

PROSPECT CAPITAL CORP
Form 497
September 01, 2016

Filed pursuant to Rule 497
File No. 333-206661
PROSPECTUS SUPPLEMENT
(To Prospectus dated November 3, 2015)

Up to \$150,000,000

Prospect Capital Corporation
6.25% Notes due 2024

Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management L.P. manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

We have entered into a debt distribution agreement, originally dated June 22, 2016 and amended and restated on September 1, 2016 with FBR Capital Markets & Co. (“FBR”), and into debt distribution agreements dated September 1, 2016 with each of BB&T Capital Markets, a division of BB&T Securities, LLC (“BB&T Capital Markets”), and StormHarbour Securities LP (“StormHarbour,” together with FBR and BB&T Capital Markets, the “Agents”) pursuant to which we may offer for sale, from time to time, up to \$150,000,000 in aggregate principal amount of our 6.25% Notes due 2024, which we refer to as the “Notes.” During the period from June 22, 2016 (the original date of the debt distribution agreement with FBR) through August 31, 2016, we sold \$39,281,000 aggregate principal amount of the Notes through FBR as Agent pursuant to its debt distribution agreement. As such, there is \$110,719,000 aggregate principal amount of the Notes remaining that we may offer and sell through the Agents pursuant to the debt distribution agreements. Sales of the Notes, if any, may be made in negotiated transactions or transactions that are deemed to be “at the market offerings” as defined in Rule 415 under the Securities Act of 1933, as amended, or the “Securities Act”, including sales made directly on the New York Stock Exchange, or “NYSE,” or similar securities exchange or sales made to or through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices. If any of the Notes are sold at prices above the par value of \$25 per Note, the effective yield on such Notes to the purchasers may be less than 6.25%.

The Agents will receive a commission from us equal to up to 2.0% of the gross sales price of any Notes sold through the Agents under the debt distribution agreements. The Agents are not required to sell any specific principal amount of Notes, but will use commercially reasonable efforts consistent with their sales and trading practices to sell the Notes offered by this prospectus supplement and the accompanying prospectus. See “Plan of Distribution” beginning on page S-74 of this prospectus supplement.

The Notes will mature on June 15, 2024. We will pay interest on the Notes on March 15, June 15, September 15 and December 15 of each year, beginning December 15, 2016. Interest on the Notes will accrue from the most recent interest payment date immediately preceding the date of issuance of the Notes from time to time, except that, if you purchase Notes after the record dates noted below (or your settlement of a purchase of Notes otherwise occurs after such record date), your Notes will not accrue interest for the period from such purchase date to the interest payment date immediately following such record date. The interest payable on each interest payment date will be paid only to holders of record of the Notes at the close of business on March 1, June 1, September 1 and December 1 of each year, as the case may be, immediately preceding the applicable interest payment date. As a general matter, holders of the

Notes will not be entitled to receive any payments of principal on the Notes prior to the stated maturity date. We may redeem the Notes in whole or in part at any time or from time to time on or after December 15, 2018, at the redemption price discussed under the caption “Specific Terms of the Notes and the Offering-Optional redemption” in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof. We may offer other debt securities from time to time other than the Notes under our Registration Statement or in private placements.

The Notes offered hereby will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the indenture including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with \$160,000,000 in aggregate principal amount of 6.25% Notes due 2024, initially issued by us in December 2015, or, together with any Notes sold through FBR as Agent prior to the date of this prospectus supplement, the “Existing Notes.” The Existing Notes, as well as any newly issued Notes, will mature on June 15, 2024, and may be redeemed in whole or in

part at any time or from time to time at the Company's option on or after December 15, 2018. The Notes will have terms identical to the Existing Notes and will have the same CUSIP number as, and will be fungible and vote together with, the Existing Notes immediately upon issuance.

The Existing Notes are listed on the NYSE and trade on the NYSE under the symbol "PBB." We intend to list the Notes offered hereby on the NYSE under the same trading symbol. The Notes are expected to trade "flat," which means that purchasers in the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not reflected in the trading price.

On August 31, 2016, there were 7,971,240 Existing Notes issued and outstanding and, as of August 31, 2016, the last reported sales price on the NYSE was \$25.31 per Note.

The Notes will be our direct unsecured obligations and rank pari passu, or equal in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by us. We currently do not have any indebtedness outstanding that is subordinated to the Notes and have no intention of issuing any such subordinated indebtedness. The Notes will be effectively subordinated, or junior in right of payment, to our future secured indebtedness and structurally subordinated, or junior in right of payment, to all existing and future indebtedness and other obligations of any of our subsidiaries. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and any indebtedness of any future subsidiaries may assert rights of payment prior to the holders of the Notes. See the related disclosure in "Risk Factors" beginning on page S-9 of this prospectus supplement.

Investing in the Notes involves risks, including those described in the "Risk Factors" section beginning on page S-9 of this prospectus supplement and page 10 of the accompanying prospectus.

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

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about the third trading date following the date of the purchase.

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

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

FBR BB&T
Capital Markets StormHarbour

Prospectus Supplement dated September 1, 2016.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the Agents have not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the 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 the prospectus.

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PROSPECTUS SUMMARY

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

accompanying prospectus and the other information included in this prospectus supplement and the accompanying prospectus.

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

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

The Company

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. We are one of the largest BDCs with approximately \$6.3 billion of total assets as of June 30, 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 OnDeck Capital, Inc. (“OnDeck”). On September 30, 2014, we formed a wholly-owned subsidiary Prospect Yield Corporation, LLC (“PYC”) and effective October 23, 2014, PYC holds our investments in collateralized loan obligations (“CLOs”). Each of these subsidiaries have been consolidated since operations commenced.

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

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

but more recently it is less than 50% of our business.

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

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

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

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

Real Estate Investments – We make investments in real estate through our wholly-owned tax-efficient real estate investment trust (“REIT”) National Property REIT Corp. (“NPRC”), the surviving entity of the May 23, 2016 merger with APRC and UPRC. Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. NPRC co-invests with established and experienced property managers that manage such properties after acquisition. This investment strategy has comprised approximately 5%-10% of our business.

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

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

Online Lending – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) loan facilitators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the facilitators of the loans. This investment strategy has comprised approximately 4%-7% of our business.

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.

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We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment in the holding company, generally as equity, its equity investment in the operating company and along with any debt from us directly to the operating company structure represents our total exposure for the investment. As of June 30, 2016, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies were each \$1.8 billion. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this Annual Report. On July 1, 2014, we began consolidating all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There were no significant effects of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

As of June 30, 2016, we had investments in 125 portfolio companies. The aggregate fair value as of June 30, 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 June 30, 2016.

Recent Developments

Investment Transactions

On July 1, 2016, we made an investment of \$7.3 million to purchase 19.7% of the subordinated notes in Madison Park Funding IX, Ltd.

On July 22, 2016, we made a \$32.5 million Senior Secured Term Loan A and a \$32.5 million Senior Secured Term Loan B debt investment in Universal Turbine Parts, LLC, an independent supplier of aftermarket turboprop engines and parts.

On August 9, 2016, JHH Holdings, Inc. repaid the \$35.5 million loan receivable to us.

On August 9, 2016, we made an investment of \$29.6 million 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 L.P.

During the period from July 1, 2016 through August 31, 2016, we made seven follow-on investments in NPRC totaling \$55.7 million to support the online consumer lending initiative.

Debt

On August 14, 2016, we announced the then current conversion rate on the 2018 Notes as 84.1497 shares of common stock per \$1 principal amount of the 2018 Notes converted, which is equivalent to a conversion price of approximately \$11.88.

On August 15, 2016, the 5.50% unsecured convertible notes (the "2016 Notes"), which had an outstanding principal balance of \$167.5 million, matured and were repaid in full with cash on hand, primarily from the Harbortouch sale proceeds.

On August 22, 2016, our credit facility was amended to eliminate some of the restrictions in the definition of an eligible loan for pledging to the facility and increase to our overall borrowing base.

During the period from July 1, 2016 through August 25, 2016 we issued \$28.8 million aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$28.5 million.

During the period from July 1, 2016 through August 24, 2016, we issued \$37.9 million in aggregate principal amount of our 2024 Notes for net proceeds of \$37.1 million.

Dividends

On August 25, 2016, we announced the declaration of monthly dividends in the following amounts and with the following dates:

• \$0.08333 per share for September 2016 to holders of record on September 30, 2016 with a payment date of October 20, 2016;

•

\$0.08333 per share for October 2016 to holders of record on October 31, 2016 with a payment date of November 17, 2016.

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SPECIFIC TERMS OF THE NOTES AND THE OFFERING

This prospectus supplement sets forth certain terms of the Notes that Prospect Capital Corporation is offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. The Notes offered hereby will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the Indenture including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with \$160,000,000 in aggregate principal amount of 6.25% Notes due 2024, initially issued by us in December 2015, or, together with any Notes sold through FBR as Agent prior to the date of this prospectus supplement, the “Existing Notes.” Unless otherwise indicated, the Notes offered hereby and the Existing Notes are collectively referred to herein as the “Notes.” This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes under the heading “Description of the Notes” in this prospectus supplement and in the accompanying prospectus under the heading “Description of Our Debt Securities” before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the Indenture.

Issuer Prospect Capital Corporation

Title of securities 6.25% Notes due 2024

Initial aggregate principal amount being offered Up to \$150,000,000. During the period from June 22, 2016 (the original date of the debt distribution agreement with FBR) through August 31, 2016, we sold \$39,281,000 aggregate principal amount of the Notes through FBR as Agent pursuant to its debt distribution agreement. As such, there is \$110,719,000 aggregate principal amount of the Notes remaining that we may offer and sell through the Agents pursuant to the debt distribution agreements.

Manner of offering “At the market” offering that may be made from time to time through the Agents, as sales agents, using commercially reasonable efforts or otherwise in negotiated transactions. See “Plan of Distribution.”

Principal payable at maturity 100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in The City of New York as we may designate.

Type of Note Fixed rate note

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

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

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

Issuance date The third trading date following the date of the purchase of the Notes.

Stated maturity date June 15, 2024

Date interest starts accruing on December 10, 2015

Existing Notes

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Interest payment dates March 15, June 15, September 15 and December 15, commencing on the first applicable interest payment date following a given purchase of the Notes under this prospectus supplement. The interest payable on each interest payment date will be paid only to holders of record of the Notes at the close of business on the record date immediately preceding the applicable interest payment date. If Notes are purchased after a record date but before the interest payment date immediately following such record date, the applicable interest payment date for such Notes will be the interest payment date after the interest payment date immediately following such record date. Interest payments on the Existing Notes commenced on March 15, 2016. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.

Interest periods Interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be. Interest on the Notes will accrue from the most recent interest payment date immediately preceding the date of issuance of the Notes from time to time, except that, if you purchase Notes after a record date (or your settlement of a purchase of Notes otherwise occurs after such record date), your Notes will not accrue interest for the period from such purchase date to the interest payment date immediately following such record date.

Regular record dates for interest March 1, June 1, September 1 and December 1 of each year, commencing with the first such date to follow a given purchase of the Notes under this prospectus supplement.

Specified currency U.S. Dollars

Place of payment New York City

Ranking of Notes The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future, unsecured indebtedness (including, but not limited to, the Existing Notes, our \$130 million in aggregate principal amount of 5.375% Convertible Notes due 2017 (the “2017 Notes”), our \$200 million aggregate principal amount of 5.75% Convertible Notes due 2018 (the “2018 Notes”), our \$200 million aggregate principal amount of 5.875% Convertible Notes due 2019 (the “2019 Notes”), our \$300 million aggregate principal amount of 5.00% Unsecured Notes due 2019 (the “5.00% 2019 Notes”), our \$392 million aggregate principal amount of 4.75% Convertible Notes due 2020 (the “2020 Notes”), our \$250 million aggregate principal amount of 5.875% Unsecured Notes due 2023 (the “2023 Notes”) and our Prospect Capital InterNotes and senior in right of payment to any of our subordinated indebtedness. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries.

As of August 31, 2016, together with our subsidiaries, we had approximately \$2.6 billion of unsecured senior indebtedness outstanding and as our credit facility was undrawn, no secured indebtedness outstanding.

Denominations We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.

Business day Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.

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The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after December 15, 2018 upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of \$25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to, but excluding, the date fixed for redemption.

Optional redemption

You may be prevented from exchanging or transferring the Notes when they are subject to a written notice of redemption issued by us even though the Notes are listed for trading on the NYSE. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.

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

If we redeem only some of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the 1940 Act, to the extent applicable, and the rules of the NYSE, and any unredeemed Notes will have the same rights and be entitled to the same benefits that the Notes had prior to any such redemption. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Sinking fund

The Notes will not be subject to any sinking fund (i.e., no amounts will be set aside by us to ensure repayment of the Notes at maturity). As a result, our ability to repay the Notes at maturity will depend on our financial condition on the date that we are required to repay the Notes.

Repayment at option of Holders

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

Defeasance

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

Covenant defeasance

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

Form of Notes

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

participants in DTC.

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

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Fundamental change repurchase right of Holders	<p>If we undergo a fundamental change (as defined in this prospectus supplement) prior to maturity, you will have the right, at your option, to require us to repurchase for cash some or all of your Notes at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. See “Description of the Notes-Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change.”</p>
Events of default	<p>If an event of default on the Notes occurs, the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the Indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving the Company as defined in the Indenture.</p>
Other covenants	<p>In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes:</p> <ul style="list-style-type: none">• We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions.• If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end. All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.
Global clearance and settlement procedures	<p>Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the Trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.</p>
Governing law	<p>The Notes and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.</p>

SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2016, 2015, 2014, 2013 and 2012 has been derived from the financial statements that were audited by our independent registered public accounting firm. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” starting on page S-17 for more information.

	Year Ended June 30,					
	2016	2015	2014	2013	2012	
	(in thousands except data relating to shares, per share and number of portfolio companies)					
Summary of Operations						
Total investment income	\$791,973	\$791,084	\$712,291	\$576,336	\$320,910	
Total operating expenses	420,845	428,337	355,068	251,412	134,226	
Net investment income	371,128	362,747	357,223	324,924	186,684	
Net realized and unrealized (losses) gains on investments	(267,990)	(12,458)	(38,203)	(104,068)	4,220	
Net realized losses on extinguishment of debt	224	(3,950)	—	—	—	
Net increase in net assets resulting from operations	103,362	346,339	319,020	220,856	190,904	
Per Share Data						
Net investment income(1)	\$1.04	\$1.03	\$1.19	\$1.57	\$1.63	
Net increase in net assets resulting from operations(1)	0.29	0.98	1.06	1.07	1.67	
Dividends to shareholders	(1.00)	(1.19)	(1.32)	(1.28)	(1.22)	
Net asset value at end of year	9.62	10.31	10.56	10.72	10.83	
Balance Sheet Data						
Total assets	\$6,276,707	\$6,798,054	\$6,477,269	\$4,448,217	\$2,255,254	
Total debt outstanding	2,707,465	2,983,736	2,773,051	1,683,002	664,138	
Net assets	3,435,917	3,703,049	3,618,182	2,656,494	1,511,974	
Other Data						
Investment purchases for the year	\$979,102	\$1,867,477	\$2,933,365	\$3,103,217	\$1,120,659	
Investment sales and repayments for the year	\$1,338,875	\$1,411,562	\$767,978	\$931,534	\$500,952	
Number of portfolio companies at year end	125	131	142	124	85	
Total return based on market value(2)	21.8	% (20.8	%) 10.9	% 6.2	% 27.2	%
Total return based on net asset value(2)	7.2	% 11.5	% 11.0	% 10.9	% 18.0	%
Weighted average yield on debt portfolio at year end(3)	13.2	% 12.7	% 12.1	% 13.6	% 13.9	%

(1) Per share data is based on the weighted average number of common shares outstanding for the year 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.

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

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RISK FACTORS

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

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

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

As of August 31, 2016, together with our subsidiaries, we had approximately \$2.6 billion of unsecured senior indebtedness outstanding and as our credit facility was undrawn, no secured indebtedness outstanding.

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

- making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;

- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;

- reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and

- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

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

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

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

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

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

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

The Notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured indebtedness, including without limitation, the Existing Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes and the Prospect Capital InterNotes[®]. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. Effective subordination means that in any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity with respect to the subsidiary's assets. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The Notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the Notes. As of August 31, 2016, our credit facility was undrawn. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the Notes to the extent of the value of such assets.

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

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

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

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

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

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

enter into transactions with affiliates;

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

make investments; or

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

Furthermore, the terms of the Indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash

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

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

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

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

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

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

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

Although the Existing Notes are listed on the NYSE under the trading symbol “PBB,” we cannot provide any assurances that an active trading market will develop or be maintained for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. The sales agents have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The sales agents may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop or be maintained for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

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

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

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

The Indenture under which the Notes will be issued will not contain any financial or operating covenants or any other restrictive covenants that would limit our ability to engage in certain transactions that may adversely affect you. In particular, the Indenture will not contain covenants that limit our ability to pay dividends or make distributions on or redeem our capital stock or that limit our ability to incur additional indebtedness, including in a highly leveraged transaction or other similar transaction. We will only be required to offer to repurchase the Notes upon a change of control in the case of the transactions specified in the definition of a “fundamental change” under “Description of the Notes-Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change.”

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

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

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

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

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

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

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

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

Volatility in the global financial markets resulting from relapse of the Eurozone crisis, geopolitical developments in Eastern Europe, turbulence in the Chinese stock markets and global commodity markets, the United Kingdom’s vote to leave the European Union or otherwise could have a material adverse effect on our business, financial condition and results of operations.

Volatility in the global financial markets could have an adverse effect on the economic recovery in the United States and could result from a number of causes, including a relapse in the Eurozone crisis, geopolitical developments in Eastern Europe, turbulence in the Chinese stock markets and global commodity markets or otherwise. The effects of the Eurozone crisis, which began in late 2009 as part of the global economic and financial crisis, continued to impact the global financial markets through 2015. Numerous factors continued to fuel the Eurozone crisis, including continued high levels of government debt, the undercapitalization and liquidity problems of many banks in the Eurozone and relatively low levels of economic growth. These factors made it difficult or impossible for some countries in the Eurozone, including Greece, Ireland and Portugal, to repay or refinance their debt without the assistance of third parties. As a combination of austerity programs, debt write-downs and the European Central Bank’s commitment to restore financial stability to the Eurozone and the finalization of the primary European Stability Mechanism bailout fund, in 2013 and into 2014 interest rates began to fall and stock prices began to increase.

Although these trends helped to stabilize the effects of the Eurozone crisis in the first half of 2014, the underlying causes of the crisis were not completely eliminated. As a result, the financial markets relapsed toward the end of 2014. In particular, Greece’s newly elected government, which campaigned against austerity measures, has been unable to reach an acceptable solution to the country’s debt crisis with the European Union, and in June 2015, Greece failed to make a scheduled debt repayment to the International Monetary Fund, falling into arrears. Following further unsuccessful negotiations between the government of Greece and the European Union to solve the Greek debt crisis, on July 5, 2015, Greek voters rejected a bailout package submitted by the European Commission, the European Central Bank and the International Monetary Fund, and while the European Central Bank continues to extend credit to Greece, it is uncertain how long such support will last, whether Greece will receive and accept any future bailout packages and whether Greece will default on future payments. The result of continued defaults and the removal of credit support for Greek banks may cause Greece to exit the European Union, which could lead to significant economic uncertainty and abandonment of the Euro common currency, resulting in destabilization in the financial

markets. Continued financial instability in Greece and in other similarly situated Eurozone countries could have a continued contagion effect on the financial markets. Stock prices in China have experienced a significant drop in the second quarter of 2015, resulting primarily from continued sell-off of shares trading in Chinese markets. The volatility has been followed by volatility in stock markets around the world, including in the United States, as well as increased turbulence in commodity markets, such as reductions in prices of crude oil. Although the Chinese government has already taken steps to halt the collapse,

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it is uncertain what effect such measures will have, if any. Continued sell-off and price drops in the Chinese stock markets may have a contagion effect across the financial markets. In addition, Russian intervention in Ukraine during 2014 significantly increased regional geopolitical tensions. In response to Russian actions, U.S. and European governments have imposed sanctions on a limited number of Russian individuals and business entities. The situation remains fluid with potential for further escalation of geopolitical tensions, increased severity of sanctions against Russian interests, and possible Russian counter-measures. Further economic sanctions could destabilize the economic environment and result in increased volatility. On June 23, 2016, voters in the United Kingdom referendum (the “Referendum”) on the question of whether to remain or leave the European Union voted in a majority in favor of leaving the European Union (“Brexit”). This historic event is widely expected to have consequences that are both profound and uncertain for the economic and political future of the United Kingdom and the European Union, and those consequences include significant legal and business uncertainties pertaining to our investments. Due to the very recent occurrence of Brexit, the full scope and nature of the consequences are not at this time known and are unlikely to be known for a significant period of time. However, Brexit has led to significant uncertainty in the business, legal and political environment. Risks associated with the outcome of the Referendum include short and long term market volatility and currency volatility (including volatility of the value of the British pound sterling relative to the United States dollar and other currencies and volatility in global currency markets generally), macroeconomic risk to the United Kingdom and European economies, impetus for further disintegration of the European Union and related political stresses (including those related to sentiment against cross border capital movements and activities of investors like us), prejudice to financial services businesses that are conducting business in the European Union and which are based in the United Kingdom, legal uncertainty regarding achievement of compliance with applicable financial and commercial laws and regulations in view of the expected steps to be taken pursuant to or in contemplation of Article 50 of the Treaty on European Union and negotiations undertaken under Article 218 of the Treaty on the Functioning of the European Union, and the unavailability of timely information as to expected legal, tax and other regimes. Should the economic recovery in the United States be adversely impacted by increased volatility in the global financial markets caused by continued contagion from the Eurozone crisis, developments in respect of the Russian sanctions, further turbulence in Chinese stock markets and global commodity markets, Brexit or for any other reason, loan and asset growth and liquidity conditions at U.S. financial institutions, including us, may deteriorate.

Our most recent NAV was calculated on June 30, 2016 and our NAV when calculated effective September 30, 2016 and thereafter may be higher or lower.

Our NAV per share is \$9.62 as of June 30, 2016. NAV per share as of September 30, 2016 may be higher or lower than \$9.62 based on potential changes in valuations, issuances of securities, repurchases of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2016. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, the Investment Adviser, the Administrator and the Audit Committee of our Board of Directors.

The effects of compliance with the Volcker Rule may affect the CLO market in ways that we cannot currently anticipate.

Section 619 of the Dodd-Frank Act added a provision, commonly referred to as the “Volcker Rule,” to federal banking laws to prohibit covered banking entities from engaging in proprietary trading or acquiring or retaining an ownership interest in, sponsoring or having certain relationships with “covered funds.” Generally, a covered fund would include a hedge fund or a private equity fund; however, the definition is sufficiently broad that it may include certain CLOs.

The Volcker Rule provides that certain loan securitization vehicles are not considered “covered funds” for purposes of the prohibitions. In order to meet the definition of a loan securitization, the assets or holdings of the fund must, among other things, consist solely of loans and cannot include securities, such as bonds. In an effort to qualify for this “loan securitization” exclusion, many current CLOs are undertaking amendments to their related transaction documents that restrict the ability of the issuer to acquire bonds and certain other securities. Such an amendment may have the effect of reducing the return available to holders of CLO equity securities because bonds are generally higher yielding assets than are loans. In addition, the costs associated with such an amendment are typically paid out of the cash flow of the

CLO, which could impact the return on our investment in any CLO equity securities. In addition, as a result of the uncertainty regarding the implementation and interpretation of the Volcker Rule, it is likely that many future CLOs will contain similar restrictions on the acquisition of bonds and certain other securities, which may have the effect of lowering returns on CLO equity securities. Our CLO equity portfolio is comprised principally of non-Volcker Rule compliant CLOs.

Generally, due to the lack of clarity as to the application of the Volcker Rule and the availability of certain exemptions, certain investors that are subject to the Volcker Rule may not be as interested in CLO investments in the future. Any decline in interest may adversely affect the market value or liquidity of any or all of the CLO investments we hold. Similarly, it is possible that uncertainty regarding the treatment of CLOs may adversely affect the volume of CLO issuance.

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With respect to our online consumer lending initiative, we are dependent on the business performance and competitiveness of marketplace lending facilitators and our ability to assess loan underwriting performance and, if the marketplace lending facilitators from which we currently purchase consumer loans are unable to maintain or increase consumer loan originations, or if such marketplace lending facilitators do not continue to sell consumer loans to us, or we are unable to otherwise purchase additional loans, our business and results of operations will be adversely affected. With respect to our online consumer 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 loans, and our ability to grow our portfolio of consumer loans, is directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending facilitators from which we purchase consumer loans.

In addition, our ability to analyze the risk-return profile of consumer loans is significantly dependent on the marketplace facilitator's ability to effectively evaluate a borrower's credit profile and likelihood of default. The platforms from which we purchase such loans utilize credit decisioning and scoring models that assign each such loan offered a corresponding interest rate and origination fee. Our returns are a function of the assigned interest rate for each such particular loan purchased less any defaults over the term of the applicable loan. We evaluate the credit decisioning and scoring models implemented by each platform on a regular basis and leverage the additional data on loan history experience, borrower behavior, economic factors and prepayment trends that we accumulate to continually improve our own decisioning model. If we are unable to effectively evaluate borrowers' credit profiles or the credit decisioning and scoring models implemented by each platform, we may incur unanticipated losses which could adversely impact our operating results. Further, if the interest rates for consumer loans available through marketplace lending platforms are set too high or too low, it may adversely impact our ability to receive returns on our investment that are commensurate with the risks we incur in purchasing the loans.

With respect to our online consumer lending initiative, we rely on the marketplace lending facilitators to service loans including pursuing collections against borrowers. Personal loans facilitated through the marketplace lending facilitators are not secured by any collateral, are not guaranteed or insured by any third-party and are not backed by any governmental authority in any way. Marketplace lending facilitators are therefore limited in their ability to collect on the loans if a borrower is unwilling or unable to repay. A borrower's ability to repay can be negatively impacted by increases in their payment obligations to other lenders under mortgage, credit card and other loans, including student loans and home equity lines of credit. These changes can result from increases in base lending rates or structured increases in payment obligations and could reduce the ability of the borrowers to meet their payment obligations to other lenders and under the loans purchased by us. If a borrower defaults on a loan, the marketplace lending facilitators may outsource subsequent servicing efforts to third-party collection agencies, which may be unsuccessful in their efforts to collect the amount of the loan. Marketplace lending facilitators make payments ratably on an investor's investment only if they receive the borrower's payments on the corresponding loan. If they do not receive payments on the corresponding loan related to an investment, we are not entitled to any payments under the terms of the investment.

As servicers of the loans we purchase as part of our online consumer lending initiative, the marketplace lending facilitators have the authority to waive or modify the terms of a consumer loan without our consent or allow the postponement of strict compliance with any such term or in any manner grant any other indulgence to any borrower. If the marketplace lending facilitators approve a modification to the terms of any consumer loan it may adversely impact our revenues.

To continue to grow our online consumer lending initiative business, we rely on marketplace lending facilitators from which we purchase loans to maintain or increase their consumer loan originations and to agree to sell their consumer loans to us. However, we do not have any exclusive arrangements with any of the marketplace lending facilitators and have no agreements with them to provide us with a guaranteed source of supply. There can be no assurance that such marketplace lending facilitators will be able to maintain or increase consumer loan originations or will continue to sell their consumer loans to us, or that we will be able to otherwise purchase additional loans and, consequently, there can be no assurance that we will be able to grow our business through investment in additional loans. The consumer marketplace lending facilitators could elect to become investors in their own marketplace loans which would limit the amount of supply available for our own investments. An inability to expand our business through investments in

additional consumer loans would reduce the return on investment that we might otherwise be able to realize from an increased portfolio of such investments. If we are unable to expand our business relating to our online consumer lending initiative, this may have a material adverse effect on our business, financial condition, results of operations and prospects.

Additionally, if marketplace lending facilitators are unable to attract qualified borrowers and sufficient investor commitments or borrowers and investors do not continue to participate in marketplace lending at current rates, the growth of loan originations will slow or loan originations will decrease. As a result of any of these factors, we may be unable to increase our consumer loan investments and our revenue may grow more slowly than expected or decline, which could have a material adverse effect on our business, financial condition and results of operations.

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Marketplace lending facilitators on which we rely as part of our online consumer lending initiative depend on issuing banks to originate all loans and to comply with various federal, state and other laws.

Typically, the contracts between marketplace lending facilitators and their loan issuing banks are non-exclusive and do not prohibit the issuing banks from working with other marketplace lending facilitators or from offering competing services. Issuing banks could decide that working with marketplace lending facilitators is not in their interests, could make working with marketplace lending facilitators cost prohibitive or could decide to enter into exclusive or more favorable relationships with other marketplace lending facilitators that do not provide consumer loans to us. In addition, issuing banks may not perform as expected under their agreements. Marketplace lending facilitators could in the future have disagreements or disputes with their issuing banks. Any of these factors could negatively impact or threaten our ability to obtain consumer loans and consequently could have a material adverse effect on our business, financial condition, results of operations and prospects.

Issuing banks are subject to oversight by the FDIC and the states where they are organized and operate and must comply with complex rules and regulations, as well as licensing and examination requirements, including requirements to maintain a certain amount of regulatory capital relative to their outstanding loans. If issuing banks were to suspend, limit or cease their operations or the relationship between the marketplace lending facilitators and the issuing bank were to otherwise terminate, the marketplace lending facilitators would need to implement a substantially similar arrangement with another issuing bank, obtain additional state licenses or curtail their operations. If the marketplace lending facilitators are required to enter into alternative arrangements with a different issuing bank to replace their existing arrangements, they may not be able to negotiate a comparable alternative arrangement. This may result in their inability to facilitate loans through their platform and accordingly our inability to operate the business of our online consumer lending initiative. If the marketplace lending facilitators were unable to enter into an alternative arrangement with a different issuing bank, they would need to obtain a state license in each state in which they operate in order to enable them to originate loans, as well as comply with other state and federal laws, which would be costly and time-consuming and could have a material adverse effect on our business, financial condition, results of operations and prospects. If the marketplace lending facilitators are unsuccessful in maintaining their relationships with the issuing banks, their ability to provide loan products could be materially impaired and our operating results could suffer.

Credit and other information that is received about a borrower may be inaccurate or may not accurately reflect the borrower's creditworthiness, which may cause the loans to be inaccurately priced.

The marketplace lending facilitators obtain borrower credit information from consumer reporting agencies, such as TransUnion, Experian or Equifax, and assign loan grades to loan requests based on credit decisioning and scoring models that take into account reported credit scores and the requested loan amount, in addition to a variety of other factors. A credit score or loan grade assigned to a borrower may not reflect that borrower's actual creditworthiness because the credit score may be based on incomplete or inaccurate consumer reporting data, and typically, the marketplace lending facilitators do not verify the information obtained from the borrower's credit report. Additionally, there is a risk that, following the date of the credit report that the models are based on, a borrower may have:

- become delinquent in the payment of an outstanding obligation;
- defaulted on a pre-existing debt obligation;
- taken on additional debt; or
- sustained other adverse financial events.

Borrowers supply a variety of information to the marketplace lending facilitators based on which the facilitators price the loans. In a number of cases, marketplace lending facilitators do not verify all of this information, and it may be inaccurate or incomplete. For example, marketplace lending facilitators do not always verify a borrower's stated tenure, job title, home ownership status or intention for the use of loan proceeds. Moreover, we do not, and will not, have access to financial statements of borrowers or to other detailed financial information about the borrowers. If we invest in loans through the marketplace provided by the marketplace lending facilitators based on information supplied by borrowers or third parties that is inaccurate, misleading or incomplete, we may not receive expected returns on our investments and this could have a material adverse impact on our business, financial condition, results of operations and prospects and our reputation may be harmed.

Marketplace lending is a relatively new lending method and the platforms of marketplace lending facilitators have a limited operating history relative to established consumer banks. Borrowers may not view or treat their obligations under any such loans we purchase as having the same significance as loans from traditional lending sources, such as bank loans.

The return on our investment in consumer loans depends on borrowers fulfilling their payment obligations in a timely and complete manner under the corresponding consumer loan. Borrowers may not view their obligations originated on the lending

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platforms that the marketplace lending facilitators provide as having the same significance as other credit obligations arising under more traditional circumstances, such as loans from banks or other commercial financial institutions. If a borrower neglects his or her payment obligations on a consumer loan or chooses not to repay his or her consumer loan entirely, we may not be able to recover any portion of our investment in the consumer loans. This will adversely impact our business, financial condition, results of operations and prospects.

In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations.

The agreement governing our credit facility requires us to comply with certain financial and operational covenants. These covenants include:

- Restrictions on the level of indebtedness that we are permitted to incur in relation to the value of our assets;
- Restrictions on our ability to incur liens; and
- Maintenance of a minimum level of stockholders' equity.

As of June 30, 2016, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

If we sell shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

At our 2015 annual meeting of stockholders held on December 4, 2015 and continued until January 8, 2016, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following January 8, 2016. The issuance or sale by us of shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have sold shares of our common stock at prices below net asset value per share in the past and may do so to the future. We have not sold any shares of our common stock at prices below net asset value per share since December 3, 2014.

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

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

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

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

Overview

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

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

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

Effective July 1, 2014, we began consolidating certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies have been included in our consolidated financial statements since July 1, 2014: AMU Holdings Inc. ("Airmall"); APH Property Holdings, LLC ("APH"); Arctic Oilfield Equipment USA, Inc.; CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC ("First Tower Delaware"); Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC ("NPH"); STI Holding, Inc.; UPH Property Holdings, LLC ("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 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 origination strategies in which we make investments: (1) lending in private equity sponsored transactions, (2) lending directly to companies not owned by private equity firms, (3) control investments in corporate operating companies, (4) control investments in financial companies, (5) investments in structured credit, (6) real estate investments, (7) investments in syndicated debt, (8) aircraft leasing and (9) online lending. We continue to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

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

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

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

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

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

Real Estate Investments – We make investments in real estate through our 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 fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. NPRC co-invests with established and experienced property managers that manage such properties after acquisition. This investment strategy has comprised approximately 5%-10% of our business.

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

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

Online Lending – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) loan facilitators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the facilitators of the loans. This investment strategy has comprised approximately 4%-7% of our business.

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.

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We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment in the holding company, generally as equity, its equity investment in the operating company and along with any debt from us directly to the operating company structure represents our total exposure for the investment. As of June 30, 2016, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$1,768,220 and \$1,752,449, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this Annual Report. On July 1, 2014, we began consolidating all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There were no significant effects of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

Fourth Quarter Highlights

Investment Transactions

We seek to be a long-term investor with our portfolio companies. During the three months ended June 30, 2016, we acquired \$62,930 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$214,370, funded \$3,682 of revolver advances, and recorded paid in kind (“PIK”) interest of \$13,056, resulting in gross investment originations of \$294,038. During the three months ended June 30, 2016, we sold our investment in Harbortouch and sold down two investments to lower retained amounts, and received several partial prepayments and amortization payments totaling \$383,460, including realized losses totaling \$6,180. The more significant of these transactions are discussed in “Portfolio Investment Activity.”

Debt Issuances and Redemptions

During the three months ended June 30, 2016, we issued \$13,573 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$13,403. These notes were issued with stated interest rates of 5.50% with a weighted average interest rate of 5.50%. These notes mature between April 15, 2021 and June 15, 2021. The following table summarizes the Prospect Capital InterNotes® issued during the three months ended June 30, 2016.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 13,573	5.50%	5.50 %	April 15, 2021 – June 15, 2021

During the three months ended June 30, 2016, we repaid \$3,300 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 gain on the extinguishment of Prospect Capital InterNotes® in the three months ended June 30, 2016 was \$310.

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. During the period from June 28, 2016 to June 30, 2016, we issued \$1,380 in aggregate principal amount of our 2024 Notes for net proceeds of \$1,247 after commissions and offering costs.

Equity Issuances

On April 21, 2016, May 19, 2016 and June 23, 2016, we issued 324,060, 338,027 and 331,367 shares of our common stock in connection with the dividend reinvestment plan, respectively.

“Spin-Offs” of Certain Business Strategies

We previously announced that we intend to unlock value by “spinning off” three “pure play” business strategies - our consumer online lending business, real estate business and structured credit business - to our shareholders in conjunction with rights offering capital raises in which existing Prospect shareholders could elect to participate in each offering or sell their rights. The goals of these “spin-offs” include leverage and earnings neutrality for Prospect. Our primary objective is to maximize the valuation of each offering (declining to proceed with any offering if we find any valuation not to be attractive). The size and likelihood of each of these dispositions, some of which are expected to be partial rather than complete spin-offs, remain to be determined, but we currently expect the collective size of these three dispositions, if any, to be 10% or less of our asset base. Any such dispositions cannot occur unless and until our application for exemptive relief is granted by the SEC. Should the SEC not grant our application for exemptive relief, these dispositions will not occur as initially planned. The consummation of any of the dispositions also depends upon, among other things: market conditions, regulatory and exchange listing approval, and sufficient investor demand. There can be no assurance that we will consummate any of these dispositions.

Investment Holdings

As of June 30, 2016, we continue to pursue our investment strategy. At June 30, 2016, approximately \$5,897,708, or 171.6%, of our net assets are invested in 125 long-term portfolio investments and CLOs.

During the year ended June 30, 2016, we originated \$979,102 of new investments, primarily composed of \$570,338 of debt and equity financing to non-controlled portfolio investments, \$312,144 of debt and equity financing to controlled investments, and \$96,620 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending to non-control investments to reduce the risk in the portfolio by investing primarily in first lien loans, though we also continue to close select junior debt and equity investments. Our annualized current yield was 12.7% and 13.2% as of June 30, 2015 and June 30, 2016, respectively, across all performing interest bearing investments. The increase in our current yield is primarily due to market fluctuations and the resulting decline in our portfolio value. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of June 30, 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 (“Edmentum”); 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.; 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 BNN Holdings Corp and Targus International, LLC (“Targus”).

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

Level of Control	June 30, 2016				June 30, 2015			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$ 1,768,220	29.0%	\$ 1,752,449	29.7%	\$ 1,894,644	28.9%	\$ 1,974,202	29.9%
Affiliate Investments	10,758	0.2%	11,320	0.2%	45,150	0.7%	45,945	0.7%
Non-Control/Non-Affiliate Investments	4,312,122	70.8%	4,133,939	70.1%	4,619,582	70.4%	4,589,411	69.4%
Total Investments	\$ 6,091,100	100.0%	\$ 5,897,708	100.0%	\$ 6,559,376	100.0%	\$ 6,609,558	100.0%

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

Type of Investment	June 30, 2016				June 30, 2015			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Revolving Line of Credit	\$ 13,274	0.2	\$ 13,274	0.2	\$ 30,546	0.5	\$ 30,546	0.5
Senior Secured Debt	3,072,839	50.4	2,941,722	50.0	3,617,111	55.1	3,533,447	53.5
Subordinated Secured Debt	1,228,598	20.2	1,209,604	20.5	1,234,701	18.8	1,205,303	18.2
Subordinated Unsecured Debt	75,878	1.2	68,358	1.2	145,644	2.2	144,271	2.2
Small Business Loans	14,603	0.2	14,215	0.2	50,558	0.8	50,892	0.8
CLO Debt	—	—	—	—	28,613	0.4	32,398	0.5
CLO Residual Interest	1,083,540	17.9	1,009,696	17.1	1,072,734	16.4	1,113,023	16.8
Preferred Stock	139,320	2.3	78,922	1.3	41,047	0.6	4,361	0.1
Common Stock	298,033	4.9	315,587	5.4	181,404	2.8	164,984	2.5
Membership Interest	159,417	2.6	167,389	2.8	148,192	2.3	278,537	4.2
Participating Interest(1)	—	—	70,609	1.2	—	—	42,787	0.6
Escrow Receivable	3,916	0.1	6,116	0.1	7,144	0.1	5,984	0.1
Warrants	1,682	0.0	2,216	—	1,682	—	3,025	—
Total Investments	\$ 6,091,100	100.0	\$ 5,897,708	100.0	\$ 6,559,376	100.0	\$ 6,609,558	100.0

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

The following shows our investments in interest bearing securities by type of investment as of June 30, 2016 and June 30, 2015:

Type of Investment	June 30, 2016				June 30, 2015			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
First Lien	\$ 3,079,689	56.1	\$ 2,948,572	56.1	\$ 3,642,761	58.9	\$ 3,559,097	58.3
Second Lien	1,235,022	22.5	1,216,028	23.1	1,239,597	20.0	1,210,199	19.8
Unsecured	75,878	1.4	68,358	1.3	145,644	2.4	144,271	2.4
Small Business Loans	14,603	0.3	14,215	0.3	50,558	0.8	50,892	0.8
CLO Debt	—	—	—	—	28,613	0.5	32,398	0.5
CLO Residual Interest	1,083,540	19.7	1,009,696	19.2	1,072,734	17.4	1,113,023	18.2
Total Debt Investments	\$ 5,488,732	100.0	\$ 5,256,869	100.0	\$ 6,179,907	100.0	\$ 6,109,880	100.0

The following shows the composition of our investment portfolio by geographic location as of June 30, 2016 and June 30, 2015:

Geographic Location	June 30, 2016				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Canada	\$15,000	0.2	% \$8,081	0.1	% \$15,000	0.2	% \$15,000	0.2	%
Cayman Islands	1,083,540	17.8	% 1,009,696	17.1	% 1,101,347	16.8	% 1,145,421	17.3	%
France	9,756	0.2	% 9,015	0.2	% 10,145	0.2	% 9,734	0.2	%
MidWest US	804,515	13.2	% 849,029	14.4	% 749,036	11.4	% 767,419	11.6	%
NorthEast US	838,331	13.8	% 824,408	13.9	% 1,085,569	16.6	% 1,151,510	17.4	%
NorthWest US	41,317	0.7	% 40,122	0.7	% —	—	% —	—	%
Puerto Rico	40,516	0.7	% 40,516	0.7	% 40,911	0.6	% 37,539	0.6	%
SouthEast US	1,498,976	24.6	% 1,531,944	26.0	% 1,609,956	24.5	% 1,661,477	25.1	%
SouthWest US	586,701	9.6	% 486,695	8.3	% 762,454	11.6	% 693,138	10.5	%
Western US	1,172,448	19.2	% 1,098,202	18.6	% 1,184,958	18.1	% 1,128,320	17.1	%
Total Investments	\$6,091,100	100.0	% \$5,897,708	100.0	% \$6,559,376	100.0	% \$6,609,558	100.0	%

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

Industry	June 30, 2016				June 30, 2015				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Aerospace & Defense	\$67,518	1.1	% \$69,836	1.2	% \$70,860	1.1	% \$78,675	1.2	%
Business Services	249,482	4.1	% 246,960	4.2	% 646,021	9.8	% 711,541	10.8	%
Chemicals	4,967	0.1	% 4,819	0.1	% 4,963	0.1	% 5,000	0.1	%
Commercial Services	247,144	4.1	% 219,988	3.7	% 245,913	3.8	% 241,620	3.6	%
Construction & Engineering	60,436	1.0	% 31,091	0.5	% 58,837	0.9	% 30,497	0.4	%
Consumer Finance	449,203	7.4	% 474,652	8.0	% 426,697	6.5	% 486,977	7.4	%
Consumer Services	194,554	3.1	% 197,346	3.2	% 190,037	2.9	% 190,216	2.9	%
Diversified Financial Services	115,648	1.9	% 115,648	2.0	% 120,327	1.8	% 119,919	1.8	%
Durable Consumer Products	457,075	7.5	% 453,795	7.7	% 439,172	6.7	% 422,033	6.4	%
Food Products	287,626	4.7	% 283,172	4.8	% 282,185	4.3	% 281,365	4.3	%
Healthcare	307,136	5.0	% 308,345	5.2	% 435,893	6.6	% 434,446	6.6	%
Hotels, Restaurants & Leisure	139,813	2.3	% 139,954	2.4	% 177,748	2.7	% 177,926	2.7	%
Machinery	330	—	% 511	—	% 376	—	% 563	—	%
Manufacturing	219,503	3.6	% 180,546	3.1	% 163,380	2.5	% 126,921	1.9	%
Media	371,440	6.1	% 357,864	6.1	% 361,825	5.5	% 350,365	5.3	%
Metal Services & Minerals	9,934	0.2	% 8,701	0.1	% 25,670	0.4	% 23,745	0.4	%
Oil and Gas Production	5,460	0.1	% 6,138	0.1	% 3,000	—	% 22	—	%
Oil and Gas Services	286,105	4.7	% 165,091	2.8	% 289,803	4.4	% 246,817	3.7	%
Online Lending	406,931	6.7	% 377,385	6.4	% 263,958	4.0	% 260,526	3.9	%
Personal & Nondurable Consumer Products	213,585	3.5	% 193,054	3.3	% 213,796	3.4	% 193,046	2.9	%
Pharmaceuticals	70,739	1.2	% 70,739	1.2	% 74,951	1.1	% 74,588	1.1	%
Property Management	3,916	0.1	% 3,900	0.1	% 5,880	0.1	% 3,814	0.1	%
Real Estate	335,048	5.5	% 480,763	8.2	% 412,080	6.3	% 465,196	7.0	%
Retail	—	—	% —	—	% 63	—	% 260	—	%
Software & Computer Services	153,485	2.5	% 151,192	2.6	% 217,429	3.3	% 217,472	3.3	%
Telecommunication Services	4,392	0.1	% 4,392	0.1	% 4,573	0.1	% 4,595	0.1	%
Textiles, Apparel & Luxury Goods	278,552	4.5	% 278,552	4.7	% 252,200	3.8	% 252,200	3.8	%
Transportation	67,538	1.1	% 63,578	1.1	% 70,392	1.1	% 63,792	1.0	%
Subtotal	\$5,007,560	82.2	% \$4,888,012	82.9	% \$5,458,029	83.2	% \$5,464,137	82.7	%
Structured Finance(1)	1,083,540	17.8	% 1,009,696	17.1	% 1,101,347	16.8	% 1,145,421	17.3	%
Total Investments	\$6,091,100	100.0	% \$5,897,708	100.0	% \$6,559,376	100.0	% \$6,609,558	100.0	%

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

Portfolio Investment Activity

During the year ended June 30, 2016, we acquired \$375,409 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$573,338, funded \$9,824 of revolver advances, and recorded PIK interest of \$20,531, resulting in gross investment originations of \$979,102. The more significant of these transactions are briefly described below.

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

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

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

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

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

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

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

On October 2, 2015, we provided \$17,500 of first lien senior secured debt to Easy Gardener Products, Inc., a designer, marketer, and manufacturer of branded lawn and garden products. The first lien term loan bears interest at the greater of 10.25% or LIBOR plus 10.0% and has a final maturity of September 30, 2020.

On October 16, 2015, we made a \$37,000 second lien secured debt investment in Universal Fiber Systems, LLC, a manufacturer of custom and specialty fiber products used in high performance applications. The second lien term loan bears interest at the greater of 10.5% or LIBOR plus 9.5% and has a final maturity of October 2, 2022.

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

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

On November 9, 2015 and December 28, 2015, we made a combined \$30,100 follow-on first lien senior secured debt investment in System One Holdings, LLC (“System One”), to support an acquisition. The first lien term loan bears

interest at the greater of 11.25% or LIBOR plus 10.5% and has a final maturity of November 17, 2020.

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On December 3, 2015, we provided \$245,900 of first lien senior secured debt to Broder Bros., Co. (“Broder”), a leading distributor of imprintable sportswear and accessories in the United States. We invested \$122,950 in Term Loan A and \$122,950 in Term Loan B Notes. Term Loan A bears interest at the greater of 7.0% or LIBOR plus 5.75% and has a final maturity of June 3, 2021. Term Loan B bears interest at the greater of 13.50% or LIBOR plus 12.25% and has a final maturity of June 3, 2021. As part of the recapitalization, we sold \$5,000 and received a repayment of \$245,900 of the previous loan outstanding. We realized no gain or loss on the sale.

On February 3, 2016, lenders foreclosed on Targus Group International, Inc., and our \$21,613 first lien term loan was extinguished and exchanged for 1,262,737 common units representing 12.63% equity ownership in Targus Cayman HoldCo Limited, the parent company of Targus. On February 17, 2016, we provided additional debt financing to support the recapitalization of Targus. As part of the recapitalization, we invested an additional \$1,263 in a new senior secured Term Loan A notes and were allocated \$3,788 in new senior secured Term Loan B notes. Term Loan A and Term Loan B bear interest payment in kind of 15.0%, and have a final maturity date of December 31, 2019. During the same period, Targus was written-down for tax purposes and a loss of \$14,194 was therefore realized for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$3,479.

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

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

During the period from May 18, 2016 through June 22, 2016, we made \$34,726 of follow-on first lien senior secured debt investments in Empire Today, LLC.

On June 7, 2016, we made a \$19,000 second lien secured investment in Generation Brands Holdings, Inc., a leading designer and provider of lighting fixtures for commercial and residential applications. The second lien term loan bears interest at the greater of 11.0% or LIBOR plus 10.0% and has a final maturity of December 10, 2022.

On June 8, 2016, we made a \$17,000 first lien senior secured investment in Inpatient Care Management Company, LLC (“Inpatient Care”), a company providing general surgery services to hospitals with a focus on emergency care. The first lien term loan bears interest at the greater of 11.5% or LIBOR plus 10.5% and has a final maturity of June 8, 2021.

During the period from June 10, 2016 through June 29, 2016, we collectively invested an additional \$11,109 of second lien senior secured debt in NCP Finance Limited Partnership.

During the period from June 15, 2016 through June 29, 2016, we provided additional \$3,500 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt and, in connection with this debt financing, USES issued to us 268,962 shares of its common stock representing a 99.96% common equity ownership interest in USES. Therefore, USES became a controlled company on June 30, 2016.

On June 17, 2016, we made a \$25,000 follow-on second lien secured debt investment in Instant Web, LLC.

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. APRC and UPRC have been dissolved. No gain or loss was recognized upon the merger.

During the year ended June 30, 2016, we made 29 follow-on investments in NPRC totaling \$243,584 to support the online consumer lending initiative. We invested \$41,118 of equity through NPH and \$202,466 of debt directly to NPRC and its wholly-owned subsidiaries. We also provided \$12,449 of equity financing to NPRC, \$9,017 of which was for the acquisition of Orchard Village Apartments, a multi-family property located in Aurora, Illinois, and \$3,432 to fund capital expenditures for existing properties.

During the period from July 1, 2015 through May 23, 2016, we provided \$2,268 of equity financing to APRC, and \$4,484 debt and \$3,047 of equity financing to UPRC to fund capital expenditures for existing properties.

During the year ended June 30, 2016, we purchased \$68,799 of small business whole loans from OnDeck.

During the year ended June 30, 2016, we received full repayments on eleven investments, sold five investments in addition to five partial sales, and received several partial prepayments and amortization payments totaling \$1,338,875, net of realized losses totaling \$24,417. The more significant of these transactions are briefly described below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended June 30, 2016, we sold our \$16,100 debt investment in ICON Health and Fitness, Inc (“ICON”). We realized a loss of \$1,170 on the sale.

During the year ended June 30, 2016, our remaining investment in New Century Transportation, Inc. was written-off for tax purposes and a loss of \$187 was realized.

During the year ended June 30, 2016, our remaining investment in Wind River Resources Corporation (“Wind River”) was written-off for tax purposes and a loss of \$3,000 was realized.

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

On May 31, 2016, we sold our investment in Harbortouch Payments, LLC (“Harbortouch”) for total consideration of \$328,032, including fees and escrowed amounts. Prior to the sale, \$154,382 of Senior Secured Term Loan B loan outstanding was

converted to preferred equity. We received a repayment of \$146,989 loans receivable to us and \$157,639 of proceeds related to the equity investment. We recorded a realized loss of \$5,419 related to the sale. We also received a \$5,145 prepayment premium for early repayment of the outstanding loans, which was recorded as interest income in the year ended June 30, 2016 and a \$12,909 advisory fee for the transaction, which was recorded as other income in the year ended June 30, 2016. In addition, there is \$5,350 being held in escrow which will be recognized as additional realized gain if and when it is received. Concurrent with the sale, we made a \$27,500 second lien secured investment in Harbortouch.

During the year ended June 30, 2016, we received partial repayments of \$115,532 of our loans previously outstanding and \$12,396 as a return of capital on our equity investment in NPRC.

During the period from July 1, 2015 through May 23, 2016, we received a partial repayment of \$29,703 of our loan previously outstanding with APRC and recorded \$11,016 of dividend income from APRC in connection with the sale of its Vista Palma Sola (“Vista”) property.

During the period from July 1, 2015 through May 23, 2016, we received a partial repayment of \$7,567 of our loan previously outstanding with UPRC.

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

Quarter Ended	Acquisitions(1)	Dispositions(2)
September 30, 2013	537,851	145,176
December 31, 2013	608,154	255,238
March 31, 2014	1,343,256	197,947
June 30, 2014	444,104	169,617
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

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

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

Investment Valuation

In determining the range of values for debt instruments, except CLOs and debt investments in controlling portfolio companies, management and the independent valuation firm estimated corporate and security credit ratings and identified corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine a range of values. In determining the range of values for debt investments of controlled companies and equity investments, the enterprise value was determined by applying earnings before income tax, depreciation and amortization (“EBITDA”) multiples, the discounted cash flow technique, net income and/or book value multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared. During the year ended June 30, 2016, we changed the valuation methodology for our REITs portfolio (American Property REIT Corp. (“APRC”), National Property REIT Corp. (“NPRC”), and United Property REIT Corp. (“UPRC”)) from averaging the net asset value and dividend yield method to averaging the net asset value and discounted cash flow method utilizing capitalization rates for similar guideline companies and/or similar recent investment transactions.

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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. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. Our valuation agent utilizes 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 \$5,897,708.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$100,000 of annual earnings before income tax, depreciation and amortization (“EBITDA”). We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment.

Transactions between our controlled investments and us have been detailed in Note 14 to the accompanying consolidated financial statements. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

First Tower Finance Company LLC

We own 80.1% of First Tower Finance, which owns 100% of First Tower, LLC (“First Tower”), the operating company.

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 170 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower businesses. As of June 30, 2016, First Tower had \$432,639 of finance receivables net of unearned charges. As of June 30, 2016, First Tower’s total debt outstanding to parties senior to us was \$365,448.

The Board of Directors decreased the fair value of our investment in First Tower to \$352,666, representing a premium of 8% to its amortized cost basis, as of June 30, 2016, from \$365,950, representing a premium of 15% to its amortized cost basis, as of June 30, 2015. The decline in fair value 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 in newer states.

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 December 29, 2014, Freedom Marine reached a settlement for and received \$5,174, net of third party obligations, related to the contingent earn-out from the sale of Gas Solutions in January 2012 which was retained by Freedom Marine. This is a final settlement and no further payments are expected from the sale.

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 \$26,618 as of June 30, 2016, a discount of \$14,192 to its amortized cost, compared to the \$12,722 unrealized depreciation recorded at June 30, 2015. The decline in fair value was driven by the challenging environment for the oil and gas industry, which in turn

decreased demand for Freedom Marine's vessels.

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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. As of June 30, 2016, Gulf Coast's total debt outstanding to parties senior to us was \$42,865.

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 slightly decreased the fair value of our investment in Gulf Coast to \$7,312 as of June 30, 2016, a discount of \$53,063 to its amortized cost, compared to the \$45,032 unrealized depreciation recorded at June 30, 2015.

National Property REIT Corp.

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. NPRC is held for purposes of investing, operating, financing, leasing, managing and selling a portfolio of real estate assets and engages in any and all other activities that may be necessary, incidental, or convenient to perform the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans. 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 June 30, 2016, we own 100% of the fully-diluted common equity of NPRC.

During the period from July 1, 2015 through May 23, 2016, we provided \$2,268 of equity financing to APRC to fund capital expenditures for existing properties. In addition, during the period, we received a partial repayment of \$29,703 of our loan previously outstanding and recorded \$11,016 of dividend income in connection with the sale of Vista Palma Sola property.

During the period from July 1, 2015 through May 23, 2016, we provided \$4,484 and \$3,047 of debt and equity financing, respectively, to UPRC to fund capital expenditures for existing properties. In addition, during the period from July 1, 2015 through June 30, 2016, we received a partial repayment of \$7,567 of our loan previously outstanding.

During the year ended June 30, 2016, we provided \$9,017 of equity financing to NPRC for the acquisition of real estate properties and \$3,433 of equity financing to NPRC to fund capital expenditures for existing properties. In addition, during the year ended June 30, 2016, we received partial repayments of \$63,271 of our loans previously outstanding.

During the year ended June 30, 2016, we provided \$202,466 and \$41,118 of debt and equity financing, respectively, to NPRC to enable certain of its wholly-owned subsidiaries to invest in online consumer loans. In addition, during the year ended June 30, 2016, we received partial repayments of \$52,260 of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and \$12,396 as a return of capital on our equity investment in NPRC.

The online consumer loan investments held by certain of NPRC's wholly-owned subsidiaries are unsecured obligations of individual borrowers that are issued in amounts ranging from \$1 to \$50, with fixed terms ranging from 18 to 84 months. As of June 30, 2016, the outstanding investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries was comprised of 91,721 individual loans and had an aggregate fair value of \$674,423.

The average outstanding individual loan balance is approximately \$8 and the loans mature on dates ranging from October 31, 2016 to August 1, 2023 with a weighted- average outstanding term of 33 months as of June 30, 2016. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 22.0%.

As of June 30, 2016, based on outstanding principal balance, 9.3% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation score, "FICO score", of 720 or greater), 24.8% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 65.9% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659).

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Loan Type	Outstanding Balance	Interest Rate Range	Weighted Average Interest Rate*
Super Prime	\$ 66,152	4.0% - 36.0%	11.7%
Prime	175,899	5.3% - 36.0%	14.9%
Near Prime	467,106	6.0% - 36.0%	26.2%

*Based on outstanding principal of the unsecured consumer loans.

As of June 30, 2016, our investment in NPRC had an amortized cost of \$727,376 and a fair value of \$843,933, including \$363,170 of fair value related to our investment in the online consumer loan subsidiary as discussed above. The remaining fair value of \$480,763 relates to NPRC's real estate portfolio was comprised of thirty eight multi-families properties, twelve self-storage units 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 June 30, 2016.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	1557 Terrell Mill Road, LLC	Marietta, GA	12/28/2012	\$ 23,500	\$ 14,897
2	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,402
3	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
4	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	11,375
5	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	13,845
6	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	24,700
7	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	17,550
8	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	14,092
9	Verandas at Rocky Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
10	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	4,881
11	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	8,126
12	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
13	146 Forest Parkway, LLC	Forest Park, GA	10/24/2012	7,400	—
14	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	46,700
15	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	181,707
16	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	32,713
17	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	19,964
18	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,354
19	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	33,026
20	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	29,839
21	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	41,711
22	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	62,552
23	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	28,100
24	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,766
25	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
26	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
27	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
28	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
29	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
30	Ann Arbor Kalamazoo Self Storage, LLC	Scio, MI	8/29/2014	8,927	6,695
31	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
32	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
33	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
34	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
35	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225

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No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
36	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
37	SSIL I, LLC	Aurora, IL	11/5/2015	34,500	26,450
38	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	19,785
39	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	9,193
40	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	3,619
41	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	10,180
42	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	11,141
43	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	13,575
44	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
45	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	74,286
46	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	10,440
47	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	11,000
48	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	20,142
49	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	10,080
50	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	10,480
51	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	15,480
52	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	12,240
53	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	8,040
				\$1,200,441	\$ 972,796

The Board of Directors increased the fair value of our investment in NPRC to \$843,933 as of June 30, 2016, a premium of \$116,557 from its amortized cost, compared to the \$49,350 unrealized appreciation, inclusive of APRC and UPRC, recorded at June 30, 2015. This increase is primarily due to improved operating performance at the property level and selected cap rates, partially offset by a decline in our online lending portfolio value resulting from an increase in delinquent loans.

NMMB, Inc.

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

On May 6, 2011, Prospect initially made a \$34,450 investment (of which \$31,750 was funded at closing) in NMMB Holdings and NMMB, of which \$24,250 was a senior secured term loan to NMMB, \$3,000 was a senior secured revolver to NMMB (of which \$300 was funded at closing), \$2,800 was a senior subordinated term loan to NMMB Holdings and \$4,400 to purchase 100% of the Series A Preferred Stock of NMMB Holdings. The proceeds received by NMMB were used to purchase 100% of the equity of Refuel Agency and assets related to the business for \$30,069, pay \$1,035 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), pay \$396 for third party expenses and \$250 was retained by NMMB for working capital.

The Board of Directors decreased the fair value of our investment in NMMB to \$10,007, representing a discount of 58% to its amortized cost basis, as of June 30, 2016, from \$12,052, representing a discount of 49% to its amortized cost basis, as of June 30, 2015. The decrease in fair value was driven by declining revenues from NMMB’s print business. The impact of this decline was partially offset by increases in gross profit and EBITDA margins as well as by growth in the digital and out-of-home advertising business lines.

USES Corp.

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

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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.

We own 99.96% of USES as of June 30, 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.

The first half of 2016 saw the company's revenue suffer due to a pull back 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 the softening of the energy markets partially offset by increased margins on projects, the Board of Directors determined the fair value of our investment in USES to be \$40,286 as of June 30, 2016, a discount of \$21,440 from its amortized cost, compared to the \$4,293 unrealized depreciation recorded at June 30, 2015.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric as of June 30, 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 \$31,091 as of June 30, 2016, a discount of \$29,345 from its amortized cost, compared to the \$28,340 unrealized depreciation recorded at June 30, 2015.

Equity positions in our portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results and market multiples. Several of our controlled companies experienced such volatility and we recorded corresponding fluctuations in valuations during the year ended June 30, 2016. See above for discussions regarding the fluctuations in NPRC, First Tower Finance, USES, NMMB, Freedom Marine and Valley Electric. During the year ended June 30, 2016, the value of our investments in Arctic Energy, CP Energy and Gulf Coast decreased by \$22,024, \$12,188 and \$8,031, respectively, as a result of depressed earnings resulting from softness of the energy markets; Echelon decreased by \$5,166 due to aircraft sale proceeds and resulting dividend distribution; and R-V decreased by \$3,017 due to lower sales profitability. In total, ten of the controlled investments are valued at the original investment amounts or higher, and seven of the controlled investments have been valued at discounts to the original cost basis. Overall, at June 30, 2016, control investments are valued at \$15,771 below their amortized cost.

We hold two affiliate investments at June 30, 2016. Our affiliate portfolio companies did not experience a significant change in valuation during the year ended June 30, 2016. Overall, at June 30, 2016, affiliate investments are valued at \$562 above their 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

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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. Two of our non-control/non-affiliate investments, Ark-La-Tex Wireline Services ("Ark-La-Tex"), LLC and Spartan Energy Services, Inc. ("Spartan"), are valued at a discount to amortized cost of \$32,548 and \$14,240, respectively, due to a decline in operating results from softness of the energy markets. During the year ended June 30, 2016, the value of our CLO residual interest investments decreased by \$114,133 primarily due to non-credit related changes in the capital markets impacting the underlying collateral and increasing our discount rate by 404 bps inclusive of new investments. Overall, at June 30, 2016, non-control/non-affiliate investments are valued \$57,551 below their amortized cost, excluding our investments in Ark-La-Tex, Spartan, and CLO investments, as the remaining companies are generally performing as or better than expected.

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 June 30, 2016 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Convertible Notes which we issued in February 2011, April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in March 2013, April 2014, December 2015, and from time to time, through our Baby Bond 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 the maximum draw amounts and outstanding borrowings of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2016 and June 30, 2015.

	June 30, 2016		June 30, 2015	
	Maximum	Amount	Maximum	Amount
	Draw Amount	Outstanding	Draw Amount	Outstanding
Revolving Credit Facility	\$885,000	\$—	\$885,000	\$368,700
Convertible Notes	1,089,000	1,089,000	1,239,500	1,239,500
Public Notes	709,657	709,657	548,094	548,094
Prospect Capital InterNotes®	908,808	908,808	827,442	827,442
Total	\$3,592,465	\$2,707,465	\$3,500,036	\$2,983,736

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of 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	709,657	—	—	300,000	409,657
Prospect Capital InterNotes®	908,808	8,819	257,198	360,599	282,192
Total Contractual Obligations	\$2,707,465	\$176,319	\$786,698	\$1,052,599	\$691,849

The Convertible Notes due August 15, 2016, with an outstanding balance of \$167,500 at June 30, 2016, were paid on August 15, 2016 from cash-on-hand, primarily generated from the sale of Harbortouch.

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

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

Historically, we have funded a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of June 30, 2016, we can issue up to \$4,807,503 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

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

Revolving Credit Facility

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

On August 29, 2014, we renegotiated the 2012 Facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” and collectively with the 2012 Facility, the “Revolving Credit Facility”). The lenders have extended commitments of \$885,000 under the 2014 Facility as of June 30, 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 June 30, 2016, we were in compliance with the applicable covenants. Interest on borrowings under the 2014 Facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the 2014 Facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise. The 2014 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

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As of June 30, 2016 and June 30, 2015, we had \$538,456 and \$721,800, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was \$0 and \$368,700, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$885,000. As of June 30, 2016, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,373,569, which represents 22.1% of our total investments, including cash and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$12,405 of new fees and \$3,539 of fees carried over for continuing participants from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, of which \$7,525 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2016. During the year ended June 30, 2015, in accordance with ASC 470-50, we expensed \$332 of fees relating to credit providers in the 2012 Facility who did not commit to the 2014 Facility.

During the years ended June 30, 2016, 2015 and 2014, we recorded \$13,213, \$14,424, and \$12,216, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Convertible Notes

On December 21, 2010, we issued \$150,000 aggregate principal amount of convertible notes that matured on December 15, 2015 (the "2015 Notes"). The 2015 Notes bore interest at a rate of 6.25% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were \$145,200. On December 15, 2015, we repaid the outstanding principal amount of the 2015 Notes, plus interest. No gain or loss was realized on the transaction.

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

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.

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

	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$12.76	\$11.65	\$12.14	\$12.54	\$12.40
Conversion rate at June 30, 2016(1)(2)	80.2196	87.7516	84.1497	79.8360	80.6670
Conversion price at June 30, 2016(2)(3)	\$12.47	\$11.40	\$11.88	\$12.53	\$12.40
Last conversion price calculation date	2/18/2016	4/16/2016	8/14/2015	12/21/2015	4/11/2016
Dividend threshold amount (per share)(4)	\$0.101150	\$0.101500	\$0.101600	\$0.110025	\$0.110525

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

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

The conversion price in effect at June 30, 2016 was calculated on the last anniversary of the issuance and will be (3) adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend (4) 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 \$34,629 of fees which are being amortized over the terms of the notes, of which \$14,639 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2016.

During the years ended June 30, 2016, 2015 and 2014, we recorded \$68,966, \$74,365 and \$58,042, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Public Notes

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

2022 Notes in the year ended June 30, 2015 was \$2,600.

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On March 15, 2013, we issued \$250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the “2023 Notes”). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were \$245,966.

On April 7, 2014, we issued \$300,000 aggregate principal amount of unsecured notes that mature on July 15, 2019 (the “5.00% 2019 Notes”). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$295,998.

On December 10, 2015, we issued \$160,000 aggregate principal amount of unsecured notes that mature on June 15, 2024 (the “2024 Notes”). The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning March 15, 2016. Total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, were \$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. During the period from June 28, 2016 to June 30, 2016, we issued \$1,380 in aggregate principal amount of our 2024 Notes for net proceeds of \$1,247 after commissions and offering costs.

The 2022 Notes, the 2023 Notes, the 5.00% 2019 Notes, and the 2024 Notes (collectively, the “Public Notes”) are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding.

In connection with the issuance of the 2023 Notes, the 5.00% 2019 Notes, and the 2024 Notes, we incurred \$13,109 of fees which are being amortized over the term of the notes, of which \$10,289 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2016.

During the years ended June 30, 2016, 2015 and 2014, we recorded \$36,859, \$37,063, and \$25,988, 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 year ended June 30, 2016, we issued \$88,435 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$87,141. These notes were issued with stated interest rates ranging from 4.625% to 6.00% with a weighted average interest rate of 5.18%. These notes mature between July 15, 2020 and December 15, 2025. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2016.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 51,503	4.625%–6.00%	5.12 %	July 15, 2020 – June 15, 2021
6.5	35,155	5.10%–5.25%	5.25 %	January 15, 2022 – May 15, 2022
7	990	5.625%–6.00%	5.77 %	November 15, 2022 – December 15, 2022
10	787	5.125%–6.00%	5.33 %	November 15, 2025 – December 15, 2025
	\$ 88,435			

During the year ended June 30, 2015, we issued \$125,696 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$123,641. These notes were issued with a stated interest rates ranging from 3.375% to 5.10% with a weighted average interest rate of 4.65%. These notes mature between May 15, 2020 and June 15, 2022. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5.25	\$7,126	4.625%	4.625 %	August 15, 2020 – September 15, 2020
5.5	106,364	4.25%–4.75%	4.63 %	May 15, 2020 – November 15, 2020
6	2,197	3.375%	3.375 %	April 15, 2021 – May 15, 2021
6.5	3,912	5.10%	5.10 %	December 15, 2021
7	6,097	5.10%	5.10 %	May 15, 2022 – June 15, 2022
	\$125,696		0.051	

During the year ended June 30, 2016, we repaid \$7,069 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 gain on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2016 was \$215. 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	4.625%	4.625 %	August 15, 2020 – September 15, 2020
5.3	2,686	4.625%	4.625 %	September 15, 2020
5.4	5,000	4.75%	4.75 %	August 15, 2019
5.5	109,808	4.25%–5.00%	4.65 %	February 15, 2019 – November 15, 2020
6	2,197	3.375%	3.375 %	April 15, 2021 – May 15, 2021
6.5	40,867	5.10%–5.50%	5.24 %	February 15, 2020 – May 15, 2022
7	192,076	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	4.125%–6.25%	5.53 %	December 15, 2030 – August 15, 2031
20	4,462	5.625%–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			

During the year ended June 30, 2015, we redeemed \$76,931 aggregate principal amount of our Prospect Capital InterNotes® at par with a weighted average interest rate of 6.06% in order to replace debt with higher interest rates with debt with lower rates. During the year ended June 30, 2015, we repaid \$6,993 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

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the year ended June 30, 2015 was \$1,682. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$5,710	4.00%	4.00 %	October 15, 2016
3.5	3,109	4.00%	4.00 %	April 15, 2017
4	45,690	3.75%–4.00%	3.92 %	November 15, 2017 – May 15, 2018
5	207,719	4.25%–5.00%	4.92 %	July 15, 2018 – May 15, 2019
5.25	7,126	4.625%	4.63 %	August 15, 2020 – September 15, 2020
5.5	115,184	4.25%–5.00%	4.65 %	February 15, 2019 – November 15, 2020
6	2,197	3.375%	3.38 %	April 15, 2021 – May 15, 2021
6.5	5,712	5.10%–5.50%	5.23 %	February 15, 2020 – December 15, 2021
7	191,549	4.00%–5.85%	5.13 %	September 15, 2019 – June 15, 2022
7.5	1,996	5.75%	5.75 %	February 15, 2021
10	36,925	3.29%–7.00%	6.11 %	March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00 %	November 15, 2025 – December 15, 2025
15	17,385	5.00%–6.00%	5.14 %	May 15, 2028 – November 15, 2028
18	22,729	4.125%–6.25%	5.52 %	December 15, 2030 – August 15, 2031
20	4,530	5.75%–6.00%	5.89 %	November 15, 2032 – October 15, 2033
25	36,320	6.25%–6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	120,583	5.50%–6.75%	6.23 %	November 15, 2042 – October 15, 2043
	\$827,442			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$22,294 of fees which are being amortized over the term of the notes, of which \$15,598 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2016.

During the years ended June 30, 2016, 2015 and 2014, we recorded \$48,681, \$44,808, and \$33,857, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Net Asset Value

During the year ended June 30, 2016, our net asset value decreased by \$267,132, or \$0.69 per share, resulting primarily from a decrease in net realized and unrealized gains and losses on CLOs, financial and energy related investments. Our net investment income of \$371,128, or \$1.04 per weighted average share exceeded dividends to shareholders of \$356,110, or \$1.00 per share.

During the year ended June 30, 2016, 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 \$0.02 for the year ended June 30, 2016 as a result of the share repurchases. During the year ended June 30, 2016, we issued 2,725,222 shares of our common stock in connection with the dividend reinvestment plan. The following table shows the calculation of net asset value per share as of June 30, 2016 and June 30, 2015.

	June 30, 2016	June 30, 2015
Net assets	\$3,435,917	\$