PROSPECT CAPITAL CORP
Form 497
April 05, 2017

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

SUBJECT TO COMPLETION DATED APRIL 5, 2017

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated November 3, 2016)
$]

Prospect Capital Corporation
% Convertible Notes due 2022
This is an offering by Prospect Capital Corporation of $ aggregate principal amount of its % Convertible Notes due 2022 (the "Notes"). The Notes will be convertible, at your option, into shares of our common stock initially at a conversion rate of shares per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $ per share), subject to adjustment as described in this prospectus supplement, at any time on or prior to the close of business on the business day immediately preceding the maturity date.
In the case of Notes that are converted in connection with certain types of fundamental changes, we will, in certain circumstances, increase the conversion rate by a number of additional shares.
We may not redeem the Notes prior to April 15, 2022. On or after April 15, 2022, we may redeem the Notes for cash, in whole or from time to time in part, at our option at a redemption price equal to the sum of (i) 100% of the principal amount of the Notes to be redeemed, (ii) accrued and unpaid interest thereon to, but excluding, the redemption date and (iii) the make whole premium, each as further discussed in "Description of the Notes-Redemption During Final Three Month Term of the Notes." No sinking fund will be provided for the Notes.
The Notes will bear interest at a rate of % per year, payable on January 15 and July 15 of each year, commencing July 15, 2017. The Notes will mature on July 15, 2022, unless earlier converted, repurchased or redeemed.
You may require us to repurchase all or a portion of your Notes upon a fundamental change at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date. See "Description of the Notes - Fundamental Change Put."
The Notes will be among our senior unsecured obligations. As of April 4, 2017, we and our subsidiaries had approximately $2.7 billion of unsecured senior indebtedness outstanding, and as our credit facility was undrawn, no secured indebtedness outstanding.
Our common stock is listed on The Nasdaq Global Select Market under the symbol "PSEC." The last reported sale price of our common stock on April 4, 2017 was $9.15 per share. Our most recently estimated NAV per share is $9.62 on an as adjusted basis solely to give effect to our issuance of common stock since December 31, 2016 in connection with our dividend reinvestment plan, consistent with the $9.62 determined by us as of December 31, 2016.
We do not intend to apply for listing of the Notes on any securities exchange or for inclusion of the Notes in any automated quotation system.

Investing in the Notes involves certain risks, including those described in the "Risk Factors" section beginning on page S-11 of this prospectus supplement and page 10 of the accompanying prospectus.

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

(1) Plus accrued and unpaid interest, if any, from April , 2017.

(2) Expenses payable by us related to this offering are estimated to be $500,000.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it 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. Any representation to the contrary is a criminal offense.

Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

Goldman, Sachs & Co. expects to deliver the Notes on or about April , 2017.

Goldman, Sachs & Co.

Prospectus Supplement dated April , 2017.

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,” “proje “seeks,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable future,” “believe,” “believe “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, 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

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(s) or dealer(s) 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 agents are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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PROSPECTUS SUMMARY

This section summarizes the legal and financial terms of the Notes that are described in more detail in "Description of the Notes" beginning on page S-18. It does not contain all the information that may be important to an investor. For a more complete understanding of this offering, we encourage you to read the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus.

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

Our $129.5 million aggregate principal amount of 5.375% Senior Convertible Notes due 2017 are referred to as the ''2017 Notes.'' Our $200.0 million aggregate principal amount of 5.75% Senior Convertible Notes due 2018 are referred to as the ''2018 Notes.'' Our $200.0 million aggregate principal amount of 5.875% Senior Convertible Notes due 2019 are referred to as the ''2019 Notes.'' Our $392.0 million aggregate principal amount of 4.75% Senior Convertible Notes due 2020 are referred to as the ''2020 Notes,'' and collectively with the 2017 Notes, the 2018 Notes and the 2019 Notes, the ''Senior Convertible Notes.'' Our $300 million aggregate principal amount of 5.00% Senior Notes due 2019 are referred to as the ''5.00% 2019 Notes.'' Our $250.0 million aggregate principal amount of 5.875% Senior Notes due 2023 are referred to as the ''2023 Notes.'' Our $199.3 million aggregate principal amount of 6.25% Notes due 2024 are referred to as the ''2024 Notes,'' and collectively with the 5.00% 2019 Notes and the 2023 Notes, the ''Public Notes.'' Any Prospect Capital InterNotes® issued pursuant to our medium term notes program are referred to as the ''Prospect Capital InterNotes.'' The Senior Convertible Notes, the Public Notes and the Prospect Capital InterNotes are referred to as the ''Unsecured Notes.''

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 December 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 strategies that guide our origination of investment opportunities: (1) lending to companies controlled by private equity sponsors, (2) lending to companies not controlled by private equity sponsors, (3) purchasing control equity and lending to operating companies, (4) purchasing control equity and lending to financial services companies, (5) investing in structured credit, (6) investing in real estate, (7) investing in syndicated debt, (8) investing in online loans and (9) aircraft leasing. We may also invest in other strategies and opportunities from time to time that we view as attractive. We continue to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

Lending to Companies Controlled by Private Equity Sponsors - We make agented loans to companies which are controlled by private equity sponsors. This debt can take the form of first lien, second lien, unitranche or unsecured loans. These loans typically have equity subordinate to our loan position. Historically, this strategy has comprised approximately 40%-60% of our portfolio.

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Lending to Companies not Controlled by Private Equity Sponsors - We make loans to companies which are not controlled by private equity sponsors, such as companies that are controlled by the management team, the founder, a family or public shareholders. This origination strategy may have less competition to provide debt financing than the private-equity-sponsor origination strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. This origination strategy can result in investments with higher returns or lower leverage than the private-equity-sponsor origination strategy. Historically, this strategy has comprised up to approximately 15% of our portfolio.

Purchasing Control Equity and Lending to Operating Companies - This strategy involves purchasing yield-producing debt and control equity in non-financial-services operating companies. We can provide enhanced certainty of closure and liquidity to sellers and we look for management to continue on in their current roles. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Control Equity and Lending to Financial Services Companies - This strategy involves purchasing yield-producing debt and control equity investments in financial services companies, including consumer direct lending, sub-prime auto lending and other strategies. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 5%-15% of our portfolio.

Investing in Structured Credit - We make investments in CLOs, often 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, or consumer-based credit assets. The CLOs in which we invest generally are managed by established collateral management teams with many years of experience in the industry. This strategy has comprised approximately 10%-20% of our portfolio.

Investing in Real Estate - We make investments in real estate through our wholly-owned tax-efficient real estate investment trust (“REIT”) National Property REIT Corp. (“NPRC”), the surviving entity of the May 23, 2016 merger with American Property REIT Corp. (“APRC”) and United Property REIT Corp. (“UPRC”). Our real estate investments are in various classes of significantly developed and occupied real estate properties that generate current yields, including multi-family properties, student housing, and self-storage. We seek to identify properties that have historically significant occupancy and recurring cash flow generation. NPRC generally co-invests with established and experienced property management teams that manage such properties after acquisition. This investment strategy has comprised approximately 5%-10% of our business.

Investing in Syndicated Debt - On a primary or secondary basis, we purchase primarily senior and secured loans and high yield bonds that have been sold to a club or syndicate of buyers. These investments are often purchased with a long term, buy-and-hold outlook, and we often look to provide significant input to the transaction by providing anchoring orders. This strategy has comprised approximately 5%-10% of our portfolio.

Investing in Online Loans - We purchase loans originated by certain consumer loan and small-and-medium-sized business (“SME”) loan facilitators. We generally purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the facilitators of the loans. This investment strategy has comprised up to approximately 10% of our portfolio.

Aircraft Leasing - We invest in debt as well as equity in aircraft assets subject to commercial leases to airlines across the globe. These investments can present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset residual value. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across a variety of aircraft types and vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines. This strategy historically has comprised less than 5% of our portfolio.

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, which is generally equity in the holding company, the holding company's equity investment in the operating company and any debt from us directly to the operating company structure represents our total exposure for the investment. As of December 31, 2016, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies were each $1.9 billion. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus supplement. We consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There is no significant effect 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 December 31, 2016, we had investments in 123 portfolio companies. The aggregate fair value as of December 31, 2016 of investments in these portfolio companies held on that date is approximately $5.9 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 13.2% as of December 31, 2016.

Recent Developments

Recent Investment Activity

On January 17, 2017, we invested an additional $8.0 million of Senior Secured Term Loan A and $8.0 million of Senior Secured Term Loan B debt investments in MITY, Inc., to fund an acquisition.

On January 17, 2017, we made a $68.0 million of Senior Secured Term Loan A and $68.0 million of Senior Secured Term Loan B debt investments in Centerfield Media Holdings, LLC, a provider of customer acquisition and conversion services, to support an acquisition and refinancing of existing debt.

On January 31, 2017, we made a $20.0 million of Senior Secured Term Loan A and $20.0 million of Senior Secured Term Loan B debt investments in Traeger Pellet Grills LLC, to fund a recapitalization of the company.

On February 1, 2017, we made a $10.0 million second lien senior secured debt investment in CURO Financial Technologies Corp., to support a refinancing.

On February 7, 2017, we received a partial repayment of $17.9 million of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and $3.2 million as a return of capital on our equity investment in NPRC.

On February 17, 2017, we made a $14.5 million second lien secured investment in Turning Point Brands, Inc., a provider of other tobacco products.

On February 23, 2017, SESAC Holdco II LLC repaid the $10.0 million loan receivable to us.

On February 24, 2017, we made an additional $33.0 million of Senior Secured Term Loan A and $7.0 million of Senior Secured Term Loan B debt investment in Matrixx Initiatives, Inc. to fund a dividend recapitalization.

On February 28, 2017, Generation Brands Holdings, Inc. (''Generation Brands'') repaid the $19.0 million loan receivable to us.

On March 8, 2017, we made a $20.0 million second lien secured investment to support Generation Brand's refinancing and acquisition of VC GB Holdings II Corp.

On March 16, 2017, we made a first lien senior secured investment of $38.0 million to support the recapitalization of Memorial MRI & Diagnostic, L.L.C., a provider of multi-modality diagnostic imaging and pain management services.

On March 17, 2017, CURO Group Holdings Corp (f/k/a Speedy Cash Holdings Corp.) repaid the $25.0 million loan receivable to us.

On March 20, 2017, Arctic Glacier U.S.A, Inc. repaid the $150.0 million loan receivable to us.

On March 28, 2017, we made a $15.0 million of Senior Secured Term Loan A and $15.0 million of Senior Secured Term Loan B debt investment to support an acquisition of EZShield, Parent Inc., a provider of fraud and identify theft protection services.
On March 31, 2017, ALG USA Holdings, LLC repaid the $11.8 million loan receivable to us.

Debt and Equity

During the period from January 1, 2017 through March 31, 2017 we issued $44.5 million aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $43.9 million. In addition, we sold $8.0 million aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $7.9 million with expected closing on April 6, 2017.

Dividends

On February 7, 2017, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.08333 per share for February 2017 to holders of record on February 28, 2017 with a payment date of March 23, 2017.
- $0.08333 per share for March 2017 to holders of record on March 31, 2017 with a payment date of April 20, 2017.
- $0.08333 per share for April 2017 to holders of record on April 28, 2017 with a payment date of May 18, 2017.

The Offering	
Issuer	Prospect Capital Corporation
Securities Offered	$ million aggregate principal amount of % Convertible Notes due 2022, which we refer to as Notes.
Price at Issuance	%
Maturity	July 15, 2022, unless earlier converted, repurchased or redeemed.
Interest Rate	% per year. Interest will be payable in cash on January 15, and July 15 of each year, beginning July 15, 2017.
Ranking	The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future senior, unsecured indebtedness (including the Unsecured Notes) 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 consolidated subsidiary. As of April 4, 2017, we and our subsidiaries had approximately $2.7 billion of unsecured senior indebtedness outstanding, and as our credit facility was undrawn, no secured indebtedness outstanding.
Redemption During Final Three Month Term of the Notes	We may not redeem the Notes prior to April 15, 2022. On or after April 15, 2022, we may redeem the Notes for cash, in whole or from time to time in part, at our option at a redemption price equal to the sum of (i) 100% of the principal amount of the Notes to be redeemed, (ii) accrued and unpaid interest (including additional interest, if any) to, but excluding, the redemption date and (iii) the make whole premium. We will give notice of any redemption not less than 10 nor more than 30 calendar days before the redemption date by mail or electronic delivery to the trustee, the paying agent and each holder of Notes. See "Description of the Notes-Redemption During Final Three Month Term of the Notes." No sinking fund will be provided for the Notes, which means that we are not required to redeem or retire the Notes periodically.
Conversion Rights	You may convert your Notes into shares of our common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date. The Notes will be convertible at an initial conversion rate of shares of common stock per $1,000 principal amount of the Notes (equivalent to an initial conversion price of approximately $ per share). The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described under "Description of the Notes - Conversion Rights - Conversion Rate Adjustments." Upon any conversion, unless you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive a cash payment representing accrued and unpaid interest to, but not including, the conversion date. See "Description of the Notes - Conversion Rights."
Limitation on Beneficial Ownership	Notwithstanding the foregoing, no holder of 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 Exchange Act and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time (the "Limitation"). Any purported delivery of shares of our common stock upon conversion of Notes shall be void and have no effect to the extent (but only to the extent) that such delivery would result in the converting holder becoming the beneficial owner of more than 5.0% of the shares of common stock outstanding at such time. If any delivery of shares of our common stock owed to a holder upon conversion of Notes is not made, in whole or in part, as a result of the Limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more

than 5.0% of the shares of common stock outstanding at such time. The Limitation shall no longer apply following the effective date of any Fundamental Change, as defined in "Description of the Notes - Fundamental Change Put."

Adjustment to Conversion Rate Upon a Non Stock Change of Control	If and only to the extent holders elect to convert the Notes in connection with a transaction described under clause (1), (3) (without reference to the third bullet thereunder) or (4) of the definition of fundamental change as described in "Description of the Notes - Fundamental Change Put" pursuant to which 10% or more of the consideration for our common stock (other than cash payments for fractional shares and cash payments made in respect of dissenters' appraisal rights) consists of cash or securities (or other property) that are not shares of common stock traded or scheduled to be traded immediately following such transaction on the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or their respective successors), which we refer to as a "non stock change of control," we will increase the conversion rate by a number of additional shares determined by reference to the table in "Description of the Notes - Conversion Rights - Adjustment to Conversion Rate Upon a Non Stock Change of Control," based on the effective date and the price paid per share of our common stock in such non stock change of control. If the price paid per share of our common stock in a non stock change of control is less than $ or more than $ (subject to adjustment), there will be no such adjustment. If holders of our common stock receive only cash in the type of transaction described above, the price paid per share will be the cash amount paid per share. Otherwise, the stock price shall be the average of the last reported sale prices of our common stock over the five trading day period ending on, and including, the trading day immediately preceding the effective date of the non stock change of control.
Fundamental Change Repurchase Right of Holders	If we undergo a fundamental change (as defined in this prospectus supplement) prior to maturity, you will have the right, at your option, to require us to repurchase for cash some or all of your Notes at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. See "Description of the Notes - Fundamental Change Put."
Events of Default	If an event of default on the Notes occurs, the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the indenture (as defined in this prospectus supplement). These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving the Company.
Absence of a Public Market for the Notes	The Notes will be a new issue of securities. We cannot assure you that any active or liquid market will develop for the Notes. See "Plan of Distribution."
The NASDAQ Global Select Market Symbol for Our Common Stock	Our common stock is traded on the NASDAQ Global Select Market under the symbol "PSEC."
Trustee, Paying Agent and Conversion Agent	U.S. Bank National Association
Use of Proceeds	We estimate that the net proceeds from this offering will be approximately $ million after deducting fees and estimated offering expenses of approximately $500,000 payable by us. We expect to use a portion of the net proceeds from the sale of the Notes to repurchase from time to time a portion of our 2017 Notes and 2018 Notes. We intend to use the remainder of the net proceeds of the offering to invest in high quality short term debt investments, and/or to make long term investments in accordance with our investment objective. See "Use of Proceeds."
U.S. Federal Income Tax Considerations	You should consult your tax advisor with respect to the U.S. federal income tax consequences of the holding, disposition or conversion of the Notes and with respect to any tax consequences arising under the laws of any state, local, foreign or other taxing jurisdiction. See "Supplement to Material U.S. Federal Income Tax Considerations" and "Material U.S. Federal Income Tax Considerations" in

this prospectus supplement and the accompanying prospectus.

FEES AND EXPENSES

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly on an as converted basis. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed $3.5 billion. Except where the context suggests otherwise, whenever this prospectus supplement or the accompanying prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:		
Sales load (as a percentage of offering price)[1]		%
Offering expenses borne by us (as a percentage of offering price)[2]	%	
Dividend reinvestment plan expenses[3]	None	
Total stockholder transaction expenses (as a percentage of offering price)		%
Annual expenses (as a percentage of net assets attributable to common stock)[4]:		
Management Fees[5]	4.05	%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre incentive fee net investment income)[6]	2.36%	
Total advisory fees	6.41	%
Total interest expense (other than the Notes offered hereby)[7]	5.22%	
Interest payments on the Notes offered hereby		%
Acquired Fund Fees and Expenses[8]	0.01%	
Other expenses[9]	0.86%	
Total annual expenses[6][9]		%

(1) Represents the commission with respect to our Notes being sold in this offering, which we will pay to the underwriter in connection with sales of Notes effected by the underwriter in this offering.

(2) The expenses of this offering are estimated to be approximately $500,000.

(3) The expenses of the dividend reinvestment plan are included in "other expenses."

(4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at December 31, 2016. See "Capitalization" in this prospectus supplement.

(5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non investment purposes, for which purpose we have not borrowed and have no intention of borrowing). Although we have no intent to borrow the entire amount available under our line of credit, assuming that we borrowed $3.5 billion, the 2% management fee of gross assets equals approximately 4.05% of net assets. Based on our borrowings as of April 4, 2017 of $2.7 billion, the 2% management fee of gross assets equals approximately 3.55% of net assets. See "Business - Management Services - Investment Advisory Agreement" in the accompanying prospectus and footnote 6 below.

(6) Based on an annualized incentive fee paid during our six months ended December 31, 2016, all of which consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre incentive fee income. For a more detailed discussion of the calculation of the two part incentive fee, see "Business - Management Services - Investment Advisory Agreement" in the accompanying prospectus.

(7) As of April 4, 2017, we have $2.7 billion outstanding of our Unsecured Notes in various maturities, ranging from April 15, 2017 to October 15, 2043, and interest rates, ranging from 3.375% to 7.00%, some of which are convertible into shares of our common stock at various conversion rates. See "Business - Convertible Notes, Business - Public Notes," "Business - Prospect Capital InterNotes®," and "Risk Factors - Risks Related to Our Business" in the accompanying prospectus for more details on the Unsecured Notes.

(8) Our stockholders indirectly bear the expenses of underlying investment companies in which we invest. This amount includes the fees and expenses of investment companies in which we are invested in as of December 31, 2016. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of our average net assets used in calculating this percentage was based on net assets of approximately $3.45 billion as of December 31, 2016.

(9) "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our six months ended December 31, 2016 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from its operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the "Administration Agreement," based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non recurring expenses. See "Business - Management Services - Administration Agreement" in the accompanying prospectus.

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed $3.5 billion, that its annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above. You would pay the following expenses on a $1,000 investment, assuming a 5% annual return:

	1 Years	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return[1]	$	$	$	$
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return[2]	$	$	$	$

(1) Assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation

(2) Assumes no unrealized capital depreciation and 5% annual return resulting entirely from net realized capital gains (and therefore subject to the capital gains incentive fee).

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash dividend, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See "Dividend Reinvestment and Direct Stock Purchase Plan" in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

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, 2016, 2015, 2014, 2013 and 2012 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 six months ended December 31, 2016 and 2015 has been derived from unaudited financial data. Interim results for the three and six months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2017. 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" for more information.

	For the Three Months Ended December 31,		For the Six Months Ended December 31,		For the Year Ended June 30,			
	2016	2015	2016	2015	2016	2015	2014	2013
	(in thousands except data relating to shares, per share and number of portfolio companies)							
Performance Data:								
Interest income	$174,791	$186,503	$346,441	$377,806	$731,618	$748,974	$613,741	$435
Dividend income	1,379	13,546	3,763	16,761	26,501	7,663	26,837	82,7
Other income	7,310	9,142	13,108	14,875	33,854	34,447	71,713	58,1
Total investment income	183,480	209,191	363,312	409,442	791,973	791,084	712,291	576,
Interest and credit facility expenses	(40,848)	(42,205)	(82,517)	(84,162)	(219,305)	(170,660)	(130,103)	(76,3
Investment advisory expense	(51,987)	(57,005)	(102,509)	(112,769)	(167,719)	(225,277)	(198,296)	(151
Other expenses	(6,240)	(9,088)	(14,962)	(20,376)	(33,821)	(32,400)	(26,669)	(24,0
Total expenses	(99,075)	(108,298)	(199,988)	(217,307)	(420,845)	(428,337)	(355,068)	(251
Net investment income	84,405	100,893	163,324	192,135	371,128	362,747	357,223	324,
Realized and unrealized (losses) gains	16,475	(196,013)	18,922	(259,438)	(267,766)	(16,408)	(38,203)	(104
Net increase (decrease) in net assets from operations	$100,880	$(95,120)	$182,246	$(67,303)	$103,362	$346,339	$319,020	$220
Per Share Data:								
Net increase (decrease) in net assets from operations(1)	$0.28	$(0.27)	$0.51	$(0.19)	$0.29	$0.98	$1.06	$1.0
Distributions declared per share	$(0.25)	$(0.25)	$(0.50)	$(0.50)	$(1.00)	$(1.19)	$(1.32)	$(1.
	358,494,783	355,241,104	358,011,031	356,101,673	356,134,297	353,648,522	300,283,941	207,

Average weighted shares outstanding for the period								
Assets and Liabilities Data:								
Investments	$5,936,999	$6,179,670	$5,936,999	$6,179,670	5,897,708	$6,609,558	$6,253,739	$4,1
Other assets(4)	241,149	105,607	241,149	105,607	338,473	144,356	166,520	237,
Total assets(4)	6,178,148	6,285,277	6,178,148	6,285,277	6,236,181	6,753,914	6,420,259	4,41
Amount drawn on credit facility	—	58,000	—	58,000	—	368,700	92,000	124,
Convertible notes(4)	909,505	1,071,838	909,505	1,071,838	1,074,361	1,218,226	1,219,676	827,
Public notes(4)	737,311	697,102	737,311	697,102	699,368	541,490	637,584	340,
InterNotes®(4)	947,172	877,781	947,172	877,781	893,210	811,180	766,781	353,
Amount owed to Prospect Administration and Prospect Capital Management	55,222	65,030	55,222	65,030	55,914	6,788	2,211	6,69
Other liabilities	74,342	84,099	74,342	84,099	77,411	104,481	83,825	102,
Total liabilities(4)	2,723,552	2,853,850	2,723,552	2,853,850	2,800,264	3,050,865	2,802,077	1,75
Net assets	$3,454,596	$3,431,427	$3,454,596	$3,431,427	3,435,917	$3,703,049	$3,618,182	$2,6
Investment Activity Data:								
No. of portfolio companies at period end	123	130	123	130	125	131	142	124
Acquisitions	$469,537	$316,145	$816,687	$661,888	$979,102	$1,867,477	$2,933,365	$3,1
Sales, repayments, and other disposals	$644,995	$354,855	$759,326	$791,774	$1,338,875	$1,411,562	$767,978	$93
Total return based on market value(2)	6.3 %	1.3 %	13.5 %	1.3 %	21.8 %	(20.8)%	10.9 %	6.2
Total return based on net asset value(2)	3.3 %	(1.9)%	6.3 %	0.1 %	7.2 %	11.5 %	11.0 %	10.9
Weighted average annualized yield at end of period(3)	13.2 %	13.3 %	13.2 %	13.3 %	13.2 %	12.7 %	12.1 %	13.6

(1) Per share data is based on the weighted average number of common shares outstanding for the period presented (except for dividends to shareholders which is based on actual rate per share).

(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 a period less than one year, the return is not annualized.

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

(4) We have changed our method of presentation relating to debt issuance costs in accordance with ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). Unamortized deferred financing costs of $40,526, $44,140, $57,010, $37,607, and $15,693 previously reported as an asset on the Consolidated Statements of Assets and Liabilities as of June 30, 2016, 2015, 2014, 2013, and 2012, respectively, and $45,095 as of December 31, 2015 have been reclassified as a direct deduction to the respective Unsecured Notes. See Critical Accounting Policies and Estimates for further discussion.

RISK FACTORS

Investing in our Notes involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus supplement and the accompanying prospectus , before you decide whether to make an investment in the Notes. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value, or NAV, and the value of the Notes and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to the Notes

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 April 4, 2017, we and our subsidiaries 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 substantially 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 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 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 the Notes, 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.

An increase in market interest rates could result in a decrease in the market value of the Notes.

The condition of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market prices of the Notes. In general, as market interest rates rise, debt securities bearing interest at fixed rates of interest decline in value. Consequently, if you purchase notes bearing interest at fixed rates of interest and market interest rates increase, the market values of those notes may decline. We cannot predict the future level of market interest rates.

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 subsidiary, and are due after our other outstanding notes.

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 senior indebtedness, including without limitation, the Unsecured Notes. 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 April 4, 2017, we did not have any outstanding borrowings under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the Notes to the extent of the value of such assets.

Each of the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes and the 2020 Notes will be due prior to the maturity of the Notes. We do not currently know whether we will be able to replace any of the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes and the 2020 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 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes and the 2020 Notes 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 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 - Fundamental Change Put." Similarly, we will only be required to adjust the conversion rate upon the occurrence of a "non stock change of control" in circumstances where a Note is converted in connection with such a transaction as set forth under "Description of the Notes - Conversion Rights - Adjustment to Conversion Rate Upon a Non Stock Change of Control."

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 and our common stock but would not constitute a fundamental change or a non stock change of control under the Notes.

The conversion rate of the Notes may not be adjusted for all dilutive events that may adversely affect the trading price of the Notes or the common stock issuable upon conversion of the Notes.

The conversion rate of the Notes is subject to adjustment upon certain events, including the issuance of certain stock dividends on our common stock, certain issuance of rights or warrants, subdivisions, combinations, certain distributions of capital stock, indebtedness or assets, certain cash dividends and certain issuer tender or exchange offers as described under "Description of the Notes - Conversion Rights - Conversion Rate Adjustments." The conversion rate will not be adjusted for certain other events, including cash dividends below the dividend threshold

amount (as defined clause (4) of "Description of the Notes - Conversion Rights - Conversion Rate Adjustments"), that may adversely affect the trading price of the Notes or the common stock issuable upon conversion of the Notes.

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

Holders of the Notes have the right to require us to repurchase their Notes prior to their maturity upon the occurrence of a fundamental change as described under "Description of the Notes - Fundamental Change Put." 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, 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 $1,000. We may also be required to increase the conversion rate or provide for conversion into the acquirer's capital stock in the event of certain fundamental changes constituting a non stock change of control. These provisions could discourage an acquisition of us by a third party.

The adjustment to the conversion rate upon the occurrence of certain types of fundamental changes may not adequately compensate you for the lost option time value of your Notes as a result of such fundamental change.

If certain types of fundamental changes constituting a non stock change of control occur on or prior to the maturity date of the Notes, we may increase the conversion rate by an additional number of shares for holders that elect to convert their Notes in connection with the non stock change of control. The number of additional shares to be added to the conversion rate will be determined based on the date on which a non stock change of control becomes effective and the price paid per share of our common stock in the non stock change of control as described under "Description of the Notes - Conversion Rights - Adjustment to Conversion Rate Upon a Non Stock Change of Control." Although this adjustment is designed to compensate you for the lost option value of your Notes as a result of a non stock change of control, the adjustment is only an approximation of such lost value based upon assumptions made on the date of this prospectus supplement and may not adequately compensate you for such loss. In addition, if the price paid per share of our common stock in the non stock change of control is less than $ or more than $ (subject to adjustment), there will be no such adjustment.

There is currently no public market for the Notes, and an active trading market may not develop for the Notes. The failure of a market to develop for the Notes could adversely affect the liquidity and value of your Notes.

The Notes are a new issue of securities, and there is no existing market for the Notes. We do not intend to apply for listing of the Notes on any securities exchange or for quotation of the Notes on any automated dealer quotation system. We have been advised by the underwriter that following the completion of the offering, the underwriter currently intends to make a market in the Notes. However, the underwriter is not obligated to do so, and any market making activities with respect to the Notes may be discontinued by it at any time without notice. In addition, any market making activity will be subject to limits imposed by law. A market may not develop for the Notes, and there can be no assurance as to the liquidity of any market that may develop for the Notes. If an active, liquid market does not develop for the Notes, the market price and liquidity of the Notes may be adversely affected. If any of the Notes are traded after their initial issuance, they may trade at a discount from their initial discounted offering price.

The liquidity of the trading market, if any, and the future trading prices of the Notes will depend on many factors, including, among other things, the market price of our common stock, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the Notes will be subject to disruptions which may have a negative effect on the holders of the Notes, regardless of our operating results, financial performance or prospects.

Regulatory actions and the inability of investors in the Notes to borrow our common stock may adversely affect the trading price and liquidity of the Notes.

We expect that many investors in, and potential purchasers of, the Notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the Notes. Investors would typically implement this strategy by selling short the common stock underlying the Notes and dynamically adjusting their short position while they hold the Notes. Investors may also implement this strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock.

The SEC and other regulatory and self regulatory authorities have implemented various rules and may adopt additional rules in the future that may impact those engaging in short selling activity involving equity securities (including our common stock), including Rule 201 of SEC regulation SHO, the Financial Industry Regulatory Authority, Inc.'s "Limit Up Limit Down" program, market wide circuit breaker systems that halt trading of securities for certain periods following specific market declines, and rules stemming from the implementation of the Dodd Frank Wall Street Reform and Consumer Protection Act. Past regulatory actions, including emergency actions or regulations have had a significant impact on the trading prices and liquidity of equity linked instruments. Any governmental action that similarly restricts the ability of investors in, or potential purchasers of, the Notes to effect short sales of our common stock or enter into swaps on our common stock could similarly adversely affect the trading price and the liquidity of the Notes.

In addition, if investors and potential purchasers seeking to employ a convertible arbitrage strategy are unable to borrow or enter into swaps on our common stock, in each case on commercially reasonable terms, the trading price and liquidity of the Notes may be adversely effected.

The accounting for convertible debt securities is subject to uncertainty.

The accounting for convertible debt securities is subject to frequent scrutiny by the accounting regulatory bodies and is subject to change. We cannot predict if or when any such change could be made and any such change could have an adverse impact on our reported or future financial results. Any such impacts could adversely affect the market price of our common stock and in turn negatively impact the trading price of the Notes.

The price of our common stock and of the Notes may fluctuate significantly, and this may make it difficult for you to resell the Notes or common stock issuable upon conversion of the Notes when you want or at prices you find attractive.

The price of our common stock on The NASDAQ Global Select Market constantly changes. We expect that the market price of our common stock will continue to fluctuate. In addition, because the Notes are convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the Notes.

Our stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly variations in our investment results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity related securities;
- changes in general conditions in our industry and in the economy and the financial markets; and

- departures of key personnel.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, regardless of our operating results.

Future sales of our common stock in the public market or the issuance of securities senior to our common stock could adversely affect the trading price of our common stock and the value of the Notes and our ability to raise funds in new stock offerings.

Future sales of substantial amounts of our common stock or equity related securities in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and the value of the Notes and could impair our ability to raise capital through future offerings of equity or equity related securities. Upon completion of this offering, we may not, unless otherwise agreed to by the underwriter, commence any sales of shares of our common stock until 30 days following the date of this prospectus supplement. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale, will have on the trading price of our common stock or the value of the Notes.

Holders of the Notes will not be entitled to any rights with respect to our common stock, but will be subject to all changes made with respect to our common stock.

Holders of the Notes will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights or rights to receive any dividends or other distributions on our common stock), but will be subject to all changes affecting our common stock. Holders will only be entitled to rights in respect of our common stock if and when we deliver shares of our common stock upon conversion for their Notes and, to a limited extent, under the conversion rate adjustments applicable to the Notes. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to a holder's conversion of Notes, the holder will not be entitled to vote on the amendment, although the holder will nevertheless be subject to any changes in the powers, preferences or rights of our common stock that result from such amendment.

The Notes may be issued with original issue discount for U.S. federal income tax purposes.

The Notes will be issued with original issue discount ("OID") for U.S. federal income tax purposes if the difference between their stated principal amount and their "issue price" (the first price at which a substantial amount of the Notes is sold for cash, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) exceeds a statutorily defined de minimis threshold. If the Notes are issued with OID, a U.S. Holder (as defined in "Supplement to Material U.S. Federal Income Tax Considerations"), as well as a Non U.S. Holder (as defined in "Supplement to Material U.S. Federal Income Tax Considerations") that is subject to U.S. federal income taxation on a net basis, generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such holder's regular method of tax accounting. See "Supplement to Material U.S. Federal Income Tax Considerations."

You may be deemed to receive a taxable distribution without the receipt of any cash or property.

The conversion rate of the Notes will be adjusted in certain circumstances. See the discussion under the headings "Description of the Notes - Conversion Rights - Conversion Rate Adjustments" and "- Adjustment to Conversion Rate Upon a Non Stock Change of Control." Adjustments to the conversion rate of the Notes that have the effect of increasing your proportionate interest in our assets or earnings may in some circumstances result in a taxable constructive distribution to you for U.S. federal income tax purposes, notwithstanding the fact that you do not receive an actual distribution of cash or property. In addition, if you are a Non U.S. Holder, you may be subject to U.S. federal withholding taxes in connection with such a constructive distribution. If we pay withholding taxes on your behalf as a result of an adjustment to the conversion rate of the Notes, we may, at our option, set off such payments against payments of cash and common stock on the Notes. You are urged to consult your tax advisors with respect to the U.S. federal income tax consequences resulting from an adjustment to the conversion rate of the Notes. See the discussions under the headings "Supplement to Material U.S. Federal Income Tax Considerations - The Notes - Consequences to U.S. Holders - Constructive distributions" and "- Consequences to Non U.S. Holders - Constructive distributions."

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. We do not undertake any obligation to maintain our rating, if any, 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.

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

The 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 will offer limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or our consolidated subsidiary's 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 consolidated subsidiary's 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 subsidiary and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiary that would be senior to our equity interests in our subsidiary and therefore rank structurally senior to the Notes with respect to the assets of our subsidiary, 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 subsidiary) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our consolidated subsidiary.

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 subsidiary adhere to any financial tests or ratios or specified levels of net worth, revenues,

income, cash flow, or liquidity other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

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

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. 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.

DESCRIPTION OF THE NOTES

The Notes will be issued under an indenture, dated as of February 16, 2012, between the Company and U.S. Bank National Association, as trustee (the "trustee"), as amended by that certain Agreement of Resignation, Appointment and Acceptance, dated March 12, 2012, by and among the Company, the trustee, and American Stock Transfer & Trust Company, LLC (so amended, the "base indenture"), as supplemented by a supplemental indenture establishing the terms of the Notes, to be dated as of April , 2017 (the "supplemental indenture" and, together with the base indenture, the "indenture"). The terms of the Notes include those expressly set forth in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

The following description is only a summary of the material provisions of the Notes and the indenture. We urge you to read the indenture in its entirety because it, and not this description, defines your rights as a holder of the Notes. You may request copies of these documents as set forth under the caption "Available Information". Our other senior unsecured indebtedness are described under the headings "Business - Convertible Notes, Business - Public Notes and Business - Prospect Capital InterNotes®."

When we refer to "Prospect Capital Corporation," the "Company," "we," "our" or "us" in this section, we refer only to Prospec Capital Corporation and not its consolidated subsidiary. In addition, all references to interest in this prospectus supplement include additional interest, if any, payable as the sole remedy relating to the failure to comply with our reporting obligations pursuant to the provisions set forth below under the heading "- Events of Default; Notice and Waiver."

Brief Description of the Notes

The Notes will:

- initially be limited to $ million aggregate principal amount;
- bear interest at a rate of % per year, payable semi annually in arrears, on January 15 and July 15 of each year, commencing on July 15, 2017;
- be our general unsecured obligations, ranking equally with all of our other unsecured senior indebtedness (including the Unsecured Notes) 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 convertible by you at any time on or prior to 5:00 p.m., New York City time, on the business day immediately preceding the maturity date, into shares of our common stock (together with cash in lieu of fractional shares) initially at a conversion rate of shares of our common stock per $1,000 principal amount of Notes (subject to adjustment as set forth in this prospectus supplement), which represents an initial conversion price of approximately $ per share. In the event of a non stock change of control, we will, in certain circumstances, increase the conversion rate as described herein;
- be subject to redemption at our option, in whole or from time to time in part, on or after April 15, 2022 at a redemption price equal to the sum of (i) 100% of the principal amount of the Notes to be redeemed, (ii) accrued and unpaid interest (including additional interest, if any) to, but not including, the redemption date and (iii) the make whole premium;
- 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; and
- be due on July 15, 2022, unless earlier converted, repurchased or redeemed.

Neither we nor any of our subsidiaries will be subject to any financial covenants under the indenture. In addition, neither we nor our consolidated subsidiary 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 "- Adjustment to Conversion Rate Upon a Non Stock Change of Control" and "- Fundamental Change Put."

No sinking fund is provided for the Notes, and the Notes will not be subject to defeasance.

The Notes initially will be issued in book entry form only in denominations of $1,000 principal amount and integral multiples thereof. Beneficial interests in the Notes will be shown on, and transfers of beneficial interests in the Notes will be effected only through, records maintained by The Depository Trust Company, or DTC, or its nominee, and any such interests may not be exchanged for certificated Notes except in limited circumstances. For information regarding conversion, registration of transfer and exchange of global Notes held in DTC, see "- Form, Denomination and Registration - Global Notes Book Entry Form."

If certificated Notes are issued, you may present them for conversion, registration of transfer and exchange, without service charge, at our office or agency in New York City, which will initially be the office or agency of the trustee in New York City.

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; 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.

Payment at Maturity

On the maturity date, each holder will be entitled to receive on such date $1,000 in cash for each $1,000 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 global Notes, principal and interest (including additional interest, if any) will be paid to DTC in immediately available funds. With respect to any certificated Notes, principal and interest (including additional interest, if any) will be payable at our office or agency in New York City, which initially will be the office or agency of the trustee in New York City.

Interest

The Notes will bear interest at a rate of % per year. Interest will accrue from the date of original issuance of the Notes or from the most recent date to which interest has been paid or duly provided for. We will pay interest (including additional interest, if any) semi annually, in arrears on January 15 and July 15 of each year, commencing on July 15, 2017, to holders of record at 5:00 p.m., New York City time, on the preceding January 1 and July 1, respectively. However, there are two exceptions to the preceding sentence:

- holders will be entitled to a cash payment representing accrued and unpaid interest to, but not including, the conversion date on any Notes unless the Notes are converted after a record date for an interest payment but prior to the corresponding interest payment date, as described under "- Conversion Rights;" and
- on the maturity date, we will pay accrued and unpaid interest to the person to whom we pay the principal amount.

We will pay interest on:

- global Notes to DTC in immediately available funds;
- any certificated Notes having a principal amount of less than $2,000,000, by check mailed to the holders of those Notes; provided, however, at maturity, interest will be payable as described under "- Payment at Maturity;" and
- any certificated Notes having a principal amount of $2,000,000 or more, by wire transfer in immediately available funds at the election of the holders of these Notes duly delivered to the trustee at least five business days prior to the relevant interest payment date; provided, however, at maturity, interest will be payable as described under "- Payment at Maturity."

Interest will be calculated on the basis of a 360 day year consisting of twelve 30 day months. If a payment date is not a business day, payment will be made on the next succeeding business day, and no additional interest will accrue thereon. The term "business day" means any day other than a Saturday, a Sunday or a day on which the Federal Reserve Bank of New York is authorized or required by law or executive order to close or be closed.

To the extent lawful, payments of principal or interest (including additional interest, if any) on the Notes that are not made when due will accrue interest at the annual rate of 1% above the then applicable interest rate from the required payment date.

Redemption During Final Three Month Term of the Notes

We may not redeem the Notes prior to April 15, 2022. On or after April 15, 2022, we may redeem the Notes for cash, in whole or from time to time in part, at our option at a redemption price equal to the sum of (i) 100% of the principal amount of the Notes to be redeemed, (ii) accrued and unpaid interest thereon to, but excluding, the redemption date and (iii) an amount equal to the present value of the interest that would accrue on such Notes from, and including, the redemption date until the maturity date, with such present value computed using a discount rate equal to the yield to maturity of United States Treasury securities with three months of remaining maturity (as determined in a commercially reasonable manner by us prior to providing the applicable notice of redemption) plus 50 basis points (such present value, the "make whole premium"); provided, however, that if the redemption date falls after a record date and on or prior to the interest payment date to which such record date relates, we will instead pay the full amount of accrued and unpaid interest to the holder of record on such record date and the redemption price will be equal to 100% of the principal amount of the Notes to be redeemed. In the case of any such redemption, we will provide not less than 10 nor more than 30 calendar days' notice before the redemption date to each holder of the Notes. The redemption date must be a business day. If we call the Notes for redemption, a holder of the Notes may convert all or any portion of its Notes called for redemption only until 5:00 p.m., New York City time, on the business day immediately preceding the redemption date and, if the conversion date falls after April 15, 2022 and prior to the next record date, such holder shall receive, in addition to any accrued and unpaid interest to, but excluding the conversion date, the make whole premium.

If we decide to redeem fewer than all of the outstanding Notes, the Notes shall be selected to be redeemed (in principal amounts of $1,000 or multiples thereof) in accordance with the applicable procedures of DTC, in the case of global Notes, and by lot, in the case of certificated Notes.

If a portion of your Note is selected for partial redemption and you convert a portion of the same Note, the converted portion will be deemed to be from the portion selected for redemption.

In the event of any redemption in part, we will not be required to register the transfer of or exchange of any Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Note being redeemed in part.

No Notes may be redeemed if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to the redemption date (except in the case of an acceleration resulting from a default by us in the payment of the redemption price with respect to such Notes).

Conversion Rights

Holders may convert their Notes prior to 5:00 p.m., New York City time, on the business day preceding the maturity date at an initial conversion rate of shares of common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $ per share). The conversion rate will be subject to adjustment as described below. You will have the right to convert any portion of the principal amount of any Notes that is an integral multiple of $1,000 at any time on or prior to the close of business on the business day immediately preceding the maturity date. Upon conversion, unless you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive a separate cash payment 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 Notes.

If we call the Notes for redemption, a holder of the Notes may convert all or any portion of its Notes called for redemption only until 5:00 p.m., New York City time, on the business day immediately preceding the redemption date and, if the conversion date falls after April 15, 2022, and prior to the next record date, such holder shall receive, in addition to any accrued and unpaid interest to, but excluding the conversion date, the make whole premium.

Except as described under "- Conversion Rate Adjustments," we will not make any payment or other adjustment for dividends on any common stock issued upon conversion of the Notes.

Conversion Procedures

Procedures to be Followed by a Holder

If you hold a beneficial interest in a global Note, to convert you must deliver to DTC the appropriate instruction form for conversion pursuant to DTC's conversion program and, if required, pay all taxes or duties, if any.

If you hold a certificated Note, to convert you must:

- complete and manually sign the conversion notice on the back of the Notes or a facsimile of the conversion notice;
- deliver the completed conversion notice and the Notes to be converted to the conversion agent;
- if required, furnish appropriate endorsements and transfer documents; and
- if required, pay all transfer or similar taxes, if any.

The conversion date will be the date on which you have satisfied all of the foregoing requirements. The Notes will be deemed to have been converted immediately prior to 5:00 p.m., New York City time, on the conversion date.

You will not be required to pay any taxes or duties relating to the issuance or delivery of our common stock if you exercise your conversion rights, but you will be required to pay any tax or duty that may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than your own. Certificates representing common stock will be issued and delivered only after all applicable taxes and duties, if any, payable by you have been paid in full.

We will not issue fractional shares of our common stock upon conversion of the Notes. Instead, we will pay cash in lieu of fractional shares based on the closing sale price of our common stock on the conversion date.

Limitation on Beneficial Ownership

Notwithstanding the foregoing, no holder of 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 Exchange Act and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time (the "Limitation"). Any purported delivery of shares of our common stock upon conversion of Notes shall be void and have no effect to the extent (but only to the extent) that such delivery would result in the converting holder becoming the beneficial owner of more than the Limitation. If any delivery of shares of our common stock owed to a holder upon conversion of Notes is not made, in whole or in part, as a result of the Limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more than 5.0% of the shares of common stock outstanding at such time. The Limitation shall no longer apply following the effective date of any Fundamental Change, as defined in "- Fundamental Change Put."

Conversion Rate Adjustments

We will adjust the conversion rate for the following events:

(1) If we issue shares of our common stock as a dividend or distribution on shares of our common stock, or if we effect a share split or share combination of our common stock, the conversion rate will be adjusted based on the following formula:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for such dividend or distribution or the effective date of such share split or combination, as the case may be;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such dividend or distribution or the effective date of such share split or combination, as the case may be;

OS_0 = the number of shares of our common stock outstanding at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such dividend or distribution or the effective date of such share split or combination; and

OS_1 = the number of shares of our common stock that would be outstanding immediately after, and solely as a result of, such dividend, distribution, share split or combination, as the case may be.

(2)If we distribute to all or substantially all holders of our common stock any rights or warrants (other than rights issued pursuant to a stockholders' right plan) entitling them for a period of not more than 60 days from the issuance date for such distribution to subscribe for or purchase shares of our common stock, at a price per share less than the last reported sale price of our common stock on the trading day immediately preceding the declaration date of such distribution, the conversion rate will be increased based on the following formula; provided that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to their expiration:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for such distribution;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;

OS_0 = the number of shares of our common stock outstanding at 5:00 p.m. New York City time, on the trading day immediately preceding the record date for such distribution;

X = the total number of shares of our common stock issuable pursuant to such rights or warrants; and

Y = the number of shares of our common stock equal to the aggregate price payable to exercise such rights or warrants, divided by the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution.

(3)(a) If we distribute shares of our capital stock, evidences of our indebtedness or other of our assets or property to all or substantially all holders of our common stock, excluding:

dividends or distributions as to which adjustment is required to be effected in clause (1) or (2) above;

dividends or distributions paid exclusively in cash; and

spin offs described below in clause (3)(b),

then the conversion rate will be increased based on the following formula:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for such distribution;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;

SP_0 = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution; and

FMV = the fair market value (as determined by our board of directors or a committee thereof) of the shares of capital stock, evidences of indebtedness, assets or property distributed, with respect to each outstanding share of our common stock as of the open of business on the record date for such distribution.

(b)With respect to an adjustment pursuant to this clause (3) where there has been a payment of a dividend or other distribution on our common stock in shares of capital stock of any class or series, or similar equity interest, of or relating to a subsidiary or other business unit of ours that are listed on a national or regional securities exchange, which is referred to in this prospectus supplement as a "spin off," the conversion rate will be increased based on the following formula:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for the spin off;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for the spin off;

FMV = the average of the last reported sale prices of the capital stock or similar equity interest distributed to holders of our common stock applicable to one share of our common stock over the first 10 consecutive trading day period immediately following, and including, the third trading day after the record date for such spin off (such period, the "valuation period"); and

MP_0 = the average of the last reported sale prices of our common stock over the valuation period.

Any adjustment to the conversion rate under this clause (3)(b) will be made immediately after the open of business on the day after the last day of the valuation period, but will be given effect as of the open of business on the record date for the spin off. Because we will make the adjustment to the conversion rate at the end of the valuation period with retroactive effect, we will delay the settlement of any Notes where the conversion date occurs during the valuation period. In such event, we will deliver shares of our common stock, if any, and any cash in lieu thereof (based on the adjusted conversion rate as described above) on the third business day immediately following the last day of the valuation period.

(4) If we pay any cash dividends or make distributions paid exclusively in cash to all or substantially all holders of our common stock (other than dividends or distributions made in connection with our liquidation, dissolution or winding up or upon a merger, consolidation or sale, lease, transfer, conveyance or other disposition resulting in a change in the conversion consideration as described under "- Change in the Conversion Rights upon Certain Reclassification, Business Combinations, Asset Sales and Corporate Events"), the conversion rate will be increased based on the following formula:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for such dividend or distribution;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;

SP_0 = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution;

DTA = the dividend threshold amount, which will initially equal $0.08333 per share in any month; provided that if there is not a record date for a dividend in any month, the DTA may be carried forward by us to the next subsequent month and to the extent the aggregate amount of any dividends with record dates in such subsequent month is less than $0.08333 such difference may be carried forward to the second subsequent month, subject to a maximum DTA at any time of $0.25; and

C = the amount in cash per share we distribute to holders of our common stock in any dividend

The dividend threshold amount is subject to adjustment on an inversely proportional basis whenever the conversion rate is adjusted other than adjustments made pursuant to this clause (4). If an adjustment is required to be made as set forth in this clause (4) as a result of a distribution that is not a regular monthly or quarterly dividend, the dividend threshold amount will be deemed to be zero. For the avoidance of doubt, a distribution that relates to a prior monthly or quarterly period during which the record date for a regular distribution did not occur (such distribution, a "delayed distribution") shall constitute a regular monthly or quarterly dividend (whether paid separately or together with the regular monthly or quarterly distribution with respect to the period in which such delayed distribution occurs), notwithstanding the fact that the record date for such delayed distribution occurs after the monthly or quarterly period to which the delayed distribution relates.

If "C" (as defined above) is equal to or greater than "SP_0" (as defined above), or if the difference between "SP_0" and "C" is less than $0.01, in lieu of the foregoing increase, each holder of a Note shall receive, in respect of each $1,000 principal amount thereof, at the same time and upon the same terms as holders of shares of our common stock, the amount of cash that such holder would have received as if such holder owned a number of shares of our common stock equal to the conversion rate on the record date for such cash dividend or distribution.

(5) If we or any of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock, to the extent that the cash and value of any other consideration included in the payment per share of our common stock exceeds the last reported sale price of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, the conversion rate will be increased based on the following formula:

where,

CR_1 = the conversion rate in effect at 5:00 p.m. on the day such tender offer or exchange offer expires;

CR_0 = the conversion rate in effect immediately prior to the open of business on the trading day next succeeding the date such tender offer or exchange offer expires;

AC = the aggregate value of all cash and any other consideration (as determined by our board of directors or a committee thereof) paid or payable for shares purchased in such tender or exchange offer;

SP_1 = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period commencing on, and including, the trading day next succeeding the date such tender or exchange offer expires (the "averaging period");

OS_1 = the number of shares of our common stock outstanding immediately after the close of business on the date such tender or exchange offer expires (after giving effect to such tender offer or exchange offer); and

OS_0 = the number of shares of our common stock outstanding immediately prior to the date such tender or exchange offer expires (prior to giving effect to such tender offer or exchange offer).

Any adjustment to the conversion rate under this clause (5) will be made immediately prior to the open of business on the day following the last day of the averaging period, but will be given effect as of the open of business on the trading day next succeeding the date such tender offer or exchange offer expires. Because we will make the adjustment to the conversion rate at

the end of the averaging period with retroactive effect, we will delay the settlement of any Notes where the conversion date occurs during the averaging period. In such event, we will deliver shares of our common stock, if any, and any cash in lieu thereof (based on the adjusted conversion rate as described above) on the third business day immediately following the last day of the averaging period.

To the extent that any future stockholders' rights plan adopted by us is in effect upon conversion of the Notes into common stock, you will receive, in addition to the common stock, the rights under the applicable rights agreement unless the rights have separated from our common stock at the time of conversion of the Notes, in which case, the conversion rate will be adjusted as if we distributed to all holders of our common stock shares of our capital stock, evidences of indebtedness or assets as described above in clause (3), subject to readjustment in the event of the expiration, termination or redemption of such rights.

We will not make any adjustment if holders may participate in the transaction or in certain other cases. Except with respect to a spin off, in cases where the fair market value of assets, debt securities or certain rights, warrants or options to purchase our securities, applicable to one share of common stock, distributed to stockholders:

- equals or exceeds the average closing price of the common stock over the 10 consecutive trading day period ending on the record date for such distribution, or
- such average closing price exceeds the fair market value of such assets, debt securities or rights, warrants or options so distributed by less than $0.01,

rather than being entitled to an adjustment in the conversion price, the holder of Notes will be entitled to receive upon conversion, in addition to the shares of common stock, the kind and amount of assets, debt securities or rights, warrants or options comprising the distribution that such holder would have received if such holder had converted such Notes immediately prior to the record date for determining the stockholders entitled to receive the distribution.

To the extent that we are required to make an adjustment pursuant to a distribution that qualifies under two or more of the clauses above, we will adjust the conversion rate pursuant to clause (3)(a) above.

Except as stated above, we will not adjust the conversion rate for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or carrying the right to purchase any of the foregoing.

If a taxable distribution to holders of our common stock or other transaction occurs that results in any adjustment of the conversion rate (including an adjustment at our option), you may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our common stock. See "Supplement to Material U.S. Federal Income Tax Considerations."

We will not be required to make an adjustment in the conversion rate unless the adjustment would require a change of at least 1% in the conversion rate. However, we will carry forward any adjustment that is less than 1% of the conversion rate, take such carried forward adjustments into account in any subsequent adjustment, and make such carried forward adjustments, regardless of whether the aggregate adjustment is less than 1%, (a) annually on the anniversary of the first date of issue of the Notes and otherwise (b)(1) 10 business days prior to the maturity date of the Notes or (2) 10 business days prior to any repurchase date or redemption date, unless such adjustment has already been made.

Without limiting the foregoing, no adjustment to the conversion rate need be made:

(i) upon the issuance of any shares of common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of common stock under any plan;

(ii) upon the issuance of any shares of common stock or options or rights to purchase shares of common stock pursuant to any present or future employee, director or consultant benefit plan or program or employee stock purchase plan of, or assumed by, us or any of our subsidiaries;

(iii) upon the issuance of any shares of common stock pursuant to any option, warrant, right, or exercisable, exchangeable or convertible security not described in clause (ii) above and outstanding as of the issue date;

(iv) for a change in the par value of the common stock; or
(v) for accrued and unpaid interest (including any additional interest, if applicable).

Change in the Conversion Rights upon Certain Reclassifications, Business Combinations, Asset Sales and Corporate Events

If we:

- reclassify or change our common stock (other than changes resulting from a subdivision or combination), or
- consolidate or merge with or into any person or sell, lease, transfer, convey or otherwise dispose of all or substantially all of our assets and those of our subsidiaries taken as a whole to another person,

and in either case holders of our common stock receive stock, other securities or other property or assets (including cash or any combination thereof) with respect to or in exchange for their common stock, then from and after the effective date of such transaction, each outstanding Note will, without the consent of any holders of the Notes, upon the occurrence of such transaction, become convertible in accordance with the procedures described in "- Conversion Procedures," into the consideration the holders of our common stock received in such reclassification, change, consolidation, merger, sale, lease, transfer, conveyance or other disposition (such consideration, the "reference property"). If the transaction causes our common stock to be converted into the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election), the reference property into which the Notes will become convertible will be deemed to be the kind and amount of consideration elected to be received by a majority of our common stock voted for such an election (if electing between two types of consideration) or a plurality of our common stock voted for such an election (if electing between more than two types of consideration), as the case may be. We may not become a party to any such transaction unless its terms are consistent with the foregoing in all material respects.

Adjustment to Conversion Rate Upon a Non Stock Change of Control

If and only to the extent you elect to convert your Notes in connection with a transaction described under clause (1), (3) (without reference to the third bullet thereunder) or (4) under the definition of a fundamental change described below under "- Fundamental Change Put" pursuant to which 10% or more of the consideration for our common stock (other than cash payments for fractional shares and cash payments made in respect of dissenters' appraisal rights) in such fundamental change transaction consists of cash or securities (or other property) that are not shares of common stock traded or scheduled to be traded immediately following such transaction on the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors), which we refer to as a "non stock change of control" we will increase the conversion rate as described below (subject to the limitations described below). The number of additional shares by which the conversion is increased (the "additional shares") will be determined by reference to the table below, based on the date on which the non stock change of control becomes effective (the "effective date") and the price (the "stock price") paid per share for our common stock in such non stock change of control. If holders of our common stock receive only cash in such transaction, the price paid per share will be the cash amount paid per share. Otherwise, the stock price shall be the average of the last reported sale prices of our common stock over the five trading day period ending on, and including, the trading day immediately preceding the effective date of the non stock change of control. We will notify you of the effective date of any fundamental change no later than such time that the fundamental change occurs.

A conversion of the Notes by a holder will be deemed for these purposes to be "in connection with" a non stock change of control if the conversion notice is received by the conversion agent following the effective date of the non stock change of control but before the close of business on the business day immediately preceding the related repurchase date (as specified in the repurchase notice described under "- Fundamental Change Put").

The number of additional shares will be adjusted in the same manner as and as of any date on which the conversion rate of the Notes is adjusted as described above under "- Conversion Rate Adjustments." The stock prices set forth in the first row of the table below (i.e., the column headers) will be simultaneously adjusted to equal the stock prices immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment and the denominator of which is the conversion rate as so adjusted.

The following table sets forth the number of additional shares by which the conversion rate shall be increased:

	Stock Price												
Effective Date	$	$	$	$	$	$	$	$	$	$	$	$	$
April , 2017													
July 15, 2018													
July 15, 2019													
July 15, 2020													
July 15, 2021													
July 15, 2022													

The exact stock price and effective dates may not be set forth on the table, in which case, if the stock price is:

- between two stock price amounts on the table or the effective date is between two dates on the table, the number of additional shares will be determined by straight line interpolation between the number of additional shares set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 360 day year;
- in excess of $ per share (subject to adjustment), no additional shares will be issued upon conversion; and
- less than $ per share (subject to adjustment), no additional shares will be issued upon conversion.

Notwithstanding the foregoing, in no event will the total number of shares of common stock issuable upon conversion exceed per $1,000 principal amount of the Notes, subject to the same adjustments as the conversion rate as set forth above under "- Conversion Rate Adjustments."

Additional shares deliverable as described in this section "- Adjustment to Conversion Rate Upon a Non Stock Change of Control," will be delivered on the settlement date applicable to the relevant conversion.

Fundamental Change Put

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 $1,000 in principal amount or integral multiples 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.

A "fundamental change" will be deemed to have occurred when any of the following has occurred:

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); or

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; or

4. the termination of trading of our common stock, which will be deemed to have occurred if our common stock or other common stock into which the Notes are convertible is neither listed for trading on the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors).

Notwithstanding the foregoing, any transaction or event described above also will not constitute a fundamental change if, in connection with such transaction or event, or as a result therefrom, a transaction described in clauses (1) or (3) above occurs (without regard to any exclusion to such clause described in the bullets thereunder) and at least 90% of the consideration paid for our common stock (excluding cash payments for fractional shares, cash payments made pursuant to dissenters' appraisal rights and cash dividends) consists of shares of common stock (or depositary receipts in respect thereof) traded on the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors) (or will be so traded or quoted immediately following the completion of the merger or consolidation or such other transaction) and, as a result of such transaction, the Notes become convertible into the reference property as described under "- Conversion Rate Adjustments - Change in the Conversion Rights upon Certain Reclassifications, Business Combinations, Asset Sales and Corporate Events" above.

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 fifth 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 $1,000 or integral multiples 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.

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.

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

The following will be events of default under the indenture:

- we fail to pay any interest (including additional interest, if any) on the Notes when due and such failure continues for a period of 30 calendar days;
- we fail to pay principal of the Notes when due at maturity, or we fail to pay the repurchase price or redemption price payable, in respect of any Notes when due;
- we fail to deliver shares of common stock upon the conversion of any Notes and such failure continues for five business days following the scheduled settlement date for such conversion;
- 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;
- 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 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.

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.

The holders of a majority in aggregate principal amount of the outstanding Notes will have the right to direct the time, method and place of any proceedings for any remedy available to the trustee, subject to limitations specified in the indenture.

No holder of the Notes may pursue any remedy under the indenture, except in the case of a default in the payment of principal or interest (including additional interest, if any) on the Notes, unless:

- the holder has given the trustee written notice of an event of default;
- the holders of at least 25% in aggregate principal amount of the outstanding Notes make a written request to the trustee to pursue the remedy, and offer reasonable security or indemnity against any costs, liability or expense of the trustee;
- the trustee fails to comply with the request within 60 calendar days after receipt of the request and offer of indemnity; and
- the trustee does not receive an inconsistent direction from the holders of a majority in aggregate principal amount of the outstanding Notes.

Notwithstanding the foregoing, 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 relate to the provision of reports), will, at our option, for the 365 days after the occurrence of such an event of default consist exclusively of the right to receive additional interest on the Notes at an annual rate equal to 0.50% of the principal amount of the Notes. In the event we do not elect to pay the additional interest upon an event of default in accordance with this paragraph, the Notes will be subject to acceleration as provided above. This additional interest will be payable in arrears on each interest payment date in the same manner as regular interest on the Notes. 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:

- our failure to pay principal of or interest (including additional interest, if any) on any Notes when due;
- our failure to convert any Notes into common stock as required by the indenture;
- our failure to pay the repurchase price on the repurchase date in connection with a holder exercising its repurchase rights; or
- our failure to comply with any of the provisions of the indenture that would require the consent of the holder of each outstanding Notes affected.

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:

- change the maturity of any Notes;
- reduce the rate or extend the time for payment of interest (including additional interest, if any) on any Notes;
- reduce the principal amount of any Notes;
- reduce any amount payable upon repurchase or redemption of any Notes;
- impair the right of a holder to receive payment with respect to any Notes or to institute suit for payment of any Notes;
- change the currency in which any Notes is payable;
- change our obligation to repurchase any Notes upon a fundamental change in a manner adverse to the rights of the holders;
- affect the right of a holder to convert any Notes into shares of our common stock or reduce the number of shares of our common stock or any other property, receivable upon conversion pursuant to the terms of the indenture;
- change our obligation to maintain an office or agency in New York City;

- subject to specified exceptions, modify certain provisions of the indenture relating to modification of the indenture or waiver under the indenture; or
- reduce the percentage of the Notes required for consent to any modification of the indenture that does not require the consent of each affected holder.

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.

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 conversion rights of holders of the Notes and 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 the preliminary prospectus supplement, as supplemented by the relating pricing term sheet;
- 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;
- increase the conversion rate; provided, that the increase will not adversely affect the interests of the holders of the Notes;
- adding guarantees of obligations under the Notes;
- comply with any requirement of the SEC in connection with the qualification of the indenture under the Trust Indenture Act;
- make such changes as may be necessary or desirable to allow us to issue additional Notes as described under "-Additional Notes" provided, that any such change will not materially adversely affect the interests of the holders of 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.

Repurchase and Cancellation

We may, to the extent permitted by law, repurchase any Notes in the open market or by tender offer at any price or by private agreement. Any Notes repurchased by us may, at our option, be surrendered to the trustee for cancellation, but may not be reissued or resold by us. Any Notes surrendered for cancellation may not be reissued or resold and will be promptly cancelled.

Reports

We shall deliver to the trustee, within 15 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.

Information Concerning the Trustee and Common Stock Transfer Agent and Registrar

We have appointed U.S. Bank National Association, the trustee under the indenture, as paying agent, conversion agent, Notes registrar and custodian for the Notes. The trustee or its affiliates may also provide other services to us in the ordinary course of their business. The indenture contains certain limitations on the rights of the trustee, if it or any of its affiliates is then our creditor, to obtain payment of claims in certain cases or to realize on certain property received on any claim as security or otherwise. The trustee and its affiliates will be permitted to engage in other transactions with us. However, if the trustee or any affiliate continues to have any conflicting interest and a default occurs with respect to the Notes, the trustee must eliminate such conflict or resign.

American Stock Transfer & Trust Company, LLC is the transfer agent and registrar for our common stock.

Governing Law

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

Calculations in Respect of the Notes

Except as otherwise provided herein, we will be responsible for making all calculations called for under the Notes. These calculations include, but are not limited to, determinations of the sale price of our common stock, accrued interest payable on the Notes and the conversion rate and conversion price. We or our agents will make all these calculations in good faith and, absent manifest error, such calculations will be final and binding on holders of the Notes. We will provide a schedule of these calculations to each of the trustee and the conversion agent, and each of the trustee and conversion agent is entitled to rely upon the accuracy of our calculations without independent verification. The trustee will forward these calculations to any holder of the Notes upon the request of that holder.

Form, Denomination and Registration

The Notes will be issued:

- in fully registered form;
- without interest coupons; and
- in denominations of $1,000 principal amount and integral multiples of $1,000.

Global Notes, Book Entry Form

The Notes will be evidenced by one or more global Notes. We will deposit the global Notes with DTC and register the global Notes in the name of Cede & Co. as DTC's nominee. Except as set forth below, a global Note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Beneficial interests in a global Note may be held through organizations that are participants in DTC (called "participants"). Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in clearing house funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. As a result, the ability to transfer beneficial interests in the global Notes to such persons may be limited.

Beneficial interests in a global Note held by DTC may be held only through participants, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant, either directly or indirectly (called "indirect participants"). So long as Cede & Co., as the nominee of DTC, is the registered owner of a global Notes, Cede & Co. for all purposes will be considered the sole holder of such global Notes. Except as provided below, owners of beneficial interests in a global Note will:

- not be entitled to have certificates registered in their names;
- not receive physical delivery of certificates in definitive registered form; and
- not be considered holders of the global Notes.

We will pay principal of and interest (including additional interest, if any) on, and the repurchase price or redemption price of, a global Note to Cede & Co., as the registered owner of the global Notes, by wire transfer of immediately available funds on the maturity date, each interest payment date, redemption date or repurchase date, as the case may be. Neither we, the trustee nor any paying agent will be responsible or liable:

- for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a global Note; or
- for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

DTC has advised us that it will take any action permitted to be taken by a holder of the Notes, including the presentation of the Notes for conversion, only at the direction of one or more participants to whose account with DTC interests in the global Notes are credited, and only in respect of the principal amount of the Notes represented by the global Notes as to which the participant or participants has or have given such direction.

DTC has advised us that it is:

- a limited purpose trust company organized under the laws of the State of New York, and a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the Uniform Commercial Code; and
- a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book entry changes to the accounts of its participants. Participants include securities brokers, dealers, banks, trust companies and clearing corporations and other organizations. Some of the participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as

banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

DTC has agreed to the foregoing procedures to facilitate transfers of interests in a global Note among participants. However, DTC is under no obligation to perform or continue to perform these procedures, and may discontinue these procedures at any time. We will issue the Notes in definitive certificated form if DTC notifies us that it is unwilling or unable to continue as depositary or DTC ceases to be a clearing agency registered under the Exchange Act and a successor depositary is not appointed by us within 90 days. In addition, beneficial interests in a global Note may be exchanged for definitive certificated notes upon request by or on behalf of DTC in accordance with customary procedures following the request of a beneficial owner seeking to enforce its rights under such Notes or the indenture. The indenture permits us to determine at any time and in our sole discretion that Notes shall no longer be represented by global Notes. DTC has advised us that, under its current practices, it would notify its participants of our request, but will only withdraw beneficial interests from the global note at the request of each DTC participant. We would issue definitive certificates in exchange for any such beneficial interests withdrawn.

Neither we, the trustee, registrar, paying agent nor conversion agent will have any responsibility or liability for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

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

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.

We consolidate certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies are included in our consolidated financial statements: AMU Holdings Inc.; APH Property Holdings, LLC ("APH"); Arctic Oilfield Equipment USA, Inc.; CCPI Holdings Inc.; CP Holdings of Delaware LLC ("CP Holdings"); Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc. ("Energy Solutions"); First Tower Holdings of Delaware LLC ("First Tower Delaware"); Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc. ("NMMB Holdings"); NPH Property Holdings, LLC ("NPH"); STI Holding, Inc.; UPH Property Holdings, LLC ("UPH"); Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. ("SB Forging"). As such, we began consolidating SB Forging on October 11, 2014. Effective May 23, 2016, in connection with the merger of American Property REIT Corp. ("APRC") and United Property REIT Corp. ("UPRC") with and into National Property REIT Corp. ("NPRC"), APH and UPH merged with and into NPH, and were dissolved. 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"), 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 strategies that guide our origination of investment opportunities: (1) lending to companies controlled by private equity sponsors, (2) lending to companies not controlled by private equity sponsors, (3) purchasing control equity and lending to operating companies, (4) purchasing control equity and lending to financial services companies, (5) investing in structured credit, (6) investing in real estate, (7) investing in syndicated debt, (8) investing in online loans and (9) aircraft leasing. We may also invest in other strategies and opportunities from time to time that we view as attractive. We continue to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

Lending to Companies Controlled by Private Equity Sponsors - We make agented loans to companies which are controlled by private equity sponsors. This debt can take the form of first lien, second lien, unitranche or unsecured loans. These loans typically have equity subordinate to our loan position. Historically, this strategy has comprised approximately 40%-60% of our portfolio.

Lending to Companies not Controlled by Private Equity Sponsors - We make loans to companies which are not controlled by private equity sponsors, such as companies that are controlled by the management team, the founder, a family or public shareholders. This origination strategy may have less competition to provide debt financing than the private-equity-sponsor origination strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. This origination strategy can result in investments with higher returns or lower leverage than the private-equity-sponsor origination strategy. Historically, this strategy has comprised up to approximately 15% of our portfolio.

Purchasing Control Equity and Lending to Operating Companies - This strategy involves purchasing yield-producing debt and control equity in non-financial-services operating companies. We can provide enhanced certainty of closure and liquidity to sellers and we look for management to continue on in their current roles. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Control Equity and Lending to Financial Services Companies - This strategy involves purchasing yield-producing debt and control equity investments in financial services companies, including consumer direct lending, sub-prime auto lending and other strategies. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 5%-15% of our portfolio.

Investing in Structured Credit - We make investments in CLOs, often 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, or consumer-based credit assets. The CLOs in which we invest generally are managed by established collateral management teams with many years of experience in the industry. This strategy has comprised approximately 10%-20% of our portfolio.

Investing in Real Estate - We make investments in real estate through our wholly-owned tax-efficient real estate investment trust ("REIT") NPRC, the surviving entity of the May 23, 2016 merger with APRC and UPRC. Our real estate investments are in various classes of significantly developed and occupied real estate properties that generate current yields, including multi-family properties, student housing, and self-storage. We seek to identify properties that have historically significant occupancy and recurring cash flow generation. NPRC generally co-invests with established and experienced property management teams that manage such properties after acquisition. This investment strategy has comprised approximately 5%-10% of our business.

Investing in Syndicated Debt - On a primary or secondary basis, we purchase primarily senior and secured loans and high yield bonds that have been sold to a club or syndicate of buyers. These investments are often purchased with a long term, buy-and-hold outlook, and we often look to provide significant input to the transaction by providing anchoring orders. This strategy has comprised approximately 5%-10% of our portfolio.

Investing in Online Loans - We purchase loans originated by certain consumer loan and small-and-medium-sized business ("SME") loan facilitators. We generally purchase each loan in its entirety (i.e., a "whole loan"). The borrowers are consumers and SMEs. The loans are typically serviced by the facilitators of the loans. This investment strategy has comprised up to approximately 10% of our portfolio.

Aircraft Leasing - We invest in debt as well as equity in aircraft assets subject to commercial leases to airlines across the globe. These investments can present attractive return opportunities due to cash flow consistency from long-lived

assets coupled with hard asset residual value. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across a variety of aircraft types and vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines. This strategy historically has comprised less than 5% of our portfolio.

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, which is generally equity in the holding company, the holding company's equity investment in the operating company and any debt from us directly to the operating company structure represents our total exposure for the investment. As of December 31, 2016, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was $1,880,883 and $1,867,410, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus supplement. We consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There is no significant effect 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.

Second Quarter Highlights

Investment Transactions

We seek to be a long-term investor with our portfolio companies. During the three months ended December 31, 2016, we acquired $257,900 of new investments, completed follow-on investments in existing portfolio companies totaling approximately $205,380, funded $2,500 of revolver advances, and recorded paid in kind ("PIK") interest of $3,757, resulting in gross investment originations of $469,537. During the three months ended December 31, 2016, we received full repayments on nine investments and received several partial prepayments and amortization payments totaling $644,995. The more significant of these transactions are discussed in "Portfolio Investment Activity."

Debt Issuances and Redemptions

During the three months ended December 31, 2016, we issued $25,814 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $25,491. These notes were issued with stated interest rates ranging from 4.75% to 5.00% with a weighted average interest rate of 4.99%. These notes mature between October 15, 2021 and December 15, 2021.

During the three months ended December 31, 2016, we repaid $3,751 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 unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended December 31, 2016 was $124.

Equity Issuances

On October 20, 2016, November 17, 2016, and December 22, 2016, we issued 326,945, 327,506, and 303,671 shares of our common stock in connection with the dividend reinvestment plan, respectively.

Investment Holdings

As of December 31, 2016, we continue to pursue our investment strategy. At December 31, 2016, approximately $5,936,999, or 171.8%, of our net assets are invested in 123 long-term portfolio investments and CLOs.

During the six months ended December 31, 2016, we originated $816,687 of new investments, primarily composed of $493,501 of debt and equity financing to non-controlled portfolio investments, $220,866 of debt and equity financing to controlled investments, and $102,320 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 13.2% as of June 30, 2016 and 13.2% December 31, 2016, across all performing interest bearing investments. 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 December 31, 2016, we own controlling interests in the following portfolio companies: Arctic Energy Services, LLC ("Arctic Energy"); CCPI Inc. ("CCPI"); CP Energy Services Inc. ("CP Energy"); Credit Central Loan Company, LLC ("Credit Central"); Echelon Aviation LLC ("Echelon"); Edmentum Ultimate Holdings, LLC; First Tower Finance Company LLC ("First Tower Finance"); Freedom Marine Solutions, LLC ("Freedom Marine"); Gulf Coast Machine & Supply Company ("Gulf Coast"); MITY, Inc. ("MITY"); NPRC; Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) ("Nationwide"); NMMB, Inc. ("NMMB"); R-V Industries, Inc. ("R-V"); USES Corp. ("USES"); Valley Electric Company, Inc. ("Valley Electric"); and Wolf Energy, LLC. We also own an affiliated interest in Targus International, LLC ("Targus").

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

	December 31, 2016				June 30, 2016			
Level of Control	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	$1,880,883	30.8%	$1,867,410	31.5%	$1,768,220	29.0%	$1,752,449	29.7%
Affiliate Investments	8,530	0.1%	7,819	0.1%	10,758	0.2%	11,320	0.2%
Non-Control/Non-Affiliate Investments	4,222,503	69.1%	4,061,770	68.4%	4,312,122	70.8%	4,133,939	70.1%
Total Investments	$6,111,916	100.0%	$5,936,999	100.0%	$6,091,100	100.0%	$5,897,708	100.0%

The following shows the composition of our investment portfolio by type of investment as of December 31, 2016 and June 30, 2016:

	December 31, 2016				June 30, 2016			
Type of Investment	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Revolving Line of Credit	$11,350	0.2 %	$11,350	0.2 %	$13,274	0.2 %	$13,274	0.2 %
Senior Secured Debt	2,857,670	46.7 %	2,713,139	45.7 %	3,072,839	50.5 %	2,941,722	49.9 %
Subordinated Secured Debt	1,399,504	22.9 %	1,398,885	23.6 %	1,228,598	20.2 %	1,209,604	20.5 %
Subordinated Unsecured Debt	52,648	0.9 %	50,646	0.8 %	75,878	1.2 %	68,358	1.2 %
Small Business Loans	14,927	0.2 %	14,292	0.2 %	14,603	0.2 %	14,215	0.2 %
CLO Residual Interest	1,146,850	18.8 %	1,089,032	18.3 %	1,083,540	17.8 %	1,009,696	17.1 %
Preferred Stock	138,632	2.3 %	80,037	1.4 %	140,902	2.3 %	81,470	1.4 %
Common Stock	250,228	4.1 %	301,484	5.2 %	229,389	3.8 %	258,498	4.4 %
Membership Interest	240,107	3.9 %	203,699	3.4 %	226,479	3.7 %	221,949	3.8 %
Participating Interest(1)	—	— %	72,262	1.2 %	—	— %	70,590	1.2 %
Escrow Receivable	—	— %	2,173	— %	3,916	0.1 %	6,116	0.1 %
Warrants	—	— %	—	—	1,682	— %	2,216	— %
Total Investments	$6,111,916	100.0 %	$5,936,999	100.0 %	$6,091,100	100.0 %	$5,897,708	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 December 31, 2016 and June 30, 2016:

	December 31, 2016						June 30, 2016					
Type of Investment	Cost	% of Portfolio		Fair Value	% of Portfolio		Cost	% of Portfolio		Fair Value	% of Portfolio	
First Lien	$2,869,020	52.3	%	$2,724,489	51.6	%	$3,079,689	56.1	%	$2,948,572	56.1	%
Second Lien	1,399,504	25.5	%	1,398,885	26.5	%	1,235,022	22.5	%	1,216,028	23.1	%
Unsecured	52,648	1.0	%	50,646	1.0	%	75,878	1.4	%	68,358	1.3	%
Small Business Loans	14,927	0.3	%	14,292	0.3	%	14,603	0.3	%	14,215	0.3	%
CLO Residual Interest	1,146,850	20.9	%	1,089,032	20.6	%	1,083,540	19.7	%	1,009,696	19.2	%
Total Debt Investments	$5,482,949	100.0	%	$5,277,344	100.0	%	$5,488,732	100.0	%	$5,256,869	100.0	%

The following shows the composition of our investment portfolio by geographic location as of December 31, 2016 and June 30, 2016:

	December 31, 2016						June 30, 2016					
Geographic Location	Cost	% of Portfolio		Fair Value	% of Portfolio		Cost	% of Portfolio		Fair Value	% of Portfolio	
Canada	$24,546	0.4	%	$21,563	0.4	%	$15,000	0.2	%	$8,081	0.1	%
Cayman Islands	1,146,850	18.8	%	1,089,032	18.3	%	1,083,540	17.8	%	1,009,696	17.1	%
France	9,783	0.2	%	8,731	0.1	%	9,756	0.2	%	9,015	0.2	%
MidWest US	752,663	12.3	%	813,331	13.7	%	804,515	13.2	%	849,029	14.4	%
NorthEast US	814,261	13.3	%	815,622	13.7	%	838,331	13.8	%	824,408	13.9	%
NorthWest US	40,780	0.7	%	40,376	0.7	%	41,317	0.7	%	40,122	0.7	%
Puerto Rico	82,318	1.3	%	82,318	1.4	%	40,516	0.7	%	40,516	0.7	%
SouthEast US	1,406,409	23.0	%	1,468,736	24.7	%	1,498,976	24.6	%	1,531,944	26.0	%
SouthWest US	448,365	7.3	%	358,301	6.0	%	586,701	9.6	%	486,695	8.3	%
Western US	1,385,941	22.7	%	1,238,989	21.0	%	1,172,448	19.2	%	1,098,202	18.6	%
Total Investments	$6,111,916	100.0	%	$5,936,999	100.0	%	$6,091,100	100.0	%	$5,897,708	100.0	%

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

	December 31, 2016				June 30, 2016			
Industry	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Aerospace & Defense	$74,621	1.2 %	$73,569	1.2 %	$9,756	0.2 %	$9,015	0.2 %
Auto Components	30,205	0.5 %	30,146	0.5 %	20,328	0.3 %	20,328	0.3 %
Chemicals	41,362	0.7 %	42,000	0.7 %	41,307	0.7 %	41,159	0.7 %
Commercial Services & Supplies	401,613	6.6 %	392,071	6.7 %	744,280	12.3 %	726,260	12.3 %
Construction & Engineering	96,765	1.6 %	66,452	1.1 %	95,827	1.6 %	67,968	1.2 %
Consumer Finance	478,678	7.8 %	502,114	8.6 %	449,203	7.4 %	474,652	8.0 %
Diversified Consumer Services	218,216	3.6 %	211,219	3.6 %	202,585	3.3 %	196,291	3.3 %
Diversified Financial Services	69,837	1.1 %	76,859	1.2 %	57,762	0.9 %	60,821	1.0 %
Energy Equipment & Services	353,826	5.8 %	150,892	2.5 %	353,398	5.8 %	178,506	3.0 %
Equity Real Estate Investment Trusts (REITs)	372,589	6.1 %	554,304	9.3 %	335,048	5.5 %	480,763	8.2 %
Food & Staples Retailing	—	— %	—	—	20,876	0.3 %	21,000	0.4 %
Food Products	150,000	2.5 %	150,000	2.5 %	150,000	2.5 %	145,546	2.5 %
Health Care Equipment & Supplies	—	— %	—	— %	2,228	— %	2,842	— %
Health Care Providers & Services	380,257	6.2 %	380,743	6.4 %	304,908	5.0 %	305,503	5.2 %
Hotels, Restaurants & Leisure	139,695	2.3 %	137,013	2.3 %	139,813	2.3 %	139,954	2.4 %
Household Durables	110,614	1.8 %	110,346	1.9 %	161,310	2.6 %	161,061	2.7 %
Internet & Direct Marketing Retail	22,066	0.4 %	22,066	0.4 %	—	— %	—	— %
Internet Software & Services	77,805	1.3 %	76,988	1.3 %	82,995	1.4 %	84,468	1.4 %
IT Services	23,889	0.4 %	24,394	0.4 %	23,848	0.4 %	24,047	0.4 %
Leisure Products	300,082	4.9 %	298,744	5.0 %	300,072	4.9 %	293,022	5.0 %
Machinery	—	— %	—	— %	—	— %	608	— %
Media	441,809	7.2 %	433,562	7.4 %	437,380	7.2 %	423,854	7.2 %
Metals & Mining	38,111	0.6 %	52,512	0.9 %	38,202	0.6 %	50,057	0.8 %
Multiline Retail	—	— %	—	— %	3,916	0.1 %	3,900	0.1 %
Oil, Gas & Consumable Fuels (2)	8,902	0.1 %	8,323	0.1 %	8,886	0.1 %	8,886	0.2 %
Online Lending	452,592	7.4 %	408,609	6.9 %	406,931	6.7 %	377,385	6.4 %
Paper & Forest Products	11,278	0.2 %	11,295	0.2 %	—	— %	—	— %
Personal Products	217,643	3.6 %	186,437	3.1 %	213,585	3.5 %	193,054	3.3 %
Pharmaceuticals	79,364	1.3 %	79,364	1.3 %	70,739	1.2 %	70,739	1.2 %
Professional Services	14,784	0.1 %	15,000	0.3 %	—	0.0 %	—	0.0 %
Road & Rail	55,179	0.9 %	55,179	0.9 %	55,784	0.9 %	51,818	0.9 %
Software	49,045	0.8 %	50,000	0.8 %	19,854	0.3 %	20,000	0.3 %
Textiles, Apparel & Luxury Goods	253,950	4.2 %	247,087	4.2 %	256,409	4.2 %	253,988	4.3 %
Trading Companies & Distributors	289	— %	679	— %	330	— %	511	— %
Transportation Infrastructure	—	— %	—	— %	—	— %	6	— %
Subtotal	$4,965,066	81.2 %	$4,847,967	81.7 %	$5,007,560	82.2 %	$4,888,012	82.9 %
Structured Finance (1)	$1,146,850	18.8 %	$1,089,032	18.3 %	$1,083,540	17.8 %	$1,009,696	17.1 %
Total Investments	$6,111,916	100.0 %	$5,936,999	100.0 %	$6,091,100	100.0 %	$5,897,708	100.0 %

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

(2) Industry includes exposure to the energy markets through our investments in Harley Marine Services, Inc. Including this investment, our overall fair value exposure to the broader energy industry, including energy equipment and services as noted above, as of December 31, 2016 and June 30, 2016 is $159,215 and $187,392, respectively.

Portfolio Investment Activity

During the six months ended December 31, 2016, we acquired $398,723 of new investments, completed follow-on investments in existing portfolio companies totaling approximately $403,268, funded $5,500 of revolver advances, and recorded PIK interest of $9,196, resulting in gross investment originations of $816,687. The more significant of these transactions are briefly described below.

On July 1, 2016, we made an investment of $7,320 to purchase 19.7% of the subordinated notes in Madison Park Funding IX, Ltd.

On July 22, 2016, we made a $32,500 Senior Secured Term Loan A and a $32,500 Senior Secured Term Loan B debt investment in Universal Turbine Parts, LLC, an independent supplier of aftermarket turboprop engines and parts. The $32,500 Term Loan A bears interest at the greater of 6.75% or LIBOR plus 5.75% and has a final maturity of July 22, 2021. The $32,500 Term Loan B bears interest at the greater of 12.75% or LIBOR plus 11.75% and has a final maturity of July 22, 2021.

On August 9, 2016, we made an investment of $29,634 to purchase 71.9% of the subordinated notes in Carlyle Global Market Strategies CLO 2016-3, 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 17, 2016, we made a $5,000 investment in BCD Acquisition, Inc. ("Big Tex"). On August 18, 2016, we sold our $5,000 investment in Big Tex and realized a gain of $138 on the sale.

On September 6, 2016, we made an additional investment of $5,693 to purchase 18.0% of the subordinated notes in California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.).

On September 16, 2016, we made a $15,000 second lien secured investment in J.D Power and Associates, a global market research company, in support of an acquisition of the company. The second lien term loan bears interest at the greater of 9.50% or LIBOR plus 8.50% and has a final maturity of September 7, 2024.

On September 28, 2016, we have made an additional $12,523 second lien debt and $2,098 equity investment in Credit Central. The note bears interest of 10.00% and interest payment in kind of 10.00%, and has a final maturity date of June 26, 2019.

On September 30, 2016, we made an investment of $26,414 to purchase 50.2% of the subordinated notes in Voya 2016-3, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On September 30, 2016, we made an additional $22,500 of Senior Secured Term Loan A and $22,500 of Senior Secured Term Loan B debt investment in Onyx Payments to fund a dividend recapitalization. The $22,500 Term Loan A bears interest at the greater of 6.00% or LIBOR plus 5.00% and has a final maturity of September 10, 2019. The $22,500 Term Loan B bears interest at the greater of 13.00% or LIBOR plus 12.00% and has a final maturity of September 10, 2019.

On September 30, 2016, we made a $10,000 follow-on first lien senior secured debt investment in Matrixx Initiatives, Inc. to fund a dividend recapitalization. The $5,000 Term Loan A bears interest at the greater of 7.50% or LIBOR plus 6.00% and has a final maturity of August 9, 2018. The $5,000 Term Loan B bears interest at the greater of 12.50% or LIBOR plus 11.00% and has a final maturity of August 9, 2018.

On October 4, 2016, we made a $40,000 second lien senior secured investment to support the recapitalization of Outerwall Inc., an automated network of self-service coin counting machines. The second lien term loan bears interest at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of September 27, 2024.

On October 7, 2016, we made an $11,500 second lien senior secured debt investment in Dunn Paper, Inc, a leading specialty packaging supplier, in support of an acquisition of the company. The second lien term loan bears interest at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of August 26, 2023.

On October 14, 2016, we provided $22,500 of second lien senior secured debt to support the refinancing of Vivid Seats LLC, a secondary marketplace for entertainment tickets. The second lien term loan bears interest at the greater of 10.75% or LIBOR plus 9.75% and has a final maturity of October 12, 2023.

On October 20, 2016, we made a $50,000 second lien senior secured debt investment in Rocket Software, Inc. ("Rocket") to support an acquisition and dividend recapitalization. The second lien term loan bears interest at the greater of 10.50% or LIBOR plus 9.50% and has a final maturity of October 14, 2024.

On November 1, 2016, we made a $13,000 second lien secured investment to support an acquisition of K&N Parent, Inc., a leader in aftermarket automotive performance filtration products. The second lien term loan bears interest at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of October 20, 2024.

During the period from November 29, 2016 through December 7, 2016, we collectively made a $34,000 second lien secured investment to fund a recapitalization of Digital Room LLC, an online printing and design company. The second lien term loan bears interest at the greater of 11.00% or LIBOR plus 10.00% and has a final maturity of May 21, 2023.

On December 8, 2016, we made a $15,400 second lien secured investment in National Home Healthcare Corp., a provider of home health and hospice care services, to support an acquisition. The second lien term loan bears interest at the greater of 11.75% or PRIME plus 8.00% and has a final maturity of December 8, 2022.

On December 9, 2016, we made a $42,000 follow-on first lien senior secured debt investment in Atlantis Health Care Group (Puerto Rico), Inc. to support a recapitalization. The senior secured term loan bears interest at the greater of 9.50% or LIBOR plus 8.00% and has a final maturity of February 21, 2020.

On December 9, 2016, we made a follow-on $16,044 first lien senior secured debt and $2,831 equity investment in Echelon to support an asset acquisition. The new senior secured term loan bears interest at the greater of 11.00% or LIBOR plus 9.00% and interest payment in kind of 1.0%, and has a final maturity of December 7, 2024.

On December 9, 2016, we made an investment of $29,951 to purchase 69.0% of the subordinated notes in CIFC 2016-I, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management L.P.

On December 22, 2016, we made a $10,000 follow-on first lien senior secured debt investment in Inpatient Care Management Company, LLC. The senior secured term loan bears interest at the greater of 11.50% or LIBOR plus 10.50% and has a final maturity of June 8, 2021.

On December 28, 2016, we made a $45,000 second lien senior secured investment to fund a recapitalization of Keystone Peer Review Organization Holdings, Inc., a medical management services company. The second lien term loan bears interest at the greater of 11.75% or PRIME plus 8.00% and has a final maturity of July 28, 2023.

On December 28, 2016, we made a $15,000 follow-on second lien senior secured debt investment in PGX Holdings, Inc. The second lien term loan bears interest at the greater of 10.00% or LIBOR plus 9.00% and has a final maturity of September 29, 2021.

During the six months ended December 31, 2016, we made eleven follow-on investments in NPRC totaling $108,336 to support the online consumer lending initiative. We invested $19,285 of equity through NPH and $89,051 of debt directly to NPRC and its wholly-owned subsidiaries. We also provided $44,948 of debt and $14,479 of equity financing to NPRC, which was utilized for the acquisition of real estate properties. In addition, we provided $6,467 of equity investment which was used to fund capital expenditures for existing properties.

During the six months ended December 31, 2016, we purchased $30,642 of small business whole loans from OnDeck.

During the six months ended December 31, 2016, we received full repayments on eleven investments, sold three investments, and received several partial prepayments and amortization payments totaling $759,326, which resulted in net realized gains totaling $632. The more significant of these transactions are briefly described below.

On July 1, 2016, BNN Holdings Corp. ("Biotronic") was sold. The sale provided net proceeds for our minority position of $2,365, resulting in a realized gain of $137. During the three months ended December 31, 2016 we received remaining escrow proceeds, realizing an additional gain of $50.

On August 9, 2016, JHH Holdings, Inc. repaid the $35,507 loan receivable to us.

On August 19, 2016, we sold our investment in Nathan's Famous, Inc. ("Nathan's") for net proceeds of $3,240 and realized a gain of $240 on the sale.

On September 28, 2016, Rocket repaid the $20,000 loan receivable to us.
On October 5, 2016, Focus Brands, Inc. repaid the $18,000 loan receivable to us.
On October 13, 2016, Harbortouch Payments LLC ("Harbortouch") repaid the $27,711 loan receivable to us.
On October 14, 2016, Security Alarm Financing Enterprise, L.P. repaid the $25,000 loan receivable to us.
On October 14, 2016, Trinity Services Group, Inc. repaid the $134,576 loan receivable to us.
During the six months ended December 31, 2016, we received a partial repayment of $69,982 for the NPRC and its wholly-owned subsidiaries' loan previously outstanding and $21,371 as a return of capital on the equity investment in NPRC.
On October 31, 2016, System One Holdings, LLC repaid the $104,553 loan receivable to us.
On December 19, 2016, Empire Today, LLC repaid the $50,426 loan receivable to us.
On December 20, 2016, Onyx Payments repaid the $70,130 Senior Secured Term Loan A and $81,889 Senior Secured Term Loan B receivable to us.
The following table provides a summary of our investment activity for each quarter within the three years ending June 30, 2017:

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
June 30, 2016	294,038	383,460
September 30, 2016	347,150	114,331
December 31, 2016	469,537	644,995

(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, refinancings and realized losses.

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, interest, 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 debt and equity investments, a liquidation analysis was prepared.

In determining the range of values 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. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. Our valuation agent utilizes additional methods to validate the results from the discounted cash flow method, such as Monte Carlo simulations of key model variables, analysis of relevant data observed in the CLO market, and review of certain benchmark credit indices. 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 $5,936,999.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than $100,000 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 significant control investments are discussed below.

Arctic Energy Services, LLC

Prospect owns 100% of the equity of Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”), a Consolidated Holding Company. Arctic Equipment owns 70% of the equity of Arctic Energy, with Ailport Holdings, LLC (100% owned and controlled by Arctic Energy management) owning the remaining 30% of the equity of Arctic Energy. Arctic Energy provides oilfield service personnel, well testing flowback equipment, frac support systems and other services to exploration and development companies in the Rocky Mountains.

The Board of Directors decreased the fair value of our investment in Arctic Energy to $18,555 as of December 31, 2016, a discount of $42,321 to its amortized cost, compared to the discount of $22,536 to its amortized cost as of June 30, 2016. The decrease in fair value was driven primarily by the impact of current energy market conditions causing a decline in operating performance.

CP Energy Services Inc.

Prospect owns 100% of the equity of CP Holdings, a Consolidated Holding Company. CP Holdings owns 82.3% of the equity of CP Energy, and the remaining 17.7% of the equity is owned by CP Energy management. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries

As a result of declining operating results and current market conditions, the Board of Directors decreased the fair value of our investment in CP Energy to $73,048 as of December 31, 2016, a discount of $40,451 from its amortized cost, compared to the discount of $37,498 to its amortized cost as of June 30, 2016.

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 November 21, 2016, we funded an additional $8,005 to First Tower to support receivables growth driven by seasonal demand. As of December 31, 2016, First Tower had $472,884 of finance receivables net of unearned charges. As of December 31, 2016, First Tower’s total debt outstanding to parties senior to us was $388,044.

The Board of Directors increased the fair value of our investment in First Tower to $355,608, which was driven by additional investments in First Tower, as of December 31, 2016, a premium of $18,917 from its amortized cost, compared to the premium of $26,428 to its amortized cost as of June 30, 2016. The slight decline in premium to amortized cost was

driven by higher credit losses and reserves for insurance losses, as well as an increase in operating costs. First Tower's operating costs were higher due to growth in loan originations as the company expands by opening new locations.

Freedom Marine Solutions, LLC
Prospect owns 100% of the equity of Energy Solutions, a Consolidated Holding Company. Energy Solutions owns 100% of Freedom Marine. Freedom Marine owns 100% of each of Vessel Company, LLC, Vessel Company II, LLC, and Vessel Company III, LLC. Freedom Marine owns, manages, and operates offshore supply vessels to provide transportation and support services for the oil and gas exploration and production industries in the Gulf of Mexico.
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.
The Board of Directors decreased the fair value of our investment in Freedom Marine to $26,671 as of December 31, 2016, a discount of $14,740 to its amortized cost, compared to a discount of $14,192 to its amortized cost as of June 30, 2016. The fair value was driven by the continuing challenging environment for the oil and gas industry, which in turn decreased use of Freedom Marine's vessels.

Gulf Coast Machine & Supply Company
We own 100% of the preferred equity of Gulf Coast. Gulf Coast is a provider of value-added forging solutions to energy and industrial end markets.
On November 8, 2013, Gulf Coast issued $25,950 of convertible preferred stock to Prospect (representing 99.9% of the voting securities of Gulf Coast) in exchange for crediting the same amount to the first lien term loan previously outstanding, leaving a first lien loan balance of $15,000.
Due to the continued depressed energy markets coupled with lower steel prices and lower margins from increased competition in non-oil and gas forging markets, the Board of Directors decreased the fair value of our investment in Gulf Coast to $7,487 as of December 31, 2016, a discount of $53,866 to its amortized cost, compared to the discount of $53,063 to its amortized cost at June 30, 2016.

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. Effective May 23, 2016, APRC and UPRC merged with and into NPRC, to consolidate all of our real estate holdings, with NPRC as the surviving entity. As of December 31, 2016, we own 100% of the fully-diluted common equity of NPRC.
During the six months ended December 31, 2016, we provided $44,948 of debt and $14,479 of equity financing to NPRC for the acquisition of real estate properties and $6,467 of equity financing to NPRC to fund capital expenditures for existing properties. In addition, during the six months ended December 31, 2016, we received partial repayments of $9,204 of our loans previously outstanding and $19,149 as a return of capital on our equity investment.
During the six months ended December 31, 2016, we provided $89,051 and $19,285 of debt and equity financing, respectively, to NPRC and its wholly-owned subsidiaries to support the online consumer lending initiative. In addition, during the six months ended December 31, 2016, we received partial repayments of $60,778 of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and $2,222 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 84 months. As of December 31, 2016, the outstanding investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries was comprised of 113,282 individual loans and had an aggregate fair value of $759,589. The average outstanding individual loan balance is approximately $7 and the loans mature on dates ranging from January 2, 2017 to January 5, 2024 with a weighted-average outstanding term of 32 months as of December 31, 2016.

Fixed interest rates

range from 4.0% to 36.0% with a weighted-average current interest rate of 23.4%. As of December 31, 2016, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of $394,317.

As of December 31, 2016, based on outstanding principal balance, 6.9% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation ("FICO") score, of 720 or greater), 19.6% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 73.5% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659).

Loan Type	Outstanding Principal Balance	Fair Value	Interest Rate Range	Weighted Average Interest Rate*
Super Prime	$ 54,947	$ 53,641	4.0% - 34.0%	11.7%
Prime	156,405	149,537	5.3% - 36.0%	15.4%
Near Prime	585,331	556,411	6.0% - 36.0%	26.7%

*Weighted by outstanding principal balance of the online consumer loans.

As of December 31, 2016, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of $810,254 and a fair value of $948,621, including our investment in online consumer lending as discussed above. The fair value of $554,304 related to NPRC's real estate portfolio was comprised of thirty eight multi-families properties, twelve self-storage units, eight student housing properties and three commercial properties. 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 December 31, 2016.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Filet of Chicken	Forest Park, GA	10/24/2012	$ 7,400	$ —
2	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	46,700
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,376
4	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
5	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	180,475
6	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	32,468
7	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	11,375
8	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	13,845
9	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	24,700
10	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	17,550
11	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	14,092
12	Verandas at Rocky Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
13	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	19,949
14	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,324
15	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	32,986
16	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	29,824
17	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	41,677
18	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	62,498
19	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	23,058
20	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	11,219
21	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	4,804
22	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	13,210
23	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	13,264
24	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	15,710
25	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	27,874
26	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	4,834
27	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	8,044

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
28	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,688
29	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
30	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
31	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
32	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
33	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
34	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
35	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
36	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	8,927	6,695
37	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
38	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	74,229
39	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	10,440
40	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	11,000
41	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	20,142
42	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	10,080
43	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	10,480
44	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	15,480
45	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	12,240
46	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	8,040
47	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
48	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
49	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
50	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
51	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
52	SSIL I, LLC	Aurora, IL	11/5/2015	34,500	26,450
53	Vesper Tuscaloosa, LLC	Tuscaloosa, AL	9/28/2016	54,500	41,250
54	Vesper Iowa City, LLC	Iowa City, IA	9/28/2016	32,750	24,825
55	Vesper Corpus Christi, LLC	Corpus Christi, TX	9/28/2016	14,250	10,800
56	Vesper Campus Quarters, LLC	Corpus Christi, TX	9/28/2016	18,350	14,175
57	Vesper College Station, LLC	College Station, TX	9/28/2016	41,500	32,058
58	Vesper Kennesaw, LLC	Kennesaw, GA	9/28/2016	57,900	44,727
59	Vesper Statesboro, LLC	Statesboro, GA	9/28/2016	7,500	6,087
60	Vesper Manhattan KS, LLC	Manhattan, KS	9/28/2016	23,250	18,460
61	JSIP Union Place, LLC	Franklin, MA	12/7/2016	64,750	51,800
				1,491,691	1,213,672

The Board of Directors increased the fair value of our investment in NPRC to $948,621 as of December 31, 2016, a premium of $138,367 from its amortized cost, compared to the $116,557 unrealized appreciation, inclusive of APRC and UPRC, recorded at June 30, 2016. This increase is primarily due to improved operating performance at the property level.

NMMB, Inc.

Prospect owns 100% of the equity of NMMB Holdings, a Consolidated Holding Company. NMMB Holdings owns 96.33% of the fully-diluted equity of NMMB (f/k/a NMMB Acquisition, Inc.), with NMMB management owning the remaining 3.67% of the equity. NMMB owns 100% of Refuel Agency, Inc. (“Refuel Agency”). Refuel Agency owns 100% of Armed Forces Communications, Inc. NMMB is an advertising media buying business.

The Board of Directors increased the fair value of our investment in NMMB to $15,286 as of December 31, 2016, a discount of $8,297 to its amortized cost, compared to the discount of $13,576 to its amortized cost at June 30, 2016. The increase in fair value was driven primarily by growth in the digital and out-of-home advertising business lines, which have increased NMMB's gross profit and EBITDA margins.

USES Corp.

We own 99.96% of USES as of December 31, 2016. USES provides industrial and environmental services in the Gulf States region. The company offers industrial services, such as tank and chemical cleaning, hydro blasting, waste management, vacuum, safety training, turnaround management, and oilfield. It also offers response/remediation services, including hazardous and non-hazardous material emergency response, oil spill response, industrial fire suppression, disaster response, remediation, demolition and safety training. The company serves pulp paper, oil and gas production, utilities, transportation, refinery, petrochemical, shipping, manufacturing, government, engineering, consulting, spill management and chemical industries.

On June 15, 2016, we provided additional $1,300 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt and, in connection with such Term Loan A debt financing, USES issued to us 99,900 shares of its common stock. On June 29, 2016, we provided additional $2,200 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt and, in connection with such Term Loan A debt financing, USES issued to us 169,062 shares of its common stock. As a result of such debt financing and recapitalization, as of June 29, 2016, we held 268,962 shares of USES common stock representing a 99.96% common equity ownership interest in USES.

The first half of calendar year 2016 saw the company's revenue suffer due to a pullback in capital and maintenance spending across the energy sector. In addition the company did not benefit from any large emergency response projects. As a result a number of changes have been made to position the company for growth again. The company has replaced the CEO and CFO. Under the new leadership, the company is now operating under a right-sized cost structure. The company is also improving its fleet of equipment with support from Prospect and other financing sources. Management has implemented a new sales strategy that is helping build the company's revenue backlog across multiple end markets and service lines.

Due to an increase in outlook as a result of new business, improved sales force and focus toward higher margin service lines, the Board of Directors determined the fair value of our investment in USES to be $43,104 as of December 31, 2016, a discount of $18,622 from its amortized cost, compared to the $21,440 unrealized depreciation recorded at June 30, 2016.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric as of December 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. 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%.

In early 2016, Valley's project backlog and revenue steadily improved primarily due to a more robust construction market in the state of Washington and successful project execution.

Due to the softening of the energy markets partially offset by increased project margins, the Board of Directors determined the fair value of our investment in Valley Electric to be $30,921 as of December 31, 2016, a discount of $30,281 from its amortized cost, compared to the $29,345 unrealized depreciation recorded at June 30, 2016.

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 six months ended December 31, 2016. See above for discussions regarding the fluctuations in Arctic Energy, CP Energy, First Tower Finance, Freedom Marine, Gulf Coast, NMMB, NPRC, USES and Valley Electric. In total, eight of the controlled investments are valued at the original investment amounts or higher, and nine of the controlled investments have been valued at discounts to the current amortized cost basis. Overall, at December 31, 2016, control investments are valued at $13,473 below their amortized cost.

Our one affiliate investment, Targus, did not experience a significant change in valuation during the six months ended December 31, 2016 and was valued at $711 below its amortized cost.

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. As of December 31, 2016, three of our non-control/non-affiliate investments, Ark-La-Tex Wireline Services (“Ark-La-Tex”), LLC, Pacific World Corporation (“Pacific World”) and Spartan Energy Services, Inc. (“Spartan”), are valued at discounts to amortized cost of $34,518, $31,626 and $15,439, respectively. As of December 31, 2016, our CLO portfolio is valued at a $57,818 discount to amortized cost. Excluding our investments in Ark-La-Tex, Pacific World, Spartan, and CLO investments, non-control/non-affiliate investments at December 31, 2016 are valued $21,332 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 December 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 April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in March 2013, April 2014, December 2015, and from time to time, through our 2024 Notes Follow-on Program; and Prospect Capital InterNotes® which we issue from time to time. Our equity capital is comprised entirely of common equity.

The following table shows our outstanding debt as of December 31, 2016.

	Principal Outstanding	Unamortized Discount & Debt Issuance Costs	Net Carrying Value		Fair Value (1)		Effective Interest Rate	
Revolving Credit Facility (2)	$—	$ 6,141	$—	(3)	$—		1ML+2.25%	(6)
2017 Notes	129,500	529	128,971		132,949	(4)	5.91%	(7)
2018 Notes	200,000	1,551	198,449		205,490	(4)	6.42%	(7)
2019 Notes	200,000	2,407	197,593		206,006	(4)	6.51%	(7)
2020 Notes	392,000	7,508	384,492		385,140	(4)	5.38%	(7)
Convertible Notes	921,500		909,505		929,585			
5.00% 2019 Notes	300,000	2,095	297,905		308,481	(4)	5.29%	(7)
2023 Notes	250,000	4,383	245,617		257,058	(4)	6.22%	(7)
2024 Notes	199,281	5,492	193,789		200,078	(4)	6.72%	(7)
Public Notes	749,281		737,311		765,617			
Prospect Capital InterNotes®	962,099	14,927	947,172		973,533	(5)	5.63%	(8)
Total	$2,632,880		$2,593,988		$2,668,735			

(1)As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® at fair value. The fair value of these debt obligations are categorized as Level 2 under ASC 820 as of December 31, 2016.

(2)The maximum draw amount of the Revolving Credit facility as of December 31, 2016 is $885,000.

(3)Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Critical Accounting Policies and Estimates for accounting policy details.

(4)We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.

(5)The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread.

(6)Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.

(7)The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.

(8)For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate.

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of December 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	921,500	129,500	400,000	392,000	—
Public Notes	749,281	—	300,000	—	449,281
Prospect Capital InterNotes®	962,099	19,604	284,214	384,393	273,888
Total Contractual Obligations	$2,632,880	$149,104	$984,214	$776,393	$723,169

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 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	711,380	—	—	300,000	411,380
Prospect Capital InterNotes®	908,808	8,819	257,198	360,599	282,192
Total Contractual Obligations	$2,709,188	$176,319	$786,698	$1,052,599	$693,572

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 December 31, 2016, we can issue up to $4,990,363 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 August 29, 2014, we renegotiated our previous credit facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” or the “Revolving Credit Facility”). The lenders have extended commitments of $885,000 under the 2014 Facility as of December 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 December 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. Additionally, the lenders charge a fee on the unused portion of the 2014 Facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise. The 2014 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

As of December 31, 2016 and June 30, 2016, we had $560,646 and $538,456, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was $0 and $0, 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 December 31, 2016, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of $1,361,116, which represents 22.2% 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 were carried over for continuing participants from the previous facility, all of which are being amortized over the term of the facility in accordance with ASC 470-50. $6,141 remains to be amortized and is reflected as deferred financing costs on the Consolidated Statements of Assets and Liabilities as of December 31, 2016.

During the three months ended December 31, 2016 and December 31, 2015, we recorded $3,066 and $3,544, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense. During the six months ended December 31, 2016 and December 31, 2015, we recorded $6,029 and $7,245, 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 bore 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 August 15, 2016, we repaid the outstanding principal amount of the 2016 Notes, plus interest. No gain or loss was realized on the transaction.

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 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 2017 Notes, the 2018 Notes, the 2019 Notes and the 2020 Notes (collectively, the “Convertible Notes”) are listed below.

	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	85.8442	82.3451	79.7766	80.6647
Initial conversion price	$11.65	$12.14	$12.54	$12.40
Conversion rate at December 31, 2016(1)(2)	87.7516	84.1497	79.8360	80.6670
Conversion price at December 31, 2016(2)(3)	$11.40	$11.88	$12.53	$12.40
Last conversion price calculation date	4/16/2016	8/14/2016	12/21/2016	4/11/2016
Dividend threshold amount (per share)(4)	$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.

(3)The conversion price in effect at December 31, 2016 was calculated on the last anniversary of the issuance and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

(4)The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment. Current dividend rates are below the minimum dividend threshold amount for further conversion rate adjustments for all bonds.

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 $29,116 of fees which are being amortized over the terms of the notes, of which $11,995 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of December 31, 2016.

During the three months ended December 31, 2016 and December 31, 2015, we recorded $13,477 and $18,189, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense. During the six months ended December 31, 2016 and December 31, 2015, we recorded $28,190 and $36,918, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

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Public Notes

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 $243,641.

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 $155,043. On June 16, 2016, we entered into an at-the-market program with FBR Capital Markets & Co. through which we could sell, by means of at-the-market offerings, from time to time, up to $100,000 in aggregate principal amount of our existing 2024 Notes (“2024 Notes Follow-on Program”). As of December 31, 2016, we issued $199,281 in aggregate principal amount of our 2024 Notes for net proceeds of $193,253 after commissions and offering costs.

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 $13,612 of fees which are being amortized over the term of the notes, of which $9,942 remains to be amortized and is included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities as of December 31, 2016.

During the three months ended December 31, 2016 and December 31, 2015, we recorded $11,058 and $8,340, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense. During the six months ended December 31, 2016 and December 31, 2015, we recorded $21,838 and $16,161, 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 six months ended December 31, 2016, we issued $64,731 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $63,926. These notes were issued with stated interest rates ranging from 4.75% to 5.50% with a weighted average interest rate of 5.25%. These notes mature between July 15, 2021 and December 15, 2021.

During the six months ended December 31, 2015, we issued $69,289 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $68,235. These notes were issued with stated interest rates ranging from 4.63% to 6.00% with a weighted average interest rate of 5.07%. These notes mature between July 15, 2020 and December 15, 2025.

The following table summarizes the Prospect Capital InterNotes® issued during the six months ended December 31, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate		Maturity Date Range
5	$ 32,357	4.63%–5.38%	4.85	%	July 15, 2020 – December 15, 2020
6.5	35,155	5.10%–5.25%	5.25	%	January 15, 2022 – May 15, 2022
7	990	5.63%–5.75%	5.65	%	November 15, 2022 – December 15, 2022
10	787	5.88%–6.00%	5.89	%	November 15, 2025 – December 15, 2025
	$ 69,289				

During the six months ended December 31, 2016, we repaid $5,730 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 six months ended December 31, 2016 was $185. The following table summarizes the Prospect Capital InterNotes® outstanding as of December 31, 2016.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate		Maturity Date Range
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	323,619	4.25%–5.50%	5.01	%	July 15, 2018 – December 15, 2021
5.2	4,440	4.63%	4.63	%	August 15, 2020 – September 15, 2020
5.3	2,686	4.63%	4.63	%	September 15, 2020
5.4	5,000	4.75%	4.75	%	August 15, 2019
5.5	109,343	4.25%–5.00%	4.65	%	February 15, 2019 – November 15, 2020
6	2,182	3.38%	3.38	%	April 15, 2021 – May 15, 2021
6.5	40,762	5.10%–5.50%	5.24	%	February 15, 2020 – May 15, 2022
7	191,521	4.00%–6.55%	5.13	%	June 15, 2019 – December 15, 2022
7.5	1,996	5.75%	5.75	%	February 15, 2021
10	37,509	3.85%–7.00%	6.14	%	March 15, 2022 – December 15, 2025
12	2,978	6.00%	6.00	%	November 15, 2025 – December 15, 2025
15	17,300	5.25%–6.00%	5.36	%	May 15, 2028 – November 15, 2028
18	21,817	4.13%–6.25%	5.53	%	December 15, 2030 – August 15, 2031
20	4,292	5.63%–6.00%	5.89	%	November 15, 2032 – October 15, 2033
25	34,544	6.25%–6.50%	6.39	%	August 15, 2038 – May 15, 2039
30	113,311	5.50%–6.75%	6.23	%	November 15, 2042 – October 15, 2043
	$962,099				

During the six months ended December 31, 2015, we repaid $2,606 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 six months ended December 31, 2015 was $63.

The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 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	259,191	4.25%–5.75%	4.95	%	July 15, 2018 – June 15, 2021
5.2	4,440	4.63%	4.63	%	August 15, 2020 – September 15, 2020
5.3	2,686	4.63%	4.63	%	September 15, 2020
5.4	5,000	4.75%	4.75	%	August 15, 2019
5.5	109,808	4.25%–5.00%	4.65	%	February 15, 2019 – November 15, 2020
6	2,197	3.38%	3.38	%	April 15, 2021 – May 15, 2021
6.5	40,867	5.10%–5.50%	5.24	%	February 15, 2020 – May 15, 2022
7	192,076	4.00%–6.55%	5.13	%	June 15, 2019 – December 15, 2022
7.5	1,996	5.75%	5.75	%	February 15, 2021
10	37,533	3.62%–7.00%	6.11	%	March 15, 2022 – December 15, 2025
12	2,978	6.00%	6.00	%	November 15, 2025 – December 15, 2025
15	17,325	5.25%–6.00%	5.36	%	May 15, 2028 – November 15, 2028
18	22,303	4.13%–6.25%	5.53	%	December 15, 2030 – August 15, 2031
20	4,462	5.63%–6.00%	5.89	%	November 15, 2032 – October 15, 2033
25	35,110	6.25%–6.50%	6.39	%	August 15, 2038 – May 15, 2039
30	116,327	5.50%–6.75%	6.23	%	November 15, 2042 – October 15, 2043
	$908,808				

In connection with the issuance of Prospect Capital InterNotes®, we incurred $23,504 of fees which are being amortized over the term of the notes, of which $14,927 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of December 31, 2016. During the three months ended December 31, 2016 and December 31, 2015, we recorded $13,247 and $12,132 , respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the six months ended December 31, 2016 and December 31, 2015, we recorded $26,460 and $23,838, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Net Asset Value

During the six months ended December 31, 2016, our net asset value was stable on both a dollars and per share basis, primarily from unrealized appreciation on our investments offset by dividends exceeding net investment income. Our net investment income decreased primarily from a decrease in interest income following the sale of Harbortouch in May 2016. This decrease was partially offset by the increased earnings from new non-control investments during the six months ended December 31, 2016 and lower management fees. The following table shows the calculation of net asset value per share as of December 31, 2016 and June 30, 2016.

	December 31, 2016	June 30, 2016
Net assets	$3,454,596	$3,435,917
Shares of common stock issued and outstanding	359,000,280	357,107,231
Net asset value per share	$9.62	$9.62

Results of Operations

Net increase (decrease) in net assets from operations for the three months ended December 31, 2016 and December 31, 2015 was $100,880 and $(95,120). The $196,000 increase is primarily due to net unrealized gains of $16,681 recognized during the three months ended December 31, 2016 compared to $190,647 of net unrealized losses

recognized during the three months ended December 31, 2015. This fluctuation is primarily due to non-credit related macro changes in the capital markets

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impacting our valuations in late calendar year 2015. The $207,328 favorable increase in the net change in unrealized gains (losses) is partially offset by a $16,488, or $0.04 per weighted average share, decline in net investment income primarily due to a $11,712 decline in interest income driven by a reduced interest earning asset base and a $12,167 decline in dividend income primarily from our investment in APRC. These changes were partially offset by a $9,223 reduction in operating expenses, including $5,018 of advisory fees.

Net increase (decrease) in net assets resulting from operations for the six months ended December 31, 2016 and December 31, 2015 was $182,246 and $(67,303). The $249,549 increase is primarily due to net unrealized gains of $18,475 recognized during the six months ended December 31, 2016 compared to $251,922 of net unrealized losses recognized during the six months ended December 31, 2016. This fluctuation is primarily due to non-credit related macro changes in the capital markets impacting our valuations in late calendar year 2015. The $270,397 favorable increase in net change in unrealized gains (losses) is partially offset by a $28,811, or $0.08 per weighted average share, decline in net investment income primarily due to a $31,365 decline in interest income driven by a reduced interest earning asset base and a $12,998 decline in dividend income primarily from our investment in APRC. These changes were partially offset by a $17,319 reduction in operating expenses, including $10,260 of advisory fees. (See "Net Realized Losses", "Net Change in Unrealized Appreciation (Depreciation)" and "Investment Income" 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 $183,480 and $209,191 for the three months ended December 31, 2016 and December 31, 2015, respectively. Investment income was $363,312 and $409,442 for the six months ended December 31, 2016 and December 31, 2015, respectively. The decreases are primarily the result of a reduced interest earning asset base as repayments exceeded originations for the six months ended December 31, 2016. The following table describes the various components of investment income and the related levels of debt investments:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Interest income	$174,791	$186,503	$346,441	$377,806
Dividend income	1,379	13,546	3,763	16,761
Other income	7,310	9,142	13,108	14,875
Total investment income	$183,480	$209,191	$363,312	$409,442
Average debt principal of performing investments	$5,679,706	$6,064,441	$5,683,930	$6,224,977
Weighted average interest rate earned on performing assets	12.04 %	12.03 %	11.93 %	11.88 %

Average interest income producing assets decreased from $6,064,441 for the three months ended December 31, 2015 to $5,679,706 for the three months ended December 31, 2016. The average interest earned on interest bearing performing assets increased from 12.03% for the three months ended December 31, 2015 and 12.04% for the three months ended December 31, 2016.

Average interest income producing assets decreased from $6,224,977 for the six months ended December 31, 2015 to $5,683,930 for the six months ended December 31, 2016. The average interest earned on interest bearing performing assets increased from 11.88% for the six months ended December 31, 2015 to 11.93% for the six months ended December 31, 2016. This increase is primarily due to repayments of lower yielding portfolio investments.
Investment income is also generated from dividends and other income which is less predictable than interest income. Dividend income decreased from $13,546 for the three months ended December 31, 2015 to $1,379 for the three months ended December 31, 2016. The $12,167 decrease in dividend income is primarily attributed to an $11,016 dividend received during the three months ended December 31, 2015 from our investment in APRC resulting from the sale of APRC's Vista Palma Sola property. No such dividend was received from NPRC during the three months ended December 31, 2016. The level of dividends received from our investment in Nationwide and MITY decreased by $392 and $242, respectively, during the three months ended December 31, 2016 as compared to the same period in the prior year. We also received a dividend of $413 related to our investment in CCPI during the three months ended December 31, 2015. No such dividend was received from CCPI during the three months ended December 31, 2016.
Dividend income decreased from $16,761 for the six months ended December 31, 2015 to $3,763 for the six months ended December 31, 2016. The $12,998 decrease in dividend income is primarily attributed to an $11,016 dividend received during the three months ended December 31, 2015 from our investment in APRC resulting from the sale of APRC's Vista Palma Sola property. No such dividend was received from NPRC during the six months ended December 31, 2016. Additionally, the level of dividends received from our investment in CCPI and MITY decreased by $3,072 and $242, respectively, during the six months ended December 31, 2016 as compared to the same period in the prior year. This decrease was partially offset by an increase of $893 in dividends received from Nationwide for the six months ended December 31, 2016.
Other income has come primarily from structuring fees, which are generated from originations and will fluctuate as levels of originations and types of originations fluctuate. Income from other sources was $7,310 and $9,142 for the three months ended December 31, 2016 and December 31, 2015, respectively. Included within other income is $5,797 and $7,112 of structuring fees for the three months ended December 31, 2016 and December 31, 2015, respectively. The decrease in structuring fees is due to an increased level of originations in non-control, broadly syndicated portfolio investments during the three months ended December 31, 2016.
Other income has come primarily from structuring fees, which are generated from originations and will fluctuate as levels of originations and types of originations fluctuate. Income from other sources was $13,108 and $14,875 for the six months ended December 31, 2016 and December 31, 2015, respectively, holding consistent at approximately $0.04 per weighted average shares outstanding. Included within other income is $10,273 and $10,754 of structuring fees for the six months ended December 31, 2016 and December 31, 2015. The decrease in structuring fees is due to an increased level of originations in non-control, broadly syndicated portfolio investments during the six months ended December 31, 2016.
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 $99,075 and $108,298 for the three months ended December 31, 2016 and December 31, 2015, respectively. Operating expenses were $199,988 and $217,307 for the six months ended December 31, 2016 and December 31, 2015, respectively.
The net base management fee was $30,886 and $31,781 for the three months ended December 31, 2016 and December 31, 2015, respectively (holding constant at $0.09 per weighted average share). Total gross base management fee was $31,095 and $32,251 for the three months ended December 31, 2016 and December 31, 2015, respectively. The $1,156 decrease in total gross base management fee is directly related a decrease in average total assets. The Investment Adviser has entered into a servicing agreement with certain institutions who purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. During the three

months ended December 31, 2016 and December 31, 2015, we received payments of $209 and $470, respectively, from these institutions, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments, which reduced the base management fee payable to $30,886 and $31,781 for the three months ended December 31, 2016 and December 31, 2015, respectively.

The net base management fee was $61,678 and $64,735 for the six months ended December 31, 2016 and December 31, 2015, respectively ($0.17 and $0.18 per weighted average share, respectively). Total gross base management fee was $62,435 and $65,667 for the six months ended December 31, 2016 and December 31, 2015, respectively. The $3,232 decrease in total gross base management fee is directly related 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. We received payments of $757 and $932 from these institutions for the six months ended December 31, 2016 and December 31, 2015, respectively, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net base management fees of $61,678 and $64,735 for the six months ended December 31, 2016 and December 31, 2015.

For the three months ended December 31, 2016 and December 31, 2015, we incurred $21,101 and $25,224 of income incentive fees, respectively ($0.06 and $0.07 per weighted average share, respectively). This decrease was driven by a corresponding decrease in pre-incentive fee net investment income from $126,117 for the three months ended December 31, 2015 to $105,506 for the three months ended December 31, 2016, primarily due to a decrease in interest and dividend income from a reduced level of investments. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

For the six months ended December 31, 2016 and December 31, 2015, we incurred $40,831 and $48,034 of income incentive fees, respectively ($0.11 and $0.13 per weighted average share, respectively). This decrease was driven by a corresponding decrease in pre-incentive fee net investment income from $240,169 for the six months ended December 31, 2015 to $204,155 for the six months ended December 31, 2016, primarily due to a decrease in interest income due to repayments on investments and a decrease in interest income due to increased default rates in the underlying collateral of our CLO investments. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended December 31, 2016 and December 31, 2015, we incurred $40,848 and $42,205, respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Notes”). During the six months ended December 31, 2016 and December 31, 2015, we incurred $82,517 and $84,162, 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 years.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Interest on borrowings	$35,454	$36,931	$71,168	$74,247
Amortization of deferred financing costs	3,127	3,365	6,758	6,921
Accretion of discount on Public Notes	68	49	132	98
Facility commitment fees	2,199	1,860	4,459	2,896
Total interest and credit facility expenses	$40,848	$42,205	$82,517	$84,162
Average principal debt outstanding	$2,649,321	$2,842,501	$2,658,370	$2,899,614
Weighted average stated interest rate on borrowings(1)	5.35 %	5.20 %	5.35 %	5.12 %
Weighted average interest rate on borrowings(2)	6.17 %	5.94 %	6.21 %	5.81 %

(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 is relatively stable for the three months ended December 31, 2016 as compared to the three months ended December 31, 2015. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) increased from 5.20% for the three months ended December 31, 2015 to 5.35% for the three months ended December 31, 2016. This increase is primarily due to issuances of the 2024 Notes and Prospect

Capital InterNotes® at higher rates, partially offset by the repayment of the matured August 15, 2016 unsecured convertible note.

Interest expense is relatively stable for the six months ended December 31, 2016 as compared to the six months ended December 31, 2015. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) increased from 5.12% for the six months ended December 31, 2015 to 5.35% for the six months ended December 31, 2016. This increase is primarily due to issuances of the 2024 Notes and Prospect Capital InterNotes® at higher rates, partially offset by the repayment of the matured August 15, 2016 unsecured convertible notes.

The allocation of gross overhead expense from Prospect Administration was $4,442 and $4,351 for the three months ended December 31, 2016 and December 31, 2015, respectively. Prospect Administration received estimated payments of $909 and $1,151 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 December 31, 2016 and December 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. Additionally, during the three months ended December 31, 2016, certain other operating expenses incurred by us which were attributable to CCPI have been reimbursed by CCPI and are reflected as an offset of $876 to our overhead allocation. No such reimbursement occurred during the three months ended December 31, 2015. During the three months ended December 31, 2015, we renegotiated the managerial assistance agreement with First Tower and reversed $1,200 of previously accrued managerial assistance at First Tower Delaware as the fee was paid by First Tower, which decreased our overhead expense. Therefore, net overhead during the three months ended December 31, 2016 and December 31, 2015 totaled $2,657 and $2,000, respectively.

The allocation of gross overhead expense from Prospect Administration was $9,313 and $9,249 for the six months ended December 31, 2016 and December 31, 2015, respectively. Prospect Administration received estimated payments of $2,247 and $2,849 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the six months ended December 31, 2016 and December 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. Additionally, during the six months ended December 31, 2016, certain other operating expenses incurred by us which were attributable to CCPI have been reimbursed by CCPI and are reflected as an offset of $876 to our overhead allocation. No such reimbursement occurred during the six months ended December 31, 2015. During the six months ended December 31, 2015, we renegotiated the managerial assistance agreement with First Tower and reversed $1,200 of previously accrued managerial assistance at First Tower Delaware, $600 of which was expensed during the three months ended December 31, 2015, as the fee was paid by First Tower, which decreased our overhead expense. During the six months ended December 31, 2015, we also incurred $378 of overhead expense related to our consolidated entity SB Forging. Therefore, net overhead during the six months ended December 31, 2016 and December 31, 2015 totaled $6,190 and $6,178, respectively.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration (“Other Operating Expenses”) was $3,583 and $7,088 for the three months ended December 31, 2016 and December 31, 2015, respectively. The decrease of $3,505 during the three months ended December 31, 2016 is primarily due to a decrease in other general and administrative expenses from tax services expenses in our controlled companies and a reversal of excise tax previously accrued. Other Operating Expenses were $8,772 and $14,198 for the six months ended December 31, 2016 and December 31, 2015, respectively. The decrease of $5,426 during the six months ended December 31, 2016 is primarily due other general and administrative expenses from tax services expenses in our controlled companies and a reversal of excise tax previously accrued due to lower levels of taxable income.

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was $84,405 and $100,893 and for three months ended December 31, 2016 and December 31, 2015, respectively. Net investment income for three months ended December 31, 2016 and December 31, 2015 was $0.24 and $0.28 per weighted average share, respectively. During the three months ended December 31, 2016, the decrease is primarily due to a $12,167, or $0.04 per weighted average share, decrease in dividend income from our investment in APRC discussed above and a $11,712 decrease interest income driven by our reduced interest earning asset base.

This decrease was offset by a $5,018, or $0.01 per weighted average share, decrease in total advisory fees.
Net investment income was $163,324 and $192,135 for the six months ended December 31, 2016 and December 31, 2015, respectively. Net investment income for six months ended December 31, 2016 and December 31, 2015 was $0.46 and $0.54 per weighted average share, respectively. The $28,811 decrease during the six months ended December 31, 2016 is primarily the result of a $12,998 decrease in dividend income related to APRC's sale of the Vista property and a $31,365 decrease in interest income driven by an increase in foregone interest on non-accrual loans and our reduced interest earning asset base. These decreases were offset by a favorable $10,260 decrease in advisory fees.

Net Realized Gains/Losses

During the three months ended December 31, 2016, we recognized a net realized loss of $82, as compared to the $5,318 of net realized losses recognized during three months ended December 31, 2015. The net realized loss during the three months ended December 31, 2016 was primarily due to write-off of defaulted loans in our small business lending portfolio of $879, partially offset by a working capital adjustment from our investment in Harbortouch and the exercise of warrants in our investment in R-V. The net realized loss during the three months ended December 31, 2015 was primarily due to the sale of our investments in American Gilsonite Company ("American Gilsonite") and ICON Health & Fitness, Inc. ("ICON"), amounting to $4,243 in realized losses. Additionally, write-offs of our small business whole loans contributed to the net realized loss during the three months ended December 31, 2015.

During the six months ended December 31, 2016, we recognized a net realized gain of $632, as compared to the 7,453 of net realized losses recognized during six months ended December 31, 2015. The net realized gain during the six months ended December 31, 2016 was primarily due to the receipt of bankruptcy proceeds from our investment in New Century Transportation, Inc. of $936, a working capital adjustment from our investment in Harbortouch of $432, the exercise of warrants in our investment in R-V for $171, as well as from the sales of our investments in Biotronic, Big Tex and Nathan's for which we recognized total realized gains of $514. These gains were offset by the write-off of defaulted loans in our small business lending portfolio of $1,618. The net realized loss during the six months ended December 31, 2015 was primarily due to the sale of our investments in American Gilsonite and ICON, amounting to $4,243 in realized losses. Additionally, write-offs of our small business whole loans contributed $3,749 to the net realized loss during the six months ended December 31, 2015.

Net Change in Unrealized Gains (Losses)

Net change in unrealized gains was $16,681 for the three months ended December 31, 2016 primarily due to positive trends in the broader market. Unrealized gains on our CLO equity investments comprised $39,591 of the total net change in unrealized gains (losses), consistent with positive trends in the broader market, and we also increased the value of our investment in NMMB by $5,404 due to improved operating performance. These gains were partially offset by unrealized losses on our energy-related investments of $3,349 and a decline in our online lending portfolio of $11,894 resulting from an increase in delinquent loans. The remaining $13,071 increase in unrealized losses is primarily a result of declined operating performance in Pacific World.

For the three months ended December 31, 2015, the $190,647 increase in net unrealized gains (losses) 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 $106,905 of total net change in unrealized losses and unrealized losses on our energy-related investments comprised $34,440 of total net change in unrealized losses for the three months ended December 31, 2015. During the three months ended December 31,2015, we also reduced the value of our investment in Harbortouch by $13,254 due to market developments. As of December 31, 2015, the value of our investment in Harbortouch is at a premium of $40,933 to our cost basis. During the three months ended December 31, 2015, our portfolio was negatively impacted by increased regulatory uncertainty within the consumer finance industry and we recognized $24,722 in unrealized losses, primarily related to our investment in First Tower. The remaining $11,326 net increase in net unrealized losses is primarily the result of current market conditions and the impact on current yields impacting our debt investment portfolio across various industries.

For the six months ended December 31, 2016, the $18,475 net increase in unrealized gains (losses) was the result of positive trends in the broader market. Unrealized gains on our CLO equity investments comprised $16,027 of the total net change in unrealized gains, consistent with positive trends in the broader market, and unrealized gains on our REIT investment comprised $36,001 of total net change in unrealized gains for the six months ended December 31, 2016 primarily due to improved operating performance at the property level. These gains were partially offset by unrealized losses on our energy-related investments of $27,827. Additionally, the value of our investment in Pacific World decreased by $10,830 due to a decline in operating performance, and our online lending portfolio declined in value by $14,189 due to an increase in delinquent loans. The remaining $19,292 increase in net unrealized gains was due to operating improvements across multiple investments and industries.

For the six months ended December 31, 2015, the $251,922 net increase in unrealized gains (losses) 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 $119,963 of total net change in unrealized losses and unrealized losses on our energy-related investments comprised $43,598 of total net change in unrealized losses for the six months ended December 31, 2015. During the six months ended December 31, 2015, we also reduced the value of our investment in Harbortouch by $30,544 due to market developments. During the six months ended December 31, 2015, the valuation of our portfolio was negatively impacted by increased regulatory scrutiny within the consumer finance industry and we recognized $26,208 in unrealized losses, primarily related to our investment in First Tower. The remaining $31,609 net increase in unrealized losses is primarily the result of current market conditions and the impact on current yields impacting our debt investment portfolio across various industries.

Financial Condition, Liquidity and Capital Resources

For the six months ended December 31, 2016 and December 31, 2015, our operating activities provided $128,165 and $413,521 of cash, respectively. There were no investing activities for the six months ended December 31, 2016 and December 31, 2015. Financing activities used $242,052 and $445,193 of cash during the six months ended December 31, 2016 and December 31, 2015, respectively, which included dividend payments of $163,409 and $170,605, 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 six months ended December 31, 2016, we borrowed $210,000 and made repayments totaling $210,000 under the Revolving Credit Facility. As of December 31, 2016, we had, net of unamortized discount and debt issuance costs, $909,505 outstanding on the Convertible Notes, $737,311 outstanding on the Public Notes and $947,172 outstanding on the Prospect Capital InterNotes®, and no outstanding balance on the Revolving Credit Facility. (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 4.00%. As of December 31, 2016 and June 30, 2016, we had $36,984 and $40,560, 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 zero as of December 31, 2016 and June 30, 2016.

Our shareholders’ equity accounts as of December 31, 2016 and June 30, 2016 reflect cumulative shares issued, net of shares repurchased, 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 21, 2016 and our most recent notice was delivered with a shareholder letter mailing on January 13, 2017. This notice extends for six months after the date that notice is delivered. We did not repurchase any shares of our common stock for the six months ended December 31, 2016. During the six months ended December 31, 2015, we repurchased 4,708,750 shares of our common stock pursuant to our publicly announced 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 $0.03 for the six months ended December 31, 2015 as a result of the share repurchases.

On November 3, 2016, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $4,990,363 of additional debt and equity securities in the public market as of December 31, 2016.

Off-Balance Sheet Arrangements

As of December 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

On January 17, 2017, we invested an additional $8,000 of Senior Secured Term Loan A and $8,000 of Senior Secured Term Loan B debt investments in MITY, to fund an acquisition.

On January 17, 2017, we made a $68,000 of Senior Secured Term Loan A and $68,000 of Senior Secured Term Loan B debt investments in Centerfield Media Holdings, LLC, a provider of customer acquisition and conversion services, to support an acquisition and refinancing of existing debt.

On January 31, 2017, we made a $20,000 of Senior Secured Term Loan A and $20,000 of Senior Secured Term Loan B debt investments in Traeger Pellet Grills LLC, to fund a recapitalization of the company.

On February 1, 2017, we made a $10,000 senior secured second lien debt investment to support a recapitalization in CURO Financial Technologies Corp.
On February 17, 2017, we made a $14,500 second lien secured investment in Turning Point Brands, Inc., a provider of other tobacco products.
On February 23, 2017, SESAC Holdco II LLC repaid the $10,000 loan receivable to us.
On February 24, 2017, we made an additional $33,000 of Senior Secured Term Loan A and $7,000 of Senior Secured Term Loan B debt investment in Matrixx Initiatives, Inc. to fund a dividend recapitalization.
On February 28, 2017, Generation Brands Holdings, Inc. ("Generation Brands") repaid the $19,000 loan receivable to us. On March 8, 2017, we made a $20,000 second lien secured investment to support Generation Brand's refinancing and acquisition of VC GB Holdings II Corp.
On March 16, 2017, we made a first lien senior secured investment of $38,000 to support the recapitalization of Memorial MRI & Diagnostic, L.L.C., a provider of multi modality diagnostic imaging and pain management services.
On March 17, 2017, CURO Group Holdings Corp (f/k/a Speedy Cash Holdings Corp.) repaid the $25,000 loan receivable to us.
On March 20, 2017, Arctic Glacier U.S.A, Inc. repaid the $150,000 loan receivable to us.
On March 28, 2017, we made a $15,000 of Senior Secured Term Loan A and $15,000 of Senior Secured Term Loan B debt investment to support an acquisition of EZShield, Parent Inc., a provider of fraud and identify theft protection services.
On March 31, 2017, ALG USA Holdings, LLC repaid the $11,771 loan receivable to us.
During the period from February 6, 2017 through February 27, 2017, we received a partial repayment of $35,850 of our loans previously outstanding with National Property REIT Corp. ("NPRC"), and its wholly owned subsidiaries and $14,798 as a return of capital on our equity investment in NPRC.
During the period from January 12, 2017 through March 15, 2017, we made a follow on investment in NPRC totaling $15,171 to support the online consumer lending initiative. We invested $3,793 of equity through NPH Property Holdings, LLC ("NPH") and $11,378 of debt directly to NPRC and its wholly owned subsidiaries. We also provided $30,644 of debt and $10,721 of equity financing to NPRC, which was utilized for the acquisition of a property. In addition, we provided $4,561 of equity investment which was used to fund capital expenditures for existing properties.
During the period from January 1, 2017 through March 31, 2017, we issued $44,490 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $43,934 million. In addition, we sold $8,006 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $7,906 with expected closing on April 6, 2017.
During the period from January 3, 2017 through March 30, 2017, our wholly owned subsidiary Prospect Small Business Lending, LLC purchased $11,521 of whole loans from On Deck Capital, Inc., an online small business lender.
On February 7, 2017, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.08333 per share for February 2017 to holders of record on February 28, 2017 with a payment date of March 23, 2017.
- $0.08333 per share for March 2017 to holders of record on March 31, 2017 with a payment date of April 20, 2017.
- $0.08333 per share for April 2017 to holders of record on April 28, 2017 with a payment date of May 18, 2017.

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 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 six months ended December 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.

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 traded but not yet settled are reported in Due to Broker or Due from Broker, respectively, in the Consolidated Statements of Assets and Liabilities.

Foreign Currency

Foreign currency amounts are translated into US Dollars (USD) on the following basis:

i.fair value of investment securities, other assets and liabilities—at the spot exchange rate on the last business day of the period; and

ii.purchases and sales of investment securities, income and expenses—at the rates of exchange prevailing on the respective dates of such investment transactions, income or expenses.

We do not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair values of investments held or disposed of during the period. Such fluctuations are included within the net realized and unrealized gains or losses from investments in the Consolidated Statements of Operations.

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 us less likely to fully earn all of the expected income of that security 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.

Online consumer and Small-and-Medium-Sized Business Lending Risk

With respect to our online consumer and SME lending initiative, we invest primarily in marketplace loans through marketplace lending facilitators. We do not conduct loan origination activities ourselves. Therefore, our ability to purchase consumer and SME loans, and our ability to grow our portfolio of consumer and SME loans, are directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending facilitators from which we purchase consumer and SME loans. In addition, our ability to analyze the risk-return profile of consumer and SME loans is significantly dependent on the marketplace facilitator's ability to effectively evaluate a borrower's credit profile and likelihood of default. If we are unable to effectively evaluate borrowers' credit profiles or the credit decisioning and scoring models implemented by each facilitator, we may incur unanticipated losses which could adversely impact our operating results.

Foreign Currency

Investments denominated in foreign currencies and foreign currency transactions may involve certain considerations and risks not typically associated with those of domestic origin. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

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.
4.The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.
Our non-CLO investments are valued utilizing a yield analysis, enterprise value (“EV”) analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads 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). To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. Our valuation agent utilizes additional methods to validate

the results from the discounted cash flow method, such as Monte Carlo simulations of key model variables, analysis of relevant data observed in the CLO market, and review of certain benchmark credit indices. 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 appropriate 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 in the accompanying Consolidated Financial Statements 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 in the accompanying Consolidated Financial Statements 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. Loan origination fees, original issue discount, and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans using the effective interest method or straight-line, as applicable, and adjusted only for material amendments or prepayments. Upon a prepayment of a loan, prepayment premiums, OID, or market discounts are recorded as interest income. Other income generally includes amendment fees, commitment fees, administrative agent fees and structuring fees which are recorded when earned.

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 the cost basis depending upon management's judgment of the collectibility of the loan receivable. 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 December 31, 2016, approximately 1.5% of our total assets at fair value are in non-accrual status.

Interest income from investments in the "equity" class of security of CLO funds (typically preferred shares, income notes or subordinated notes) and "equity" class of security of securitized trust is recorded based upon an estimation of an effective yield to expected maturity utilizing assumed cash flows in accordance with ASC 325-40, Beneficial Interests in Securitized Financial Assets. We monitor the expected cash inflows from our CLO and securitized 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. See Note 10 in the accompanying Consolidated Financial Statements for further discussion.

Federal and State Income Taxes

We have elected to be treated as a RIC 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 December 31, 2016, we do not expect to have any excise tax due for the 2016 calendar year. Thus, we have not accrued any excise tax for this period.

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 income tax 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. 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 December 2016 and for the three and six 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, 2013 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

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

Financing Costs

We record origination expenses related to our Revolving Credit Facility, and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Unsecured Notes") as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes® and our 2024 Notes Follow-on Program. The effective interest method is used for our remaining 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.

For the year ending June 30, 2017, we have changed our method of presentation relating to debt issuance costs in accordance with ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). Prior to July 1, 2016, our policy was to present debt issuance costs in Deferred financing costs as an asset on the Consolidated Statements of Assets

and Liabilities, net of accumulated amortization. Beginning with the period ended September 30, 2016, we have presented these costs, except those incurred by the Revolving Credit Facility, as a direct deduction to our Unsecured Notes. Unamortized deferred financing costs of $40,526, $44,140, $57,010, $37,607, and $15,693 previously reported as an asset on the Consolidated Statements of Assets and Liabilities for the years ended June 30, 2016, 2015, 2014, 2013, and 2012, respectively, have been reclassified as a direct

deduction to the respective Unsecured Notes (see Notes 5, 6, and 7 in the accompanying Consolidated Financial Statements for further discussion).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of December 31, 2016 and June 30, 2016, there are no prepaid expenses 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 August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements— Going Concern (Subtopic 205-40) ("ASU 2014-15"), which provides guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance requires management to perform a going concern assessment by evaluating their ability to meet their obligations for a look-forward period of one year from the financial statement issuance date (or date the financial statements are available to be issued). Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management's plans to mitigate those relevant conditions or events. ASU 2014-15 applies to all entities for the first annual period ending after December 1