, 2016, we own 100% of the fully-diluted common equity of UPRC. During the nine months ended March 31, 2016, we provided \$4,484 and \$3,047 of debt and equity financing, respectively, to UPRC to fund capital expenditures for existing properties.

As of March 31, 2016, 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 March 31, 2016.

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	74,305
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	\$ 239,700

Due to improved operating performance at the property level, the Board of Directors increased the fair value of our investment in UPRC to \$105,632 as of March 31, 2016, a premium of \$22,473 from its amortized cost, compared to the \$9,057 unrealized appreciation recorded at June 30, 2015.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric as of March 31, 2016. 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%.

Due to a decrease in operational performance, the Board of Directors slightly decreased the fair value of our investment in Valley Electric to \$31,359 as of March 31, 2016, a discount of \$28,876 from its amortized cost, compared to the \$28,340 unrealized depreciation recorded at June 30, 2015.

Equity positions in our portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results and market multiples. Several of our controlled companies experienced such volatility and we recorded corresponding fluctuations in valuations during the nine months ended March 31, 2016. See above for discussions regarding the fluctuations in APRC, First Tower Finance, Harbortouch, NPRC, UPRC and Valley Electric. During the nine months ended March 31, 2016, the value of our investment in Arctic Energy decreased by \$22,747 as a result of declining operations. During the nine months ended March 31, 2016, the value of our investment in CP Energy decreased by \$12,766 as a result of depressed earnings resulting from softness of the energy markets; Echelon decreased by \$9,023 due to aircraft sale proceeds and resulting dividend distribution; and R-V decreased by \$4,587 due to lower sales profitability. In total, eleven of the controlled investments are valued at the original investment amounts or higher, and eight of the controlled investments have been valued at discounts to the original investment. Overall, at March 31, 2016, control investments are valued at \$38,780 above their amortized cost.

We hold two affiliate investment at March 31, 2016. Our affiliate portfolio companies did not experience a significant change in valuation during the nine months ended March 31, 2016.

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 premium 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. During the nine months ended March 31, 2016, the value of our CLO residual interest investments decreased by \$149,739 primarily due to non-credit related changes in the capital markets impacting the underlying collateral and increasing our discount rate by 305 bps. Overall, at March 31, 2016, non-control/non-affiliate investments are valued \$243,162 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 March 31, 2016 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 February 2011, April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in March 2013, April 2014 and December 2015; 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 March 31, 2016 and June 30, 2015.

	March 31, 2016		June 30, 2015	
	Maximum	Amount	Maximum	Amount
	Draw Amount	Outstanding	Draw Amount	Outstanding
Revolving Credit Facility	\$885,000	\$—	\$885,000	\$368,700
Convertible Notes	1,089,000	1,089,000	1,239,500	1,239,500
Public Notes	708,242	708,242	548,094	548,094
Prospect Capital InterNotes®	898,535	898,535	827,442	827,442
Total	\$3,580,777	\$2,695,777	\$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 March 31, 2016.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$—	\$—	\$—	\$—	\$—
Convertible Notes	1,089,000	167,500	529,500	392,000	—
Public Notes	708,242	—	—	300,000	408,242
Prospect Capital InterNotes®	898,535	5,710	238,357	352,128	302,340

Total Contractual Obligations \$2,695,777 \$ 173,210 \$ 767,857 \$ 1,044,128 \$ 710,582

S-30

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, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of March 31, 2016, we can issue up to \$4,822,456 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 March 31, 2016. 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.

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 March 31, 2016, 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.

S-31

As of March 31, 2016 and June 30, 2015, we had \$645,696 and \$721,800, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was \$0 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 March 31, 2016, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,470,217, which represents 23.8% of our total investments, including cash 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 \$8,210 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of March 31, 2016. During the six months ended December 31, 2014, 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 March 31, 2016 and March 31, 2015, we recorded \$3,046 and \$3,545, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense. During the nine months ended March 31, 2016 and March 31, 2015, we recorded \$10,291 and \$10,803, 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 matured on December 15, 2015 (the "2015 Notes"). The 2015 Notes bore 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 December 15, 2015, we repaid the outstanding principal amount of the 2015 Notes, plus interest. No gain or loss was realized on the transaction.

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 March 28, 2016, we repurchased \$500 aggregate principal amount of the 2017 Notes at a price of 98.25, including commissions. The transaction resulted in our recognizing a \$9 gain for the period ended March 31, 2016.

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.

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

S-32

result of this transaction, we recorded a gain of \$332, 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.

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

	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$12.76	\$11.65	\$12.14	\$12.54	\$12.40
Conversion rate at March 31, 2016(1)(2)	80.2196	87.7516	84.1497	79.8360	80.6670
Conversion price at March 31, 2016(2)(3)	\$12.47	\$11.40	\$11.88	\$12.53	\$12.40
Last conversion price calculation date	2/18/2016	4/16/2015	8/14/2015	12/21/2015	4/11/2015
Dividend threshold amount (per share)(4)	\$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 March 31, 2016 was calculated on the last anniversary of the issuance and will be (3) 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.

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 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 \$34,629 of fees which are being amortized over the terms of the notes, of which \$16,137 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of March 31, 2016. This amount included a \$4 write-off of deferred financing costs associated with the repurchase of the 2017 Notes.

During the three months ended March 31, 2016 and March 31, 2015, we recorded \$16,038 and \$18,572, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense. During the nine months ended March 31, 2016 and March 31, 2015, we recorded \$52,957 and \$55,776, 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 \$245,966.

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 \$295,998.

On December 10, 2015, we issued \$160,000 aggregate principal amount of unsecured notes that mature on June 15, 2024 (the “2024 Notes”). The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning March 15, 2016. Total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, were \$154,880.

The 2022 Notes, the 2023 Notes, the 5.00% 2019 Notes, and the 2024 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, the 5.00% 2019 Notes, and the 2024 Notes, we incurred \$13,156 of fees which are being amortized over the term of the notes, of which \$10,708 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of March 31, 2016.

During the three months ended March 31, 2016 and March 31, 2015, we recorded \$10,352 and \$9,493, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense. During the nine months ended March 31, 2016 and March 31, 2015, we recorded \$26,513 and \$28,440, 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 March 31, 2016, we issued \$5,573 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$5,503. These notes were issued with stated interest rates ranging from 5.375% to 5.50% with a weighted average interest rate of 5.41%. These notes mature between January 15, 2021 and March 15, 2021.

During the nine months ended March 31, 2016, we issued \$74,862 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$73,738. These notes were issued with stated interest rates ranging from 4.625% to 6.00% with a weighted average interest rate of 5.10%. These notes mature between July 15, 2020 and December 15, 2025.

The following table summarizes the Prospect Capital InterNotes® issued during the nine months ended March 31, 2016.

S-34

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Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 37,930	4.625%–5.500%	4.93 %	July 15, 2020 – March 15, 2021
6.5	35,155	5.10%–5.25%	5.25 %	January 15, 2022 – May 15, 2022
7	990	5.625%–5.75%	5.65 %	November 15, 2022 – December 15, 2022
10	787	5.875%–6.00%	5.89 %	November 15, 2025 – December 15, 2025
	\$ 74,862			

During the nine months ended March 31, 2015, we issued \$74,967 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$73,730. These notes were issued with a stated interest rates ranging from 4.25% to 4.75% with a weighted average interest rate of 4.58%. These notes mature between May 15, 2020 and September 15, 2020. All notes issued during the nine months ended March 31, 2015 mature 5.5 years from the original date of issuance.

During the three months ended March 31, 2016, we repaid \$1,163 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 March 31, 2016 was \$28.

The following table summarizes the Prospect Capital InterNotes® outstanding as of March 31, 2016.

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	245,618	4.25%–5.500%	4.92 %	July 15, 2018 – March 15, 2021
5.2	4,440	4.625%	4.625 %	August 15, 2020 – September 15, 2020
5.3	2,686	4.625%	4.625 %	September 15, 2020
5.4	5,000	4.75%	4.75 %	August 15, 2019
5.5	109,981	4.25%–5.00%	4.65 %	February 15, 2019 – November 15, 2020
6	2,197	3.375%	3.375 %	April 15, 2021 – May 15, 2021
6.5	40,867	5.10%–5.50%	5.24 %	February 15, 2020 – May 15, 2022
7	192,389	4.00%–6.55%	5.13 %	June 15, 2019 – December 15, 2022
7.5	1,996	5.75%	5.75 %	February 15, 2021
10	37,558	3.622%–7.00%	6.12 %	March 15, 2022 – December 15, 2025
12	2,978	6.00%	6.00 %	November 15, 2025 – December 15, 2025
15	17,325	5.00%–6.00%	5.14 %	May 15, 2028 – November 15, 2028
18	22,453	4.125%–6.25%	5.53 %	December 15, 2030 – August 15, 2031
20	4,490	5.63%–6.00%	5.89 %	November 15, 2032 – October 15, 2033
25	35,488	6.25%–6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	118,560	5.50%–6.75%	6.23 %	November 15, 2042 – October 15, 2043
	\$898,535			

During the nine months ended March 31, 2015, we redeemed \$76,931 aggregate principal amount of our Prospect Capital InterNotes® at par with a weighted average interest rate of 6.06% in order to replace debt with higher interest rates with debt with lower rates. 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 Prospect Capital InterNotes®, net of the proportionate amount of unamortized debt issuance costs. The net loss on extinguishment of debt we recorded in the

three and nine months ended March 31, 2015 was \$1,220 and \$1,556, respectively. During the nine months ended March 31, 2015, we repaid \$4,988 aggregate principal amount of our Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus.

S-35

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	4.625%	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	3.375%	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	4.125%–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 \$21,730 of fees which are being amortized over the term of the notes, of which \$15,882 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of March 31, 2016.

During the three months ended March 31, 2016 and March 31, 2015, we recorded \$12,283 and \$10,603, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the nine months ended March 31, 2016 and March 31, 2015, we recorded \$36,120 and \$32,352, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Net Asset Value

During the nine months ended March 31, 2016, our net asset value decreased by \$280,633, or \$0.70 per share, resulting from a \$271,470, or \$0.76 per weighted average share, decrease in net realized and unrealized gains and losses on investments (see “Results of Operations” for further discussion). This decrease in our net asset value was partially offset by net investment income of \$279,761, or \$0.79 per weighted average share and a \$0.02 per share increase attributable to share repurchases, earned in excess of dividends to shareholders of \$266,920 or \$0.75 per share.

During the nine months ended March 31, 2016, we repurchased 4,708,750 shares of our common stock pursuant to our Repurchase Program for \$34,140, or approximately \$7.25 weighted average price per share at approximately a 30% discount to net asset value as of June 30, 2015. Our NAV per share was increased by approximately \$0.02 for the nine months ended March 31, 2016 as a result of the share repurchases. During the nine months ended March 31, 2016, we issued 1,731,768 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 March 31, 2016 and June 30, 2015.

	March 31, 2016	June 30, 2015
Net assets	\$3,422,416	\$3,703,049
Shares of common stock issued and outstanding	356,113,777	359,090,759
Net asset value per share	\$9.61	\$10.31

S-36

Results of Operations

Net change in net assets resulting from operations for the three months ended March 31, 2016 and March 31, 2015 was \$75,508 and \$81,492. During the three months ended March 31, 2016 the \$5,984 decrease is primarily due to a \$7,024 increase in net realized and unrealized losses on investments when comparing results for the quarters ended March 31, 2016 and March 31, 2015. This \$7,024 increase is comprised of net realized and unrealized losses of \$26,202 and \$2,290 on our CLO residual interests and equity investments, respectively, and net realized and unrealized gains of \$21,468 on our debt investments. This increase in net realized and unrealized losses are primarily due to non-credit related macro changes in the capital markets impacting our valuations in late calendar year 2015. (See Investment Income, Net Realized Losses, and Net Change in Unrealized Appreciation (Depreciation) sections below for further discussion.)

Net change in net assets resulting from operations for the nine months ended March 31, 2016 and March 31, 2015 was \$8,205 and \$251,570. During the nine months ended March 31, 2016, the \$243,365 decrease is primarily due to a \$251,025 increase in net realized and unrealized losses on investments, partially offset by net investment income, when comparing results for the nine months ended March 31, 2016 and March 31, 2015. This \$251,025 increase is primarily comprised of net realized and unrealized losses of \$126,772 and \$137,514 on our CLO residual interests and equity investments, respectively, and net realized and unrealized gains of \$13,261 on our debt investments. This increase in net realized and unrealized losses is primarily due to non-credit related macro changes in the capital markets impacting our valuations in late calendar year 2015. (See Investment Income, Net Realized Losses, and Net Change in Unrealized Appreciation (Depreciation) sections below 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 typically do not issue securities rated investment grade, and have limited resources, limited operating history, and concentrated product lines or customers. These are generally private companies 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 \$189,493 and \$191,350 for the three months ended March 31, 2016 and March 31, 2015, respectively. Investment income was \$598,935 and \$592,254 for the nine months ended March 31, 2016 and March 31, 2015, respectively. The \$6,681 increase is primarily the result of a \$19,455 increase in dividend income primarily from our investments in APRC and Echelon. This increase was partially offset by a \$11,625 decrease in other income primarily from a reduction in structuring fees due to lower levels of originations.

The following table describes the various components of investment income and the related levels of debt investments:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Interest income	\$ 178,992	\$ 184,993	\$ 556,798	\$ 557,947
Dividend income	8,301	1,371	25,062	5,607

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Other income	2,200	4,986	17,075	28,700	
Total investment income	\$189,493	\$191,350	\$598,935	\$592,254	
Average debt principal of performing investments	\$5,913,900	\$6,248,211	\$6,122,039	\$6,161,906	
Weighted average interest rate earned on performing debt and equity investments	12.11	% 11.84	% 11.95	% 11.90	%

S-37

Average interest income producing assets decreased from \$6,248,211 for the three months ended March 31, 2015 to \$5,913,900 for the three months ended March 31, 2016. The average interest earned on interest bearing performing assets increased from 11.84% for the three months ended March 31, 2015 to 12.11% for the three months ended March 31, 2016. The increase in returns is primarily due to an increase in interest income from our CLO investments. Average interest income producing assets increased from \$6,161,906 for the nine months ended March 31, 2015 to \$6,122,039 for the nine months ended March 31, 2016. The average interest earned on interest bearing performing assets increased from 11.90% for the nine months ended March 31, 2015 to 11.95% for the nine months ended March 31, 2016. The increase in returns is primarily due to an increase in interest income from our CLO investments. Investment income is also generated from dividends and other income which is less predictable than interest income. Dividend income increased from \$1,371 for the three months ended March 31, 2015 to \$8,301 for the three months ended March 31, 2016. The increase in dividend income is primarily attributable to a \$7,250 dividend received from our investment in Echelon. No such dividends were received from Echelon during the three months ended March 31, 2015. We received dividends of \$961 and \$1,139 related to our investment in Nationwide during the three months ended March 31, 2016 and March 31, 2015, respectively. We also received dividends of \$75 related to our investment in R-V for both the three months ended March 31, 2016 and March 31, 2015.

Dividend income increased from \$5,607 for the nine months ended March 31, 2015 to \$25,062 for the nine months ended March 31, 2016. The \$19,455 increase in dividend income is primarily attributable to a \$11,016 dividend received from our investment in APRC and \$7,250 dividend received from our investment in Echelon. No such dividends were received from either APRC or Echelon during the nine months ended March 31, 2015. Additionally, we received dividends of \$3,195, \$2,649 and \$710 related to our investments in CCPI, Nationwide and MITY, respectively, during the nine months ended March 31, 2016. No such dividends were received from CCPI or MITY during the nine months ended March 31, 2015. The increase in dividend income was partially offset by dividends of \$2,444 and \$1,929 received from our investments in Nationwide and First Tower, respectively, during the nine months ended March 31, 2015. No such dividends were received from First Tower during the nine months ended March 31, 2016.

Other income has come primarily from structuring fees, royalty interests, and settlement of net profits interests. Income from other sources decreased from \$4,986 for the three months ended March 31, 2015 to \$2,200 for the three months ended March 31, 2016. The decrease is primarily due to a \$3,167 decrease in structuring fees, which are generated from originations and will fluctuate as levels and types of loan originations fluctuate. In November 2014, we elected to suspend our equity raising activities, which has since reduced our origination activity. Total originations decreased from \$219,111 in the three months ended March 31, 2015 to \$23,176 in the three months ended March 31, 2016. As a result, structuring fees fell from \$3,367 in the three months ended March 31, 2015 to \$182 in the three months ended March 31, 2016. The structuring fees recognized during the three months ended March 31, 2015 resulted from follow-on investments in existing portfolio companies, primarily from our investments in NPRC, Atlantis Health Care Group (Puerto Rico), Inc., and USG Intermediate, LLC.

Income from other sources decreased from \$28,700 for the nine months ended March 31, 2015 to \$17,075 for the nine months ended March 31, 2016. The decrease is primarily due to a \$14,021 decrease in structuring fees, which are generated from originations and will fluctuate as levels of originations and types of originations fluctuate. In November 2014, we elected to suspend our equity raising activities, which has since reduced our origination activity. Total originations decreased from \$1,456,071 in the nine months ended March 31, 2015 to \$685,064 in the nine months ended March 31, 2016. As a result, structuring fees fell from \$24,162 in the nine months ended March 31, 2015 to \$10,623 in the nine months ended March 31, 2016. Included within the \$24,162 of structuring fees recognized during the nine months ended March 31, 2015 is a \$3,000 fee from Airmall Inc. ("Airmall") related to the sale of the operating company for which a fee was received in August 2014 and a \$2,000 fee from Ajax Rolled Ring & Machine, LLC ("Ajax") related to the sale of the operating company for which a fee was received in October 2014. The remaining \$19,162 of structuring fees recognized during the nine months ended March 31, 2015 resulted from follow-on investments in existing portfolio companies and new originations, primarily from our investments in InterDent, Instant Web, LLC ("IWCO"), Pacific World Corporation, PrimeSport, Inc., Trinity Services Group, Inc., and UPRC, as discussed above. The structuring fees recognized during the nine months ended March 31, 2016 resulted from follow-on investments in existing portfolio companies, primarily from our investments in Crosman, Intelius, Broder,

Coverall, NPRC and System One.

S-38

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 \$101,867 and \$103,909 for the three months ended March 31, 2016 and March 31, 2015. Operating expenses were \$319,174 and \$319,025 for the nine months ended March 31, 2016 and March 31, 2015, respectively.

The net base management fee was \$30,977 and \$33,679 for the three months ended March 31, 2016 and March 31, 2015, respectively, holding constant at \$0.09 per weighted average share. The total gross base management fee incurred to the favor of the Investment Adviser was \$31,442 and \$33,679 during the three months ended March 31, 2016 and March 31, 2015, respectively. The \$2,237 decrease in total gross base management fee is directly related to a decrease 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 March 31, 2016, we received payments of \$465 from these institutions, on behalf of the Investment Adviser, for providing such services under the servicing agreement for the three months ended March 31, 2016. 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 March 31, 2016 resulting in net total base management fees of \$30,977. No such credits were received during the three months ended March 31, 2015.

The net base management fee was \$95,712 and \$100,878 for the nine months ended March 31, 2016 and March 31, 2015, respectively (\$0.27 and \$0.29 per weighted average share, respectively). The total gross base management fee incurred to the favor of the Investment Adviser was \$97,109 and \$100,878 during the nine months ended March 31, 2016 and March 31, 2015, respectively. The \$3,769 decrease in total gross base management fee is directly related to a decrease 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 nine months ended March 31, 2016, we received payments of \$1,397 from these institutions, on behalf of the Investment Adviser, for providing such services under the servicing agreement for the nine months ended March 31, 2016. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser during the nine months ended March 31, 2016 resulting in net total base management fee of \$95,712. No such credits were received during the nine months ended March 31, 2015.

For the three months ended March 31, 2016 and March 31, 2015, we incurred \$21,906 and \$21,860 of income incentive fees, respectively, holding constant at \$0.06 per weighted average share. This slight increase was driven by a corresponding increase in pre-incentive fee net investment income from \$109,301 for the three months ended March 31, 2015 to \$109,532 for the three months ended March 31, 2016, primarily due to an increase in dividend income. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

For the nine months ended March 31, 2016 and March 31, 2015, we incurred \$69,940 and \$68,307 of income incentive fees, respectively (\$0.20 and \$0.19 per weighted average share, respectively). This increase was driven by a corresponding increase in pre-incentive fee net investment income from \$341,536 for the nine months ended March 31, 2015 to \$349,701 for the nine months ended March 31, 2016, primarily due to an increase in dividend income. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended March 31, 2016 and March 31, 2015, we incurred \$41,719 and \$42,213, respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Notes”). During the nine months ended March 31, 2016 and March 31, 2015, we incurred \$125,881 and \$127,371, respectively, of expenses related to 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 March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Interest on borrowings	\$36,268	\$37,605	\$110,515	\$112,319
Amortization of deferred financing costs	3,240	2,913	10,156	9,601
Accretion of discount on Public Notes	50	47	148	164
Facility commitment fees	2,161	1,648	5,062	5,287
Total interest and credit facility expenses	\$41,719	\$42,213	\$125,881	\$127,371
Average principal debt outstanding	\$2,725,717	\$2,879,132	\$2,842,070	\$2,819,457
Weighted average stated interest rate on borrowings(1)	5.32	% 5.22	% 5.18	% 5.31
Weighted average interest rate on borrowings(2)	6.12	% 5.86	% 5.91	% 6.02
Revolving Credit Facility amount at beginning of period	\$885,000	\$810,000	\$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 nine months ended March 31, 2016 and March 31, 2015 is relatively stable as a result of increased issuances through our InterNotes programs and increased utilization of our Revolving Credit Facility, offset by both Public and Convertible Note maturities. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.31% for the nine months ended March 31, 2015 to 5.18% for the nine months ended March 31, 2016. This decrease is primarily due to issuances of shorter term debt at lower rates.

The allocation of gross overhead expense from Prospect Administration was \$5,698 and \$6,021 for the three months ended March 31, 2016 and March 31, 2015, respectively. Prospect Administration received estimated payments of \$2,762 and \$3,037 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the three months ended March 31, 2016 and March 31, 2015, 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 \$2,936 and \$2,984 during the three months ended March 31, 2016 and March 31, 2015, 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.

The allocation of gross overhead expense from Prospect Administration was \$14,725 and \$13,998 for the nine months ended March 31, 2016 and March 31, 2015, respectively. During the nine months ended March 31, 2016, we renegotiated the managerial assistance agreement with First Tower LLC and reversed \$1,200 of previously accrued managerial assistance at First Tower Delaware as the fee was paid by First Tower LLC, which decreased our overhead allocation. We also incurred \$379 of overhead expense related to our consolidated entity SB Forging. Prospect Administration received estimated payments of 5,611 and \$5,584 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the nine months ended March 31, 2016 and March 31, 2015, 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 \$9,114 and \$8,414 during the nine months ended March 31, 2016 and March 31, 2015, 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.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration ("Other Operating Expenses") were \$4,329 and \$3,173 for the three months ended March 31, 2016 and March 31, 2015, respectively. The increase of \$1,156 during the three months ended March 31, 2016 is

primarily due to an overall increase in audit, compliance and tax related fees due to the growing size and complexity of our business. Other Operating Expenses were \$18,527 and \$14,055 for the nine months ended March 31, 2016 and March 31, 2015, respectively. The increase of \$4,472 during the nine months ended March 31, 2016 is primarily due to an increase in audit, compliance and tax related fees due to the growing size and complexity of our business.

S-40

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$87,626 and \$87,441 for the three months ended March 31, 2016 and March 31, 2015, respectively. Net investment income remained constant as increases in dividends and CLO interest income was offset by a decrease in other income as a result of lower levels of originations and structuring fees.

Net investment income was \$279,761 and \$273,229 for the nine months ended March 31, 2016 and March 31, 2015, respectively. The \$6,532 increase during the nine months ended March 31, 2016 is primarily the result of a \$19,455 increase in dividend income related to APRC's sale of the Vista property and a \$3,533 decrease in advisory fees. These positive results were offset by a \$1,149 decrease in interest income, primarily due to an increase in foregone interest on non-accrual loans, and a \$11,625 decrease in other income, primarily due to a decrease in structuring fees from originations.

Net Realized Gains/Losses

During the three months ended March 31, 2016 we recognized net realized loss on investments of \$10,784 and a net realized gain of \$4,704 for the three months ended March 31, 2015. The net realized loss during the three months ended March 31, 2016 was primarily due to the \$17,194 write-down of our investment in Targus and write-off of our remaining investment in Wind River. The net realized gain during the three months ended March 31, 2015 was primarily due to an escrow release related to our investment in NRG Manufacturing, Inc. for which we realized a gain \$4,647. This gain was supplemented by other realized gains totaling \$357, primarily from partial sales and the release of escrowed amounts due to us from other portfolio companies. These gains were partially offset by realized losses resulting from the write-downs of certain investments for which we recognized total realized losses of \$300.

During the nine months ended March 31, 2016 and March 31, 2015, we recognized net realized losses on investments of \$18,237 and \$150,973, respectively. The net realized loss during the nine months ended March 31, 2016 was primarily due to the write-down of our investment in Targus and write-off of our remaining investment in Wind River discussed above, along with \$5,062 of write-offs of our small business whole loan portfolio. The net realized loss during the nine months ended March 31, 2015 was primarily due to the sale of our investments in Airmall, Ajax, Borga, Inc. ("Borga") and BXC Company, Inc. ("BXC") for which we recognized total realized losses of \$46,571, and the sale of four of our CLO investments for which we realized total losses of \$15,561. During the nine months ended March 31, 2015, we decreased our cost basis in several of our investments (e.g., Appalachian Energy LLC, Change Clean Energy Company, Coalbed, LLC, Manx Energy, Inc., NCT, Stryker Energy, LLC, Wind River, and Yatesville Coal Company, LLC) were written-off and recorded total realized losses of \$96,700 (which were previously recognized as unrealized losses) 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, partial sales, and the release of escrowed amounts due to us from several portfolio companies, for which we recognized total realized gains of \$7,859.

Net Change in Unrealized (Depreciation) Appreciation

Net change in unrealized depreciation was \$1,311 and \$9,775 for the three months ended March 31, 2016 and March 31, 2015, respectively. For the three months ended March 31, 2016, the \$1,311 net decrease in unrealized depreciation was driven primarily by increases in market yields and the competitive environment faced by our energy-related companies. Unrealized losses on our CLO debt and equity investments comprised \$33,556 of total net change in unrealized depreciation, and unrealized losses on our energy-related investments comprised \$40,022 of total net change in unrealized depreciation for the three months ended March 31, 2016. These unrealized losses were offset by \$69,985 unrealized appreciation in our REITs portfolio due to improved operating performance at the property-level. The remaining \$2,282 net decrease in unrealized depreciation is primarily the result of current market conditions and the results of operations of individual portfolio companies across various industries. For the three months ended March 31, 2015, the \$9,775 net change in unrealized depreciation was primarily the result of significant write-downs in our investments in CP Energy, Edmentum, Gulf Coast, and R-V. These instances of unrealized depreciation were partially offset by unrealized appreciation related to APRC, Echelon, First Tower, and UPRC.

Net change in unrealized (depreciation) appreciation was \$(253,233) and \$130,528 for the nine months ended March 31, 2016 and March 31, 2015, respectively. For the nine months ended March 31, 2016, the \$253,233 net decrease in unrealized depreciation was driven primarily by increases in market yields and the competitive environment faced by our energy-related companies. Unrealized losses on our CLO debt and equity investments comprised \$153,524 of total net change in unrealized depreciation and unrealized losses on our energy-related investments comprised \$77,618 of total net change in unrealized depreciation for the nine months ended March 31, 2016. During the nine months ended March 31, 2016, the valuation of our portfolio was also negatively impacted by increased regulatory scrutiny within the consumer finance industry and we recognized \$26,762 in unrealized losses, primarily related to our investment in First Tower. Additionally, during the nine months ended March 31, 2016, we reduced the value of our investment in Harbortouch by \$37,228 due to current market developments and our investment in Pacific World by \$12,109 due to declining operating results. These unrealized losses were offset by \$56,807 unrealized appreciation in our REITs portfolio due to improved operating performance at the property-level. The remaining unrealized depreciation was partially offset by unrealized appreciation due to operating improvements across multiple investments and industries. For the nine months ended March 31, 2015, the \$130,528 increase in net change in unrealized (depreciation) appreciation was primarily the result of realizing losses that were previously unrealized related to the sale of our investments in Airmall, Ajax, Borga and BXC, and the write-off of certain investments for which we eliminated the unrealized depreciation balances related to these investments. We also experienced significant write-ups in our investments in First Tower, Harbortouch, and NPRC. These instances of unrealized appreciation were partially offset by unrealized depreciation related to CP Energy, Edmentum, Gulf Coast, R-V, and United States Environmental Services, LLC.

Financial Condition, Liquidity and Capital Resources

For the nine months ended March 31, 2016 and March 31, 2015, our operating activities provided \$643,137 and used \$88,389 of cash, respectively. There were no investing activities for the nine months ended March 31, 2016 and March 31, 2015. Financing activities used \$583,951 and provided \$17,788 of cash during the nine months ended March 31, 2016 and March 31, 2015, respectively, which included dividend payments of \$255,063 and \$328,620, 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 nine months ended March 31, 2016, we borrowed \$615,000 and made repayments totaling \$983,700 under our Revolving Credit Facility. As of March 31, 2016, we had no outstanding balance on our Revolving Credit Facility, \$1,089,000 outstanding on the Convertible Notes, Public Notes with a carrying value of \$708,242 and \$898,535 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 6.00%. As of March 31, 2016 and June 30, 2015, we had \$60,242 and \$88,288, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. The fair value of our undrawn committed revolvers and delayed draw term loans was \$(202) as of March 31, 2016 and zero as of June 30, 2015.

Our shareholders' equity accounts as of March 31, 2016 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.

As part of our Repurchase Program, we delivered a notice with our annual proxy mailing on September 23, 2015 and our most recent notice was delivered with a shareholder letter mailing on February 2, 2016. This notice extends for six months after the date that notice is delivered. During the nine months ended March 31, 2016, we repurchased

4,708,750 shares of our common stock pursuant to our Repurchase Program for \$34,140, or approximately \$7.25 weighted average price per share at approximately a 30% discount to net asset value as of June 30, 2015. Our NAV per share was increased by approximately \$0.02 for the nine months ended March 31, 2016 as a result of the share repurchases.

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 \$4,822,456 of additional debt and equity securities in the public market as of March 31, 2016.

S-42

Off-Balance Sheet Arrangements

As of March 31, 2016, 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

During the period from April 1, 2016 through May 10, 2016, we made four follow-on investments in NPRC totaling \$39,504 to support our online consumer lending initiative. We invested \$5,926 of equity through NPH and \$33,578 of debt directly to ACL Loan Holdings, Inc. (“ACL”), a wholly-owned subsidiary of NPRC. In addition, during this period, we received a partial repayment of \$11,800 ACL loan previously outstanding.

On April 6, 2016, we received partial repayments from APRC of \$2,973 for our loans previously outstanding.

On April 6, 2016, we received partial repayments from UPRC of \$7,567 for our loans previously outstanding.

On April 11, 2016, we announced the then current conversion rate on the 2020 Notes as 80.6670 shares of common stock per

\$1 principal amount of the 2020 Notes converted, which is equivalent to a conversion price of approximately \$12.40.

On April 16, 2016, we announced the then current conversion rate on the 2017 Notes as 87.7516 shares of common stock per

\$1 principal amount of the 2017 Notes converted, which is equivalent to a conversion price of approximately \$11.40.

On April 29, 2016, we invested an additional \$25,000 of Senior Secured Term Loan A and an additional \$25,000 of Senior Secured Term Loan B debt investment in Trinity Services Group, Inc. (“Trinity”).

On April 29, 2016, through our delayed draw term loan commitment with Instant Web, LLC, we funded \$8,000 of Senior Secured Term Loan A and \$8,000 of Senior Secured Term Loan B.

During the period from May 3, 2016 through May 10, 2016, we collectively sold 72.10% of the outstanding principal balance of the Senior Secured Term Loan A investment in Trinity for \$25,000. There was no gain or loss realized on the sale.

During the period from April 1, 2016 through May 10, 2016, our wholly-owned subsidiary PSBL purchased \$5,555 of small business whole loans from OnDeck.

During the period from April 1, 2016 through May 10, 2016, we issued \$4,451 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$4,395. In addition, we sold \$953 in aggregate principal amount of our Prospect Capital

InterNotes® for net proceeds of \$941 with expected closing on May 12, 2016.

On May 9, 2016, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.08333 per share for May 2016 to holders of record on May 31, 2016 with a payment date of June 23, 2016;

\$0.08333 per share for June 2016 to holders of record on June 30, 2016 with a payment date of July 21, 2016;

\$0.08333 per share for July 2016 to holders of record on July 29, 2016 with a payment date of August 18, 2016; and

\$0.08333 per share for August 2016 to holders of record on August 31, 2016 with a payment date of September 22, 2016.

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-Q, 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

S-43

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.

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the three and nine months ended March 31, 2016.

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.

Investment Transactions

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 or as a receivable for investments sold, respectively, in the consolidated statements of assets and liabilities.

Investment Risks

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

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 fully earn all of the expected income and reinvesting in a lower yielding instrument.

Structured Credit Related Risk

CLO investments may be riskier and less transparent to us than direct investments in underlying companies. CLOs typically will have no significant assets other than their underlying senior secured loans. Therefore, payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans.

Investment Valuation

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

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

- Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.
- Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.
2. The independent valuation firms prepare independent valuations for each investment based on their own independent assessments and issue their report.
3. The Audit Committee of our Board of Directors reviews and discusses with the independent valuation firms the valuation reports, and then makes a recommendation to the Board of Directors of the value for each investment. 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 for loans, 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 merger and acquisitions 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 (i.e., expected maturity). 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. Our valuation agent utilizes other methods to validate the results from the discounted cash flow method. 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. We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold as those portfolios are managed by non-affiliated third party CLO collateral managers. 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.

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 using 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.

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 March 31, 2016, approximately 0.5% of our total assets are in non-accrual status.

S-46

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 trust 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 is earned, usually when paid. Structuring fees, excess deal deposits, net profits interests and overriding royalty interests are included in other income.

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. As of March 31, 2016 and June 30, 2015, we accrued \$400 and \$305, respectively, for any unpaid potential excise tax liability and have included these amounts within other liabilities on the accompanying Consolidated Statements of Assets and Liabilities.

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 March 31, 2016 and for the three and nine months then ended, we did not record any unrecognized tax benefits or liabilities. 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 ended 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.

S-47

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. Effective July 1, 2016, these costs will be reclassified to the balance sheet as a deduction from the debt liability rather than an asset, in accordance with Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”).

We may 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. As of March 31, 2016 and June 30, 2015, there are no prepaid assets related to registration expenses and all amounts incurred have been expensed.

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.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03 which 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 expected to decrease total liabilities by decreasing the carrying value of our debt, and is expected to decrease total assets by decreasing deferred financing costs of our debt, but is not expected to have any other significant effect on our consolidated financial statements and disclosures.

In January 2016, the FASB issued Accounting Standards Update 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. One such amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. That presentation addresses financial statement users’ feedback that presenting the total change in fair value of a liability in net income reduced the decision usefulness of an entity’s net income when it had a deterioration in its credit worthiness. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The new guidance must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The adoption of the amended guidance in ASU 2016-01 is not expected to have a

significant effect on our consolidated financial statements and disclosures.

S-48

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 March 31, 2016, we did not engage in hedging activities.

S-49

DESCRIPTION OF THE NOTES

On December 10, 2015, we and U.S. Bank National Association, as trustee, entered into a supplemental indenture, or the “Existing Notes Supplemental Indenture” to the Indenture referred to in the accompanying prospectus between us and U.S. Bank National Association, or the “base indenture,” relating to our issuance, offer and sale of \$160,000,000 aggregate principal amount of 6.25% Notes due 2024, or the “Existing Notes.” We will issue the Notes offered hereby under the base indenture and an additional supplemental indenture that will contain the same terms and conditions as the Existing Notes Supplemental Indenture. We refer to the base indenture, the Existing Notes Supplemental Indenture and the additional supplemental indenture collectively as the “Indenture.” The Notes offered hereby will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the Indenture including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the Existing Notes. Unless otherwise indicated, the Notes offered hereby and the Existing Notes are collectively referred to herein as the “Notes.” 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 up to \$100.0 million aggregate principal amount (and up to \$260.0 million inclusive of the Existing Notes);
- bear interest at a rate of 6.25% per year, payable every March 15, June 15, September 15 and December 15, commencing on the first applicable interest payment date following a given purchase of the Notes under this prospectus supplement, in each case having a record date of March 1, June 1, September 1 and December 1, commencing with the first such date to follow a given purchase of the Notes under this prospectus supplement, except that, if you purchase Notes after a record date (or your settlement of a purchase of Notes otherwise occurs after such record date), your Notes will not accrue interest for the period from such purchase date to the interest payment date immediately following such record date;
- 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 Existing Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes and the Prospect Capital InterNotes[®]) and senior in right of payment to any of our subordinated indebtedness, effectively subordinated in right of payment to our existing and future secured indebtedness and structurally subordinated to all existing and future debt of our subsidiaries;
- be subject to repurchase by us at your option if a fundamental change occurs, at a cash repurchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date;
- are expected to be listed on the NYSE under the trading symbol “PBB;” 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.”

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 Existing 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 June 22, 2016, together with our subsidiaries, we had approximately \$2.7 million of indebtedness outstanding, all 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 a written notice of redemption issued by us even though the Notes are listed for trading on the NYSE. 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, and the rules of the NYSE, and any unredeemed Notes will have the same rights and be entitled to the same benefits that the Notes had prior to any such redemption. 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 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-13 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

S-52

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

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

- if you hold a beneficial interest in a global Note, your repurchase notice must comply with appropriate DTC procedures; if you hold certificated Notes, the Notes certificate numbers;
- the portion of the principal amount of the Notes to be repurchased, which must be \$25 or \$25 integral multiples in excess thereof; and

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

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

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

- the principal amount of the withdrawn Notes; and

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

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

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

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

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

- comply with the provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act that may be applicable at the time of the offer to repurchase the Notes;
- file a Schedule TO or any other schedule required in connection with any offer by us to repurchase the Notes; and comply with all other federal and state securities laws in connection with any offer by us to repurchase the Notes. This fundamental change repurchase right could discourage a potential acquirer of the Company. However, this fundamental change repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions. See "Risk Factors-Provisions of the Notes could discourage an acquisition of us by a third party" on page S-13 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-13 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

S-55

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 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

(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

S-59

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.

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 Agent nor any agent takes any responsibility for its accuracy.

S-60

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 applicable offering price and who holds the Notes as a capital asset (generally, property held for investment) under the Code. We intend to treat the Notes as indebtedness for U.S. federal income tax purposes, and this discussion assumes such treatment. 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.

Qualified Reopening

The issuance of the Notes will be treated for U.S. federal income tax purposes as a "qualified reopening" of the Existing Notes. Debt instruments issued in a qualified reopening are deemed to be part of the same "issue" as the original debt instruments to which such reopening relates. Assuming the issuance of the Notes is so treated, the Notes would be treated as having the same issue date (December 10, 2015) and the same issue price (100% of par) as the Existing Notes for U.S. federal income tax purposes. Accordingly, the Notes would be considered to be issued at 100% of par (and thus not with original issue discount), even if the actual price paid by a U.S. Noteholder for a Note were to differ therefrom. See "-Bond Premium and Market Discount" below for a discussion of the consequences to a U.S. Noteholder of paying a different price for its Notes.

Interest on the Notes

Except as described below with respect to pre-issuance accrued interest, 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.

If the notes are issued between an interest payment date and the next record date that follows such interest payment date, a portion of the price paid for the Notes will be allocable to interest that accrued between such interest payment date and the date the Notes are issued (the "pre-issuance accrued interest"). We intend to take the position that the portion of the interest received on the first interest payment date following the issuance of the Notes that equals the pre-issuance accrued interest is treated as a return of the pre-issuance accrued interest and not as a payment of interest on the Note. Under that characterization, amounts treated as a return of pre-issuance accrued interest should not be taxable when received but should reduce the holder's adjusted tax basis in the Note by a corresponding amount.

Prospective purchasers of the Notes are urged to consult their tax advisors with respect to pre-issuance accrued interest.

Bond Premium and Market Discount

If the amount paid for a Note by a U.S. Noteholder (excluding the portion of such amount that is treated as allocable to pre-issuance accrued interest) exceeds the stated principal amount of the Note, the U.S. Noteholder would be considered to have "amortizable bond premium" equal to such excess. In this case, the U.S. Noteholder could elect to amortize the premium using a constant yield method over the term of the Note and thereby offset each payment or accrual of interest by the portion of the bond premium allocable to the payment. If such an election is made, it generally will apply to all debt instruments held at the time of the election, as well as any debt instruments subsequently acquired. The election may not be revoked without the consent of the IRS. A U.S. Noteholder who elects to amortize bond premium must reduce its tax basis in the Notes by the amount of the premium so amortized. If an election to amortize bond premium is not made and the Notes are held to maturity, then, in general, the bond premium will decrease the gain or increase the loss such holder would otherwise recognize on the disposition of the Note. Prospective purchasers of the Notes are urged to consult their tax advisors with respect to the rules relating to bond premium and the application of those rules to their particular circumstances.

As a result of limitations under the qualified reopening rules, Notes will not be issued at a price (excluding the portion of such amount that is treated as allocable to pre-issuance accrued interest) that is less than the deemed issue price of the Notes (i.e., 100% of par) by more than a statutorily defined de minimis threshold, and thus the Notes will not be issued with "market discount" for U.S. federal income tax purposes.

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

Subject to the discussion below regarding amounts attributable to accrued but unpaid interest, upon the sale, exchange, redemption, retirement 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. A U.S. Noteholder's adjusted tax basis in a Note will generally equal the amount such U.S. Noteholder paid for the Note, reduced by the amount of interest payments received by the holder that are treated as a return of pre-issuance accrued interest (as described above under "-Interest on the Notes"), and reduced by any amortized bond premium (as discussed above under "-Bond Premium and Market Discount"), as

applicable. 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.

S-63

Information reporting and backup withholding

Payments of interest 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."

Interest on the Notes

Interest 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 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 from the Notes may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate). Interest 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 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 interest 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 interest 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, retirement or other taxable disposition of the Notes

Any gain recognized by a non-U.S. Noteholder on the sale, exchange, redemption, retirement 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—Interest 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, retirement 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, retirement 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 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 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 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.

**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 Agent 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 expect to use the net proceeds from the sale of the Notes initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, and redemption of outstanding Prospect Capital InterNotes® and other debt, to make investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. We anticipate that substantially all of the net proceeds from this offering will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

As of June 22, 2016, our credit facility is undrawn, and based on the assets currently pledged as collateral on the facility, a total of approximately \$547.8 million was available to us for borrowing under our credit facility including outstanding borrowings. 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.

S-67

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 March 31, 2016. (All figures in this item are in thousands except per unit data.)

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 March 31, 2016, unaudited)	\$ —	\$—	—	—
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(5)				
Fiscal 2016 (as of March 31, 2016, unaudited)	\$ —	\$—	—	—
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 March 31, 2016, unaudited)	\$ 167,500	\$ 36,527	—	—
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 March 31, 2016, unaudited)	\$ 129,500	\$ 47,245	—	—
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 March 31, 2016, unaudited)	\$ 200,000	\$ 30,591	—	—
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	—	—

2019 Notes

Fiscal 2016 (as of March 31, 2016, unaudited)	\$ 200,000	\$ 30,591	—	—
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	—	—

S-68

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	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
5.00% 2019 Notes				
Fiscal 2016 (as of March 31, 2016, unaudited)	\$ 300,000	\$ 20,394	—	—
Fiscal 2015 (as of June 30, 2015)	300,000	22,289	—	—
Fiscal 2014 (as of June 30, 2014)	300,000	21,304	—	—
2020 Notes				
Fiscal 2016 (as of March 31, 2016, unaudited)	\$ 392,000	\$ 15,608	—	—
Fiscal 2015 (as of June 30, 2015)	392,000	17,058	—	—
Fiscal 2014 (as of June 30, 2014)	400,000	15,978	—	—
2022 Notes(6)				
Fiscal 2015 (as of June 30, 2015)	\$ —	N/A	N/A	\$ —
Fiscal 2014 (as of June 30, 2014)	100,000	63,912	—	1,038
Fiscal 2013 (as of June 30, 2013)	100,000	43,395	—	1,036
Fiscal 2012 (as of June 30, 2012)	100,000	21,761	—	996
2023 Notes				
Fiscal 2016 (as of March 31, 2016, unaudited)	\$ 248,242	\$ 24,646	—	—
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	—	—
2024 Notes				
Fiscal 2016 (as of March 31, 2016, unaudited)	\$ 160,000	\$ 38,239	—	\$ 933
Prospect Capital InterNotes®				
Fiscal 2016 (as of March 31, 2016, unaudited)	\$ 898,535	\$ 6,809	—	—
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	—	—
All Senior Securities(7)				
Fiscal 2016 (as of March 31, 2016, unaudited)	\$ 2,695,777	\$ 2,270	—	—
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	—	—
Fiscal 2011 (as of June 30, 2011)	406,700	3,740	—	—
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)	—	—	—	—
Fiscal 2006 (as of June 30, 2006)	28,500	4,799	—	—

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- (1) Total amount of each class of senior securities outstanding at the end of the year/period presented (in 000's).
The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated
- (2) 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.

S-69

(4) This column is inapplicable, except for the 2022 Notes and the 2024 Notes. The average market value per unit is calculated as an average of quarter-end prices and shown as the market value per \$1,000 of indebtedness.

(5) We repaid the outstanding principal amount of the 2015 Notes on December 15, 2015.

(6) 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 (7) to elect to treat such unfunded commitments, which were \$60,242 as of March 31, 2016, as Senior Securities for purposes of Section 18 of the 1940 Act, our asset coverage per unit would be \$2,242.

S-70

RATIO OF EARNINGS TO FIXED CHARGES

For the three months and nine months ended March 31, 2016 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 Months Ended March 31, 2016	For the Nine Months Ended March 31, 2016	For the Year Ended June 30, 2015	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
Earnings to Fixed Charges ⁽¹⁾	2.82	1.08	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 depreciation, the earnings to fixed charges ratio would be 2.85 for the three months ended March 31, 2016, 3.09 for the nine months ended March 31, 2016, 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.

PLAN OF DISTRIBUTION

The Agent is acting as our sales agent in connection with the offer and sale of the Notes pursuant to this prospectus supplement and the accompanying prospectus. Upon written instructions from us, the Agent will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, the Notes under the terms and subject to the conditions set forth in our Debt Distribution Agreement with the Agent dated June 22, 2016. We will instruct the Agent as to the amount of the Notes to be sold by it. We may instruct the Agent not to sell the Notes if the sales cannot be effected at or above the price designated by us in any instruction. We will not instruct the Agent to sell the Notes if the sales cannot be effected at or above prices that will allow the Notes to be treated as “fungible” with the Existing Notes for U.S. federal income tax purposes. We or the Agent may suspend the offering of Notes upon proper notice and subject to other conditions.

Sales of the Notes, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be “at the market,” as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange at prices related to the prevailing market prices or at negotiated prices. If any of the Notes are sold at prices above par, the effective yield on such Notes to the purchasers may be less than 6.25%.

The Agent will provide written confirmation of a sale to us no later than the opening of the trading day on the NYSE following each trading day in which the Notes are sold under the Debt Distribution Agreement. Each confirmation will include the principal amount of Notes sold on the preceding day, the sales price of Notes sold, the aggregate gross sales proceeds of such Notes, the net proceeds to us and the compensation payable by us to the Agent in connection with the sales.

The Agent will receive a commission from us equal to up to 2.0% of the gross sales price of any Notes sold through the Agent under the Debt Distribution Agreement. We estimate that the total expenses for the offering, excluding compensation payable to the Agent under the terms of the Debt Distribution Agreement, will be approximately \$400,000. This estimate includes the reimbursement by the Company of the reasonable fees and expenses of the Agent and the Agent’s counsel in connection with the transactions contemplated by the Debt Distribution Agreement, provided that such fees and expenses will not exceed an aggregate amount of \$15,000 on a quarterly basis.

Settlement for sales of the Notes will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by us and the Agent in connection with a particular transaction, in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

We will report at least quarterly the principal amount of Notes sold through the Agent under the Debt Distribution Agreement, the net proceeds to us and the compensation paid by us to the Agent, if any.

In connection with the sale of the Notes on our behalf, the Agent may be deemed to be an “underwriter” within the meaning of the Securities Act, and the compensation of the Agent may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to the Agent against certain civil liabilities, including liabilities under the Securities Act.

The offering of the Notes pursuant to the Debt Distribution Agreement will terminate upon the earlier of (i) the sale of the dollar amount of Notes subject to the Debt Distribution Agreement or (ii) the termination of the Debt Distribution Agreement. The Debt Distribution Agreement may be terminated by us in our sole discretion under the circumstances specified in the Debt Distribution Agreement by giving notice to the Agent. In addition, the Agent may terminate the Debt Distribution Agreement under the circumstances specified in the Debt Distribution Agreement by giving notice to us.

Other Relationships

The Agent and certain of its 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 Agent and certain of its affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for the Company and our affiliates, for which they received or may in the future receive customary fees and expenses.

In the ordinary course of its various business activities, the Agent and certain of its 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 Company or our affiliates. If the Agent or its affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. The Agent and its 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

S-72

offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Agent and certain of its 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 the Agent is 300 North 17th Street, Suite 1400, North Arlington, Virginia 22209.

S-73

DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN

We have adopted a dividend reinvestment and direct stock purchase plan that provides for reinvestment of our dividends or distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below, and the ability to purchase additional shares by making optional cash investments. As a result, when our Board of Directors authorizes, and we declare, a cash dividend or distribution, then our stockholders who have not “opted out” of our dividend reinvestment and direct stock purchase plan will have their cash dividends or distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends or distributions. If you are not a current stockholder and want to enroll or have “opted out” and wish to rejoin, you may purchase shares directly through the plan or opt in by enrolling online or submitting to the plan administrator a completed enrollment form and, if you are not a current stockholder, making an initial investment of at least \$250.

No action is required on the part of a registered stockholder to have their cash dividend or distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend or distribution in cash by notifying the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator will set up a dividend reinvestment account for shares acquired pursuant to the plan for each stockholder who has not so elected to receive dividends and distributions in cash or who has enrolled in the plan as described herein (each, a “Participant”). The plan administrator will hold each Participant’s shares, together with the shares of other Participants, in non-certificated form in the plan administrator’s name or that of its nominee. Upon request by a Participant to terminate their participation in the plan, received in writing, via the internet or the plan administrator’s toll free number no later than 3 business days prior to a dividend or distribution payment date, such dividend or distribution will be paid out in cash and not be reinvested. If such request is received fewer than 3 business days prior to a dividend or distribution payment date, such dividend or distribution will be reinvested but all subsequent dividends and distributions will be paid to the stockholder in cash on all balances. Upon such termination of the Participant’s participation in the plan, all whole shares owned by the Participant will be issued to the Participant in certificated form and a check will be issued to the Participant for the proceeds of fractional shares less a transaction fee of \$15.00 to be deducted from such proceeds. Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends or distributions in cash by notifying their broker or other financial intermediary of their election.

We primarily use newly-issued shares to implement reinvestment of dividends and distributions under the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with the implementation of reinvestment of dividends or distributions under the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend or distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the NASDAQ Global Select Market on the last business day before the payment date for such dividend or distribution. Market price per share on that date will be the closing price for such shares on the NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend or distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated. Stockholders who do not elect to receive dividends and distributions in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium at the time we issue new shares under the plan and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the dividend or distribution payable to a stockholder.

There are no brokerage charges or other charges to stockholders who participate in reinvestment of dividends or distributions under the plan. The plan administrator’s fees under the plan are paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant’s account and remit the proceeds to the participant, the plan administrator is authorized to deduct a \$15 transaction fee plus a \$0.10 per share brokerage commissions from the proceeds.

Stockholders who receive dividends or distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as are stockholders who elect to receive their dividends or distributions in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend or distribution from us will be equal to the total dollar amount of the dividend or distribution payable to the stockholder. Any stock received in a dividend or distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. Stockholder's account (as defined below).

Participants in the plan have the option of making additional cash payments to the plan administrator for investment in the shares at the then current market price. Such payments may be made in any amount from \$25 to \$10,000 per transaction.

S-74

Participants in the plan may also elect to have funds electronically withdrawn from their checking or savings account each month. Direct debit of cash will be performed on the 10th of each month. Participants may elect this option by submitting a written authorization form or by enrolling online at the plan administrator's website. The plan administrator will use all funds received from participants since the prior investment of funds to purchase shares of our common stock in the open market. We will not use newly-issued shares of our common stock to implement such purchases. Purchase orders will be submitted daily. The Plan Administrator may, at its discretion, submit purchase orders less frequently but no later than 30 days after receipt. The plan administrator will charge each stockholder who makes such additional cash payments \$2.50, plus a \$0.10 per share brokerage commission. Cash dividends and distributions payable on all shares credited to your plan account will be automatically reinvested in additional shares pursuant to the terms of the plan. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. Instructions sent by a participant to the plan administrator in connection with such participant's cash payment may not be rescinded.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at www.amstock.com or by filling out the transaction request form located at the bottom of their statement and sending it to the plan administrator at American Stock Transfer & Trust Company, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the plan administrator's Interactive Voice Response System at (888) 888-0313. Upon termination, the stockholder will receive certificates for the full shares credited to your plan account. If you elect to receive cash, the plan administrator sells such shares and delivers a check for the proceeds, less the \$0.10 per share commission and the plan administrator's transaction fee of \$15. In every case of termination, fractional shares credited to a terminating plan account are paid in cash at the then-current market price, less any commission and transaction fee.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any payable date for the payment of any dividend by us or distribution pursuant to any additional cash payment made. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer and Trust Company LLC, 6201 15th Avenue, Brooklyn, New York 11219, or by telephone at 888-888-0313.

Stockholders who purchased their shares through or hold their shares in the name of a broker or financial institution should consult with a representative of their broker or financial institution with respect to their participation in our dividend reinvestment plan and direct stock purchase plan. Such holders of our stock may not be identified as our registered stockholders with the plan administrator and may not automatically have their cash dividend or distribution reinvested in shares of our common stock by the plan administrator.

1. How do I purchase shares if I am not an existing registered holder?

To make an investment online, log on to www.amstock.com, click on "Shareholders" followed by "Invest Online," then select "All Plans" from the left toolbar. Select "Prospect Capital Corporation" Common Stock," followed by "Invest Now." Follow the "Steps to Invest," which will guide you through the six-step investment process. Follow the prompts to provide your banking account number and ABA routing number to allow for the direct debit of funds from your savings or checking account. You will receive a receipt of your transaction upon completion of the investment process, as well as a subsequent e-mail confirming the number of shares purchased and their price (generally within two business days). To invest by mail, complete an Enrollment Application, which can be obtained by calling the Plan Administrator at 1-888-888-0313, and enclose a check made payable to American Stock Transfer & Trust Company, LLC for the value of your investment. The Enrollment Application may also be downloaded from the Plan Administrator's website (www.amstock.com). The minimum initial investment is \$250.00. The maximum investment is \$10,000.00 per transaction. Once you are a stockholder, the minimum purchase amount is reduced to \$25.00. For purchases made with voluntary contributions, there is a transaction fee of \$2.50 per purchase and a per-share commission of \$0.10, each to be paid by the participants in the Plan. Your cash payment, less applicable service charges, fees and commissions, will be used to purchase shares on the open market for your account. Both full and fractional shares, up to three decimal places, will be credited to your Plan account. The Plan Administrator will commingle net funds (if applicable) with cash payments from all participants to purchase shares in the open market. Purchase orders will be submitted daily. The Plan Administrator may, at its discretion, submit purchase orders less frequently but no later than 30 days after receipt. No interest will be paid by the Plan Administrator pending investment. Instructions sent to the Plan Administrator may not be rescinded. You may also authorize the Plan

Administrator, on the enrollment application or the Plan Administrator's website, to make monthly purchases of a specified dollar amount, by automatic withdrawal from your bank account. Funds will be withdrawn from your bank account, via electronic funds transfer (EFT), on the 10th day of each month (or the next following day if the 10th is not a business day). To terminate monthly purchases by automatic withdrawal, please send the Plan Administrator written, signed instructions, which must be received by the Plan Administrator not less than 3 business days prior to an automatic withdrawal for such termination to take effect prior to such withdrawal. It is your responsibility to notify the Plan Administrator if your direct debit information changes. If a check or ACH withdrawal is returned to the Plan Administrator as "unpaid," the Plan Administrator will sell shares if already purchased and liquidate additional shares, if necessary, to

S-75

reimburse itself for any loss incurred, as well as a returned check fee of \$25.00. This is in addition to any other rights the Plan Administrator may have.

Stockholders who purchased their shares through or hold their shares in the name of a broker or financial institution should consult with a representative of their broker or financial institution with respect to their participation in the Plan. Such holders of common stock may not be identified as registered stockholders of Prospect Capital Corporation with the Plan Administrator.

2. How do I purchase additional shares if I am already a registered stockholder?

Additional shares may be purchased at any time. All of the terms outlined in Section #1 above apply, except the minimum investment is only \$25.00. To make an investment online, log on to www.amstock.com and select "Shareholders" followed by "Account Access and General Information," and finally "Account Access." You will be prompted to enter your Unique Account ID. If you do not have a Unique Account ID, register directly online and your Unique Account ID will be provided. Follow the prompts when registering for your Unique Account ID. From the left toolbar, select "Purchase Additional Shares" and complete the steps. Optional cash payments may also be mailed to the Plan Administrator using the tear-off portion of your account statement (sent in conjunction with each scheduled dividend) or purchase transaction advice, or via detailed written instructions. You may also authorize the Plan Administrator, on an enrollment application or the Plan Administrator's website, to make monthly purchases of a specified dollar amount by automatic withdrawal from your bank account. Funds will be withdrawn from your bank account, via electronic funds transfer (EFT), on the 10th day of each month (or the next following day if the 10th is not a business day). To terminate monthly purchases by automatic withdrawal, you must send the Plan Administrator written, signed instructions. It is your responsibility to notify the Plan Administrator if your direct debit information changes. All shares will be purchased in the open market at the current market price.

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 Agent 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 40th Street, 42nd 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, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

INDEX TO FINANCIAL STATEMENTS

Financial Statements

<u>Consolidated Statements of Assets and Liabilities as of March 31, 2016 (Unaudited) and June 30, 2015 (Audited)</u>	<u>F-2</u>
<u>Consolidated Statements of Operations for the three and six months ended March 31, 2016 and 2015 (Unaudited)</u>	<u>F-3</u>
<u>Consolidated Statements of Changes in Net Assets for the six months ended March 31, 2016 and 2015 (Unaudited)</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows for the six months ended March 31, 2016 and 2015 (Unaudited)</u>	<u>F-5</u>
<u>Consolidated Schedules of Investments as of March 31, 2016 (Unaudited) and June 30, 2015 (Audited)</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>F-40</u>

See notes to consolidated financial statements.

F-1

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

	March 31, 2016 (Unaudited)	June 30, 2015 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,959,243 and \$1,894,644, respectively)	\$ 1,998,023	\$ 1,974,202
Affiliate investments (amortized cost of \$10,758 and \$45,150, respectively)	12,088	45,945
Non-control/non-affiliate investments (amortized cost of \$4,238,156 and \$4,619,582, respectively)	3,994,994	4,589,411
Total investments at fair value (amortized cost of \$6,208,157 and \$6,559,376, respectively)	6,005,105	6,609,558
Cash and cash equivalents	169,212	110,026
Receivables for:		
Interest, net	18,879	20,408
Other	927	2,885
Prepaid expenses	1,268	757
Deferred financing costs	50,937	54,420
Total Assets	6,246,328	6,798,054
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	—	368,700
Convertible Notes (Notes 5 and 8)	1,089,000	1,239,500
Public Notes (Notes 6 and 8)	708,242	548,094
Prospect Capital InterNotes® (Notes 7 and 8)	898,535	827,442
Due to broker	—	26,778
Interest payable	33,724	39,659
Dividends payable	29,675	29,923
Due to Prospect Administration (Note 13)	1,899	4,238
Due to Prospect Capital Management (Note 13)	55,021	2,550
Accrued expenses	3,153	3,408
Other liabilities	4,663	4,713
Commitments and Contingencies (Note 3)	—	—
Total Liabilities	2,823,912	3,095,005
Net Assets	\$3,422,416	\$3,703,049
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 356,113,777 and 359,090,759 issued and outstanding, respectively) (Note 9)	\$ 356	\$ 359
Paid-in capital in excess of par (Note 9)	3,959,864	3,975,672
Accumulated overdistributed net investment income	(5,800)	(21,077)
Accumulated net realized loss on investments and extinguishment of debt	(328,952)	(302,087)
Net unrealized (depreciation) appreciation on investments	(203,052)	50,182
Net Assets	\$3,422,416	\$3,703,049
Net Asset Value Per Share (Note 16)	\$9.61	\$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 March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Investment Income				
Interest income:				
Control investments	\$50,762	\$50,418	\$154,135	\$146,230
Affiliate investments	—	973	896	2,814
Non-control/non-affiliate investments	83,986	94,556	265,855	290,665
Structured credit securities	44,244	39,046	135,912	118,238
Total interest income	178,992	184,993	556,798	557,947
Dividend income:				
Control investments	8,288	1,346	25,046	4,756
Affiliate investments	—	—	—	778
Non-control/non-affiliate investments	13	24	16	46
Money market funds	—	1	—	27
Total dividend income	8,301	1,371	25,062	5,607
Other income:				
Control investments	1,758	1,620	7,436	10,352
Affiliate investments	—	—	—	226
Non-control/non-affiliate investments	442	3,366	9,639	18,122
Total other income (Note 10)	2,200	4,986	17,075	28,700
Total Investment Income	189,493	191,350	598,935	592,254
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 13)	30,977	33,679	95,712	100,878
Income incentive fee (Note 13)	21,906	21,860	69,940	68,307
Total investment advisory fees	52,883	55,539	165,652	169,185
Interest and credit facility expenses	41,719	42,213	125,881	127,371
Legal fees	11	(4)	2,163	1,554
Valuation services	365	401	1,228	1,310
Audit, compliance and tax related fees	1,596	648	4,665	2,239
Allocation of overhead from Prospect Administration (Note 13)	2,936	2,984	9,114	8,414
Insurance expense	214	121	653	373
Directors' fees	94	94	282	282
Excise tax	400	(793)	1,700	982
Other general and administrative expenses	1,649	2,706	7,836	7,315
Total Operating Expenses	101,867	103,909	319,174	319,025
Net Investment Income	87,626	87,441	279,761	273,229
Net realized (losses) gains on investments	(10,784)	4,704	(18,237)	(150,973)
Net change in unrealized (depreciation) appreciation on investments	(1,311)	(9,775)	(253,233)	130,528
Net realized and unrealized losses on investments	(12,095)	(5,071)	(271,470)	(20,445)
Net realized losses on extinguishment of debt	(23)	(878)	(86)	(1,214)
Net Increase in Net Assets Resulting from Operations	\$75,508	\$81,492	\$8,205	\$251,570
Net increase in net assets resulting from operations per share	\$0.21	\$0.23	\$0.02	\$0.71

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

(in thousands, except share data)
(Unaudited)

	Nine Months Ended March 31,	
	2016	2015
Operations		
Net investment income	\$279,761	\$273,229
Net realized losses on investments	(18,237)	(150,973)
Net change in unrealized (depreciation) appreciation on investments	(253,233)	130,528
Net realized losses on extinguishment of debt	(86)	(1,214)
Net Increase in Net Assets Resulting from Operations	8,205	251,570
Distributions to Shareholders		
Distribution from net investment income	(266,920)	(331,863)
Distribution of return of capital	—	—
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(266,920)	(331,863)
Common Stock Transactions		
Issuance of common stock, net of underwriting costs	—	146,085
Less: Offering costs from issuance of common stock	118	(585)
Repurchase of common stock under stock repurchase program	(34,140)	—
Value of shares issued through reinvestment of dividends	12,104	11,199
Net (Decrease) Increase in Net Assets Resulting from Common Stock Transactions	(21,918)	156,699
Total (Decrease) Increase in Net Assets	(280,633)	76,406
Net assets at beginning of period	3,703,049	3,618,182
Net Assets at End of Period	\$3,422,416	\$3,694,588
Common Stock Activity		
Shares sold	—	14,845,556
Shares repurchased under stock repurchase program	(4,708,750)	—
Shares issued through reinvestment of dividends	1,731,768	1,189,248
Net shares (repurchased) issued due to common stock activity	(2,976,982)	16,034,804
Shares issued and outstanding at beginning of period	359,090,759	342,626,637
Shares Issued and Outstanding at End of Period	356,113,777	358,661,441

See notes to consolidated financial statements.

F-4

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except share data)
(Unaudited)

	Nine Months Ended March 31,	
	2016	2015
Operating Activities		
Net increase in net assets resulting from operations	\$8,205	\$251,570
Net realized losses on extinguishment of debt	86	1,214
Net realized losses on investments	18,237	150,973
Net change in unrealized depreciation (appreciation) on investments	253,233	(130,528)
Amortization of discounts and premiums, net	62,631	64,200
Accretion of discount on Public Notes (Note 6)	148	164
Amortization of deferred financing costs	10,156	9,601
Payment-in-kind interest	(7,475)	(16,485)
Structuring fees	(6,932)	(18,055)
Change in operating assets and liabilities:		
Payments for purchases of investments	(670,657)	(1,421,531)
Proceeds from sale of investments and collection of investment principal	955,415	1,022,394
Decrease (increase) in interest receivable, net	1,529	(2,372)
Decrease in other receivables	1,958	983
(Increase) decrease in prepaid expenses	(511)	968
Decrease in due to broker	(26,778)	—
Decrease in interest payable	(5,935)	(2,073)
(Decrease) increase in due to Prospect Administration	(2,339)	336
Increase in due to Prospect Capital Management	52,471	1,388
Decrease in accrued expenses	(255)	(1,455)
(Decrease) increase in other liabilities	(50)	319
Net Cash Provided by (Used in) Operating Activities	643,137	(88,389)
Financing Activities		
Borrowings under Revolving Credit Facility (Note 4)	615,000	1,187,000
Principal payments under Revolving Credit Facility (Note 4)	(983,700)	(961,300)
Issuance of Public Notes (Note 6)	160,000	—
Redemption of Convertible Notes (Note 5)	(150,000)	—
Repurchase of Convertible Notes, net (Note 5)	(500)	(7,658)
Issuances of Prospect Capital InterNotes® (Note 7)	74,862	74,967
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(3,769)	(83,475)
Financing costs paid and deferred	(6,759)	(8,626)
Cost of shares repurchased under stock repurchase program	(34,140)	—
Proceeds from issuance of common stock, net of underwriting costs	—	146,085
Offering costs from issuance of common stock	118	(585)
Dividends paid	(255,063)	(328,620)
Net Cash (Used in) Provided by Financing Activities	(583,951)	17,788
Net Increase (Decrease) in Cash and Cash Equivalents	59,186	(70,601)
Cash and cash equivalents at beginning of period	110,026	134,225
Cash and Cash Equivalents at End of Period	\$169,212	\$63,624

Supplemental Disclosures

Cash paid for interest	\$ 121,512	\$ 119,679
Non-Cash Financing Activities		
Value of shares issued through reinvestment of dividends	\$ 12,104	\$ 11,199

See notes to consolidated financial statements.

F-5

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2016 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(47)						
American Property REIT Corp.(8)	Various / Real Estate	Senior Secured Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)(6)(30)	\$51,905	\$51,905	\$51,905	1.4%
		Common Stock (318,249 shares)	—	24,382	43,170	1.3%
		Net Operating Income Interest (5% of Net Operating Income)	—	—	12,418	0.4%
				76,287	107,493	3.1%
Arctic Energy Services, LLC(9)	Wyoming / Oil & Gas Services	Class D Units (32,915 units)	—	31,639	33,116	1.0%
		Class E Units (21,080 units)	—	20,230	4,500	0.1%
		Class A Units (700 units)	—	9,006	—	—%
		Class C Units (10 units)	—	—	—	—%
			60,875	37,616	1.1%	
CCPI Inc.(10)	Ohio / Manufacturing	Senior Secured Term Loan A (10.00%, due 12/31/2017)(3)	12,425	12,425	12,425	0.4%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)(6)	9,320	9,320	9,320	0.3%
		Common Stock (14,957 shares)	—	6,636	19,108	0.5%
			28,381	40,853	1.2%	
CP Energy Services Inc.(11)	Oklahoma / Oil & Gas Services	Series B Convertible Preferred Stock (1,043 shares)	—	98,272	75,423	2.2%
		Common Stock (2,924 shares)	—	15,227	—	—%
				113,499	75,423	2.2%
Credit Central Loan Company, LLC(12)	South Carolina / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(6)(32)	36,333	36,333	36,333	1.0%
		Class A Shares (7,500,000 shares)(32)	—	11,633	12,426	0.4%
		Net Revenues Interest (25% of Net Revenues)(32)	—	—	3,627	0.1%
				47,966	52,386	1.5%
Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(4)(6)(30)	37,855	37,855	37,855	1.1%
		Membership Interest (99%)	—	19,907	19,109	0.6%
				57,762	56,964	1.7%
Edmentum Ultimate Holdings, LLC(13)	Minnesota / Consumer Services	Second Lien Revolving Credit Facility to Edmentum, Inc. – \$7,834 Commitment (5.00%, due	—	2,742	2,742	0.1%

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		6/9/2020)(33)					
		Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)(6)	6,209	6,209	6,209	0.2%	
		Unsecured Junior PIK Note (10.00% PIK, due 6/9/2020)(6)	28,131	21,632	25,092	0.7%	
		Class A Common Units (370,964.14 units)	—	6,577	6,245	0.2%	
				37,160	40,288	1.2%	
First Tower Finance Company LLC(14)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 12.00% PIK, due 6/24/2019)(6)(32)	255,249	255,249	255,249	7.5%	
		Class A Shares (86,711,625 shares)(32)	—	70,476	102,881	3.0%	
				325,725	358,130	10.5%	
Freedom Marine Solutions, LLC(15)	Louisiana / Oil & Gas Services	Membership Interest (100%)	—	40,211	26,619	0.8%	
				40,211	26,619	0.8%	

See notes to consolidated financial statements.

F-6

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2016 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(47)						
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), in non-accrual status effective 1/1/2015, due 10/12/2017)(4)(30)	\$37,379	\$33,925	\$ 9,946	0.3%
		Series A Convertible Preferred Stock (99,900 shares)	—	25,950	—	—%
			59,875	9,946		0.3%
Harbortouch Payments, LLC(16)	Pennsylvania / Business Services	Senior Secured Term Loan A (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)(3)(4)(30)	128,225	128,225	128,225	3.7%
		Senior Secured Term Loan B (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)(4)(6)(30)	144,878	144,878	144,878	4.2%
		Senior Secured Term Loan C (13.00% (LIBOR + 9.00% with 4.00% LIBOR floor), due 9/29/2018)(4)(30)	19,639	19,639	19,639	0.6%
		Class C Shares (535 shares)	—	8,689	42,938	1.3%
			301,431	335,680		9.8%
MITY, Inc.(17)	Utah / Durable Consumer Products	Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)(30)	18,250	18,250	18,250	0.5%
		Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(3)(4)(6)(30)	16,442	16,442	16,442	0.5%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(32)	7,200	7,200	5,555	0.2%
		Common Stock (42,053 shares)	—	6,849	17,376	0.5%
					48,741	57,623
National Property REIT Corp.(18)	Various / Real Estate	Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)(6)(30)	140,061	140,061	140,061	4.1%
		Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(4)(6)(30)	158,079	158,079	158,079	4.6%

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		Senior Secured Term Loan C to ACL Loan Holdings, Inc. (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(4)(6)(30)(32)	113,131	113,131	113,131	3.3%
		Common Stock (1,000,451 shares)	—	114,794	130,439	3.8%
		Net Operating Income Interest (5% of Net Operating Income)	—	—	36,833	1.1%
				526,065	578,543	16.9%
Nationwide Loan Company LLC(19)	Illinois / Consumer Finance	Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(6)(32)	16,696	16,696	16,696	0.5%
		Class A Shares (30,192,535 shares)(32)	—	16,201	17,502	0.5%
				32,897	34,198	1.0%
		Senior Secured Note (14.00%, due 5/6/2021)	3,714	3,714	3,714	0.1%
NMMB, Inc.(20)	New York / Media	Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021)	7,000	7,000	7,000	0.2%
		Series A Preferred Stock (7,200 shares)	—	7,200	2,556	0.1%
		Series B Preferred Stock (5,669 shares)	—	5,669	—	—%
				23,583	13,270	0.4%
		Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)(30)	28,622	28,622	28,622	0.8%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Common Stock (545,107 shares)	—	5,087	4,891	0.1%
		Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017)	—	1,682	1,794	0.1%
				35,391	35,307	1.0%

See notes to consolidated financial statements.

F-7

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2016 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(47)						
United Property REIT Corp.(21)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)(6)(30)	\$67,252	\$67,252	\$67,252	2.0%
		Common Stock (83,470 shares)	—	15,907	20,734	0.6%
		Net Operating Income Interest (5% of Net Operating Income)	—	—	17,646	0.5%
Valley Electric Company, Inc.(22)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)(6)(30)	10,430	10,430	10,430	0.3%
		Senior Secured Note (10.00% plus 8.50% PIK, due 12/31/2018)(6)	23,601	23,601	20,929	0.6%
		Common Stock (50,000 shares)	—	26,204	—	—%
				60,235	31,359	0.9%
Wolf Energy, LLC	Kansas / Oil & Gas Production	Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)	35,050	—	674	—%
		Membership Interest (100%)	—	—	—	—%
		Net Profits Interest (8% of Equity Distributions)(7)	—	—	19	—%
Total Control Investments				\$1,959,243	\$1,998,023	58.9%
Affiliate Investments (5.00% to 24.99% voting control)(48)						
BNN Holdings Corp.	Michigan / Healthcare	Series A Preferred Stock (9,925.455 shares)(26)	\$ —	\$2,228	\$2,904	0.1%
		Series B Preferred Stock (1,753.636 shares)(26)	—	—	623	—%
Targus International, LLC(46)	California / Durable Consumer Products	Senior Secured Term Loan A (15.00% PIK, in non-accrual status effective 10/1/15, due 12/31/2019)(27)		1,270	1,270	—%
		Senior Secured Term Loan B (15.00% PIK, in non-accrual status effective 10/1/15, due 12/31/2019)(27)		3,812	3,812	0.1%
		Common (1,262,737 shares)		—	3,479	3,479
				8,530	8,561	0.2%

Total Affiliate Investments

\$10,758 \$12,088 0.3%

See notes to consolidated financial statements.

F-8

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2016 (Unaudited)		
			Principal Cost Value	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
AFI Shareholder, LLC (f/k/a Aircraft Fasteners International, LLC)	California / Machinery	Class A Units (32,500 units)	\$ 349	\$ 482	—%
			349	482	—%
Airmall Inc.	Pennsylvania / Property Management	Escrow Receivable	—4,160	3,061	0.1%
			4,160	3,061	0.1%
Ajax Rolled Ring & Machine, LLC(42)	South Carolina / Manufacturing	Escrow Receivable(42)	—1,264	2,312	0.1%
			1,264	2,312	0.1%
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)(27)(30)	11,762	11,771	0.3%
			11,620	11,771	0.3%
American Gilsonite Company	Utah / Metal Services & Minerals	Membership Interest (1.93%)(36)	—	—	—%
			—	—	—%
Apidos CLO IX	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.56%)(24)(32)	22,629	19,490	0.6%
			20,097	19,490	0.6%
Apidos CLO XI	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.94%)(24)(32)	38,411	25,358	0.7%
			30,111	25,358	0.7%
Apidos CLO XII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.55%)(24)(32)	44,679	29,742	0.9%
			35,179	29,742	0.9%
Apidos CLO XV	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.42%)(24)(32)	36,508	24,179	0.7%
			31,908	24,179	0.7%
Apidos CLO XXII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.61%)(24)(25)(32)	32,868	24,461	0.7%
			27,868	24,461	0.7%
Arctic Glacier U.S.A., Inc.	Minnesota / Food Products	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(4)(30)	150,000	145,015	4.2%
			150,000	145,015	4.2%
			22,222	14,781	0.4%

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Ark-La-Tex Wireline Services, LLC	Louisiana / Oil & Gas Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)(4)(31)			
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)(4)(31)	23,339	—	—%
			44,561	14,781	0.4%
Armor Holding II LLC	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(4)(27)(30)	7,690	6,913	0.2%
			6,901	6,913	0.2%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit – \$7,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 8/21/2017)(4)(30)(33)	2,350	2,350	0.1%
		Senior Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)(30)	38,065	38,008	1.1%
			40,615	40,358	1.2%

See notes to consolidated financial statements.

F-9

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2016 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Babson CLO Ltd. 2014-III	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.71%)(24)(25)(32)	\$52,250	\$44,678	\$38,113	1.1%
				44,678	38,113	1.1%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan A (7.00% (LIBOR + 5.75% with 1.25% LIBOR floor), due 6/03/2021)(3)(4)(31)	121,475	121,475	121,475	3.5%
		Senior Secured Term Loan B (13.50% (LIBOR + 12.25% with 1.25% LIBOR floor), due 6/03/2021)(4)(31)	121,966	121,966	121,966	3.6%
				243,441	243,441	7.1%
Brookside Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.23%)(24)(32)	26,000	20,131	18,490	0.5%
				20,131	18,490	0.5%
Capstone Logistics Acquisition, Inc.	Georgia / Business Services	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(4)(27)(31)	102,500	101,948	98,169	2.9%
				101,948	98,169	2.9%
Cent CLO 17 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.54%)(24)(32)	24,870	19,206	16,208	0.5%
				19,206	16,208	0.5%
Cent CLO 20 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 7.58%)(24)(32)	40,275	33,574	25,023	0.7%
				33,574	25,023	0.7%
Cent CLO 21 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 7.70%)(24)(25)(32)	48,528	39,614	29,616	0.9%
				39,614	29,616	0.9%
CIFC Funding 2013-III, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.80%)(24)(32)	44,100	32,902	29,752	0.9%
				32,902	29,752	0.9%
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.45%)(24)(32)	45,500	34,078	33,278	1.0%
				34,078	33,278	1.0%
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 15.41%)(24)(25)(32)	41,500	32,303	29,486	0.9%
				32,303	29,486	0.9%
Cinedigm DC Holdings, LLC	New York / Software &	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR	66,543	66,493	66,543	1.9%

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	Computer Services	floor) plus 2.50% PIK, due 3/31/2021)(4)(6)(30)							
					66,493	66,543		1.9%	
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(4)(30)	24,500	24,500	24,500			0.7%	
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(4)(30)	25,000	25,000	25,000			0.7%	
					49,500	49,500			1.4%
		Senior Secured Term Loan A (9.13% (LIBOR + 8.70% with 0.3% LIBOR floor) plus 4.00% PIK, due 8/5/2020)(3)(4)(6)(31)	53,707	53,707	51,660				1.5%
Crosman Corporation	New York / Manufacturing	Senior Secured Term Loan B (16.13% (LIBOR + 15.70% with 0.3% LIBOR floor) plus 4.00% PIK, due 8/5/2020)(4)(6)(31)	40,920	40,920	38,396			1.1%	
					94,627	90,056			2.6%

See notes to consolidated financial statements.

F-10

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2016 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Easy Gardener Products, Inc.	Texas / Durable Consumer Products	Senior Secured Term Loan (10.63% (LIBOR + 10.00% with 0.25% LIBOR floor), due 09/30/2020)(3)(4)(30)	\$ 17,413	\$ 17,413	\$ 17,413	0.5%
			17,413	17,413		0.5%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)(27)	15,700	15,602	15,700	0.5%
				15,602	15,700	0.5%
Fleetwash, Inc.	New Jersey / Business Services	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)(3)(4)(30) Delayed Draw Term Loan – \$15,000 Commitment (expires 4/30/2019)(4)(33)	24,446	24,446	24,117	0.7%
			—	—	(202)	—%
				24,446	23,915	0.7%
Focus Brands, Inc.	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)(4)(27)(31)	18,000	17,862	18,000	0.5%
				17,862	18,000	0.5%
Galaxy XV CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.15%)(24)(32)	39,275	29,195	29,001	0.8%
				29,195	29,001	0.8%
Galaxy XVI CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.96%)(24)(32)	24,575	19,420	18,092	0.5%
				19,420	18,092	0.5%
Galaxy XVII CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.67%)(24)(25)(32)	39,905	31,376	29,034	0.8%
				31,376	29,034	0.8%
Global Employment Solutions, Inc.	Colorado / Business Services	Senior Secured Term Loan (10.25% (LIBOR + 9.25% with 1.00% LIBOR floor), due 6/26/2020)(3)(4)(31)	49,379	49,379	48,893	1.4%
				49,379	48,893	1.4%
Halcyon Loan Advisors Funding 2012-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 21.06%)(24)(32)	23,188	18,672	18,969	0.6%

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			18,672	18,969	0.6%
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 23.80%)(24)(32)	40,400	32,563 33,415	1.0%
				32,563 33,415	1.0%
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.25%)(24)(32)	24,500	18,853 17,435	0.5%
				18,853 17,435	0.5%
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 20.67%)(24)(25)(32)	41,164	31,691 31,344	0.9%
				31,691 31,344	0.9%
Halcyon Loan Advisors Funding 2015-3 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.00%)(24)(25)(32)	39,598	40,552 38,102	1.1%
				40,552 38,102	1.1%
HarbourView CLO VII, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.12%)(24)(25)(32)	19,025	14,516 12,179	0.4%
				14,516 12,179	0.4%
Harley Marine Services, Inc.	Washington / Transportation	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(4)(27)(30)	9,000	8,878 8,878	0.3%
				8,878 8,878	0.3%
Hollander Sleep Products, LLC	Florida / Durable Consumer Products	Senior Secured Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 10/21/2020)(3)(4)(30)	22,275	22,275 21,396	0.6%
				22,275 21,396	0.6%

See notes to consolidated financial statements.

F-11

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2016 (Unaudited)		
			Principal Cost Value	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
ICV-CAS Holdings, LLC	New York / Transportation	Escrow Receivable	\$—	\$ 58	—%
			—	58	—%
		Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(4)(30)	115,442	115,442	3.4%
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(4)(30)	150,000	150,000	4.3%
Instant Web, LLC	Minnesota / Media	Senior Secured Term Loan C (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(4)(30)	270,000	270,000	0.8%
		Delayed Draw Term Loan – \$16,000 Commitment (expires 5/29/2016)(33)	—	—	—%
			292,542	292,542	8.5%
		Senior Secured Term Loan A (6.25% (LIBOR + 5.50% with 0.75% LIBOR floor), due 8/3/2017)(4)(31)	79,759	79,759	2.3%
InterDent, Inc.	California / Healthcare	Senior Secured Term Loan B (11.25% (LIBOR + 10.50% with 0.75% LIBOR floor), due 8/3/2017)(3)(4)(31)	131,252	129,979	3.8%
			210,882	209,738	6.1%
JAC Holding Corporation	Michigan / Transportation	Senior Secured Note (11.50%, due 10/1/2019)(27)	2,868	2,777	0.1%
			2,868	2,777	0.1%
Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.40%)(24)(25)(32)	19,692	15,241	0.4%
			16,925	12,241	0.4%
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor) plus 0.50% PIK, due 3/30/2019)(3)(4)(6)(30)	35,432	235,432	1.0%
			35,432	235,432	1.0%
LaserShip, Inc.	Virginia / Transportation	Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 2.00% PIK, due 3/18/2019)(4)(6)(31)	34,672	29,495	0.9%
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 2.00%	22,251	18,095	0.5%

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PIK, due 3/18/2019)(3)(4)(6)(31)

			55,874,475.90	1.4%
LCM XIV Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 17.71%)(24)(32)	30,505,622.25	0.6%
			23,256,225	0.6%
Madison Park Funding IX, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 20.38%)(24)(32)	32,107,236.70	0.7%
			22,617	