MFS INTERMEDIATE INCOME TRUST
Form N-CSR
December 30, 2015
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# UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF**

**REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-5440

# MFS INTERMEDIATE INCOME TRUST

**(Exact name of registrant as specified in charter)**

**111 Huntington Avenue, Boston, Massachusetts 02199**

**(Address of principal executive offices) (Zip code)**

**Kristin V. Collins**

**Massachusetts Financial Services Company**

**111 Huntington Avenue**

**Boston, Massachusetts 02199**

**(Name and address of agents for service)**

Registrant s telephone number, including area code: (617) 954-5000

Date of fiscal year end: October 31

Date of reporting period: October 31, 2015

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**ITEM 1. REPORTS TO STOCKHOLDERS.**

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**ANNUAL REPORT**

October 31, 2015

# MFS® INTERMEDIATE INCOME TRUST

MIN-ANN

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## MANAGED DISTRIBUTION POLICY DISCLOSURE

The MFS Intermediate Income Trust s (the fund) Board of Trustees has adopted a managed distribution policy. The fund seeks to pay monthly distributions based on an annual rate of 8.5% of the fund s average monthly net asset value. The fund s total return in relation to changes in net asset value is presented in the Financial Highlights. You should not draw any conclusions about the fund s investment performance from the amount of the current distribution or from the terms of the fund s managed distribution policy. The Board may amend or terminate the managed distribution policy at any time without prior notice to fund shareholders.

With each distribution, the fund will issue a notice to shareholders and an accompanying press release which will provide detailed information regarding the amount and composition of the distribution and other related information. The amounts and sources of distributions reported in the notice to shareholders are only estimates and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the fund s investment experience during the remainder of its fiscal year and may be subject to changes based on tax regulations. The fund will send you a Form 1099-DIV for the calendar year that will tell you how to report these distributions for federal income tax purposes.

Under a managed distribution policy the fund may at times distribute more than its net investment income and net realized capital gains; therefore, a portion of your distribution may result in a return of capital. A return of capital may occur, for example, when some or all of the money that you invested in the fund is paid back to you. A return of capital does not necessarily reflect the fund s investment performance and should not be confused with yield or income . Please refer to Tax Matters and Distributions under Note 2 of the Notes to Financial Statements for information regarding the tax character of the fund s distributions.

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# MFS® INTERMEDIATE INCOME TRUST

New York Stock Exchange Symbol: **MIN**



**NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE**

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# LETTER FROM THE CHAIRMAN

Dear Shareholders:

The global economy remains vulnerable as central banks continue to play a major role in supporting growth.

Even the resilient U.S. economy has had slower growth, as a strong U.S. dollar and weak overseas markets have hurt exporters. However, robust consumer demand and a recovering housing market have aided the domestic economy, fueled by cheap gasoline and an improving labor market.

China s transition to a consumer-based, slower-growth economy has weighed on many commodity-exporting nations. And concerns about weakness in China have eroded investor and business confidence around the world. Meanwhile, rising geopolitical concerns will weigh on the eurozone, which is still reliant on the European Central Bank s support.

As markets have become more focused on short-term trends in recent years, we believe it s important for investors to lengthen their investment time horizon. At MFS®, we don t trade on headlines or trends; we invest for the long term.

We believe that this approach, coupled with the professional guidance of a financial advisor, will help you reach your investment goals.

Respectfully,

**Robert J. Manning**

Chairman

MFS Investment Management

December 15, 2015

The opinions expressed in this letter are subject to change and may not be relied upon for investment advice. No forecasts can be guaranteed.

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# PORTFOLIO COMPOSITION

**Portfolio structure (i)**

| **Fixed income sectors (i)** | |
|---|---|
| Investment Grade Corporates | 63.2% |
| Non-U.S. Government Bonds | 18.8% |
| Emerging Markets Bonds | 7.7% |
| U.S. Treasury Securities | 5.1% |
| Asset-Backed Securities | 4.7% |
| Mortgage-Backed Securities | 2.3% |
| Commercial Mortgage-Backed Securities | 1.4% |
| High Yield Corporates | 1.1% |
| U.S. Government Agencies | 1.0% |
| Collateralized Debt Obligations | 0.2% |
| **Composition including fixed income credit quality (a)(i)** | |
| AAA | 10.0% |
| AA | 13.2% |
| A | 30.4% |
| BBB | 41.9% |
| BB | 0.6% |
| CC (o) | 0.0% |
| Federal Agencies | 3.3% |
| Not Rated | 6.1% |
| Cash & Cash Equivalents | (0.6)% |
| Other | (4.9)% |

| **Portfolio facts (i)** | |
|---|---|
| Average Duration (d) | 3.6 |
| Average Effective Maturity (m) | 3.8 yrs. |

| **Issuer country weightings (i)(x)** | |
|---|---|
| United States | 48.6% |
| United Kingdom | 5.6% |
| France | 4.8% |
| Japan | 4.7% |
| Italy | 4.5% |
| Germany | 4.1% |
| Netherlands | 3.3% |
| Canada | 3.1% |
| Switzerland | 2.6% |
| Other Countries | 18.7% |

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*Portfolio Composition continued*

(a) For all securities other than those specifically described below, ratings are assigned to underlying securities utilizing ratings from Moody s, Fitch, and Standard & Poor s rating agencies and applying the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). Securities rated BBB or higher are considered investment grade. All ratings are subject to change. Federal Agencies includes rated and unrated U.S. Agency fixed-income securities, U.S. Agency mortgage-backed securities, and collateralized mortgage obligations of U.S. Agency mortgage-backed securities. Not Rated includes fixed income securities, including fixed income futures contracts, which have not been rated by any rating agency. The fund may not hold all of these instruments. The fund is not rated by these agencies.

(d) Duration is a measure of how much a bond s price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move.

(i) For purposes of this presentation, the components include the value of securities, and reflect the impact of the equivalent exposure of derivative positions, if any. These amounts may be negative from time to time. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio s ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than value. The bond component will include any accrued interest amounts.

(m) In determining an instrument s effective maturity for purposes of calculating the fund s dollar-weighted average effective maturity, MFS uses the instrument s stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument s stated maturity.

(o) Less than 0.1%.

(x) Represents the portfolio s exposure to issuer countries as a percentage of a portfolio s net assets. For purposes of this presentation, United States includes Cash & Cash Equivalents and Other.

From time to time Cash & Cash Equivalents may be negative due to timing of cash receipts.

From time to time Other may be negative due to equivalent exposure from currency derivatives and/or offsets to derivative positions.

Where the fund holds convertible bonds, these are treated as part of the equity portion of the portfolio.

Cash & Cash Equivalents includes any cash, investments in money market funds, short-term securities, and other assets less liabilities. Please see the Statement of Assets and Liabilities for additional information related to the fund s cash position and other assets and liabilities.

Other includes currency derivatives and/or any offsets to derivative positions.

Percentages are based on net assets as of 10/31/15.

The portfolio is actively managed and current holdings may be different.

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# MANAGEMENT REVIEW

**Summary of Results**

MFS Intermediate Income Trust ( fund ) is a closed-end fund. The fund s investment objective is to seek high current income, but may also consider capital appreciation. MFS normally invests the fund s assets primarily in debt instruments. MFS generally invests substantially all of the fund s assets in investment grade quality debt instruments.

For the twelve months ended October 31, 2015, shares of the fund provided a total return of 1.96%, at net asset value and a total return of 0.82%, at market value. This compares with a return of 1.86% for the fund s benchmark, the Barclays Intermediate U.S. Government/Credit Bond Index ( Barclays Index ). Over the same period, the fund s other benchmark, the MFS Intermediate Income Trust Blended Index ( Blended Index ), generated a return of 2.44%. The Blended Index reflects the blended returns of various fixed income market indices, with percentage allocations to each index designed to resemble the fixed income allocations of the fund. The market indices and related percentage allocations used to compile the Blended Index are set forth in the Performance Summary.

The performance commentary below is based on the net asset value performance of the fund which reflects the performance of the underlying pool of assets held by the fund. The total return at market value represents the return earned by owners of the shares of the fund which are traded publicly on the exchange.

**Market Environment**

Sluggish global growth weighed on both developed and emerging market ( EM ) economies during the reporting period. EM economies have been particularly lackluster. While the US Federal Reserve appears ready to tighten monetary conditions, other large developed economies continued to embrace accommodative monetary policies, particularly the European Central Bank, which instituted a large quantitative easing program in January of 2015. Poor policy management by the Chinese government roiled global markets over the summer, beginning with the poorly executed response to the stock market s boom and bust and then the confusing decision to devalue the renminbi in August. China subsequently stabilized the currency and ramped up a wide range of monetary and fiscal measures to stimulate the economy and bolster sentiment.

During the second half of the reporting period, the US faced an earnings recession caused primarily by the sharp decline in the prices of oil and other commodities. Earnings contractions were concentrated primarily in the energy, materials and industrial sectors. An additional headwind for earnings was the sharp rise in the US dollar over the period. Exports were crimped by the dollar s strength and falling demand in emerging markets. Consumer spending held up well during the period amid a modest increase in real wages and a tailwind from falling gasoline prices. Demand for autos reached near-record territory late in the period. In emerging markets, two key factors weighed on economies and asset prices: weaker Chinese growth, and the resulting decline in commodity prices, in addition to prospects for higher US interest rates. Structural factors like floating exchange rates and fiscal buffers partially offset these cyclical headwinds.

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*Management Review continued*

**Detractors from Performance**

Relative to the Blended Index, the fund s greater exposure to North American bonds rated[r] in the BBB credit quality segment was a primary detractor from relative performance.

Yield curve [y] positioning in Europe, particularly the fund s lesser exposure to shifts in the long end (centered around maturities of 10 or more years) of the yield curve, was another area of relative weakness.

The portion of the fund s return derived from yield within European bond issues, which was less than that of the Blended Index, was also a detractor from relative performance.

**Contributors to Performance**

Over the reporting period, the fund s greater relative exposure to corporate bonds within the *financial* sector benefited relative performance.

The portion of the fund s return derived from yield within US issues, which was greater than that of the Blended Index, also strengthened relative results.

Respectfully,

| | |
|---|---|
| James Calmas<br>Portfolio Manager | Erik Weisman<br>Portfolio Manager |

(r) Bonds rated BBB , Baa , or higher are considered investment grade; bonds rated BB , Ba , or below are considered non-investment grade. The source for bond quality ratings is Moody s Investors Service, Standard & Poor s and Fitch, Inc. and are applied using the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). For securities which are not rated by any of the three agencies, the security is considered Not Rated.

(y) A yield curve graphically depicts the yields of different maturity bonds of the same credit quality and type; a normal yield curve is upward sloping, with short-term rates lower than long-term rates.

*Note to Shareholders: Effective March 31, 2015, Ward Brown and Matthew Ryan are no longer Portfolio Managers of the Fund.*

The views expressed in this report are those of the portfolio managers only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or an indication of trading intent on behalf of any MFS portfolio. References to specific securities are not recommendations of such securities, and may not be representative of any MFS portfolio s current or future investments.

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# PERFORMANCE SUMMARY THROUGH 10/31/15

The following chart presents the fund s historical performance in comparison to its benchmark(s). Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a shareholder would pay on fund distributions or the sale of fund shares. Performance data shown represents past performance and is no guarantee of future results.

**Price Summary for MFS Intermediate Income Trust**

| | | Date | Price |
|---|---|---|---|
| | Net Asset Value | 10/31/15 | $5.05 |
| | | 10/31/14 | $5.44 |
| | New York Stock Exchange Price | 10/31/15 | $4.56 |
| Year | | 11/03/14 (high) (t) | $5.07 |
| Ended | | 8/25/15 (low) (t) | $4.46 |
| 10/31/15 | | 10/31/14 | $5.05 |

**Total Returns vs Benchmarks**

| | | |
|---|---|---|
| | MFS Intermediate Income Trust at | |
| | New York Stock Exchange Price (r) | (0.82)% |
| | Net Asset Value (r) | 1.96% |
| | Barclays Intermediate U.S. Government/Credit Bond Index (f) | 1.86% |
| Year Ended | MFS Intermediate Income Trust Blended Index (f)(w) | 2.44% |
| 10/31/15 | JPMorgan Global Government Bond Index ex U.S. (Hedged) (f) | 4.17% |

(f) Source: FactSet Research Systems Inc.

(r) Includes reinvestment of dividends and capital gain distributions.

(t) For the period November 1, 2014 through October 31, 2015.

(w) As of October 31, 2015, the MFS Intermediate Income Trust Blended Index was comprised of 75% Barclays Intermediate U.S. Government/Credit Bond Index and 25% JP Morgan Global Government Bond Index ex U.S. (Hedged).

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*Performance Summary continued*

**Benchmark Definitions**

Barclays Intermediate U.S. Government/Credit Bond Index a market capitalization-weighted index that measures the performance of investment grade debt obligations of the U.S. Treasury and U.S. government agencies, as well as U.S. corporate and foreign debentures and secured notes, with maturities from 1 year up to (but not including) 10 years.

JPMorgan Global Government Bond Index ex U.S. (Hedged) measures the currency-hedged performance of developed government bond markets around the world, excluding the U.S.

It is not possible to invest directly in an index.

**Notes to Performance Summary**

The fund s shares may trade at a discount or premium to net asset value. When fund shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund s liquidation.

The fund s monthly distributions may include a return of capital to shareholders to the extent that the fund s net investment income and net capital gains are insufficient to meet the fund s target annual distribution rate. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder s basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. It may also result in a recharacterization of what economically represents a return of capital to ordinary income in those situations where a fund has long term capital gains and a capital loss carryforward. Returns of shareholder capital have the effect of reducing the fund s assets and increasing the fund s expense ratio.

The fund s target annual distribution rate is calculated based on an annual rate of 8.5% of the fund s average monthly net asset value, not a fixed share price, and the fund s dividend amount will fluctuate with changes in the fund s average monthly net assets.

Net asset values and performance results based on net asset value per share do not include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles and may differ from amounts reported in the Statement of Assets and Liabilities or the Financial Highlights.

From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

In accordance with Section 23(c) of the Investment Company Act of 1940, the fund hereby gives notice that it may from time to time repurchase shares of the fund in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.

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# PORTFOLIO MANAGERS   PROFILES

| Portfolio Manager | Primary Role | Since | Title and Five Year History |
|---|---|---|---|
| James Calmas | Lead and Investment Grade Debt Instruments Portfolio Manager | 2002 | Investment Officer of MFS; employed in the investment management area of MFS since 1988. |
| Erik Weisman | Sovereign Debt Instruments Portfolio Manager | 2004 | Investment Officer of MFS; employed in the investment management area of MFS since 2002. |

*Note to Shareholders: Effective March 31, 2015, Ward Brown and Matthew Ryan are no longer Portfolio Managers of the Fund.*

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# DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

The fund offers a Dividend Reinvestment and Cash Purchase Plan (the Plan ) that allows common shareholders to reinvest either all of the distributions paid by the fund or only the long-term capital gains. Generally, purchases are made at the market price unless that price exceeds the net asset value (the shares are trading at a premium). If the shares are trading at a premium, purchases will be made at a price of either the net asset value or 95% of the market price, whichever is greater. You can also buy shares on a quarterly basis in any amount $100 and over. The Plan Agent will purchase shares under the Cash Purchase Plan on the 15th of January, April, July, and October or shortly thereafter.

If shares are registered in your own name, new shareholders will automatically participate in the Plan, unless you have indicated that you do not wish to participate. If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you may wish to request that your shares be re-registered in your own name so that you can participate. There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the fund. However, when shares are bought on the New York Stock Exchange or otherwise on the open market, each participant pays a pro rata share of the transaction expenses, including commissions. Dividends and capital gains distributions are taxable whether received in cash or reinvested in additional shares the automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

If your shares are held directly with the Plan Agent, you may withdraw from the Plan at any time by going to the Plan Agent s website at www.computershare.com/investor, by calling 1-800-637-2304 any business day from 9 a.m. to 5 p.m. Eastern time or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078. Please have available the name of the fund and your account number. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the Plan, you can receive the value of the reinvested shares in one of three ways: your full shares will be held in your account, the Plan Agent will sell your shares and send the proceeds to you, or you may transfer your full shares to your investment professional who can hold or sell them. Additionally, the Plan Agent will sell your fractional shares and send the proceeds to you.

If you have any questions or for further information or a copy of the Plan, contact the Plan Agent Computershare Trust Company, N.A. (the Transfer Agent for the fund) at 1-800-637-2304, at the Plan Agent s website at www.computershare.com/investor, or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078.

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# PORTFOLIO OF INVESTMENTS

10/31/15

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by broad-based asset classes.

| Bonds - 99.7% | | |
|---|---|---|
| **Issuer** | **Shares/Par** | **Value ($)** |
| Asset-Backed & Securitized - 6.2% | | |
| AmeriCredit Automobile Receivables Trust, 2015-3, A2A , 1.07%, 1/08/19 | $ 1,690,000 | $ 1,686,636 |
| Babson Ltd., CLO, A1 , FRN, 0.54%, 1/18/21 (z) | 550,490 | 543,540 |
| Chesapeake Funding LLC, A , FRN, 0.943%, 11/07/23 (n) | 122,164 | 121,679 |
| Chesapeake Funding LLC, 2015-1A, A , FRN, 0.693%, 2/07/27 (n) | 4,260,000 | 4,219,557 |
| Commercial Mortgage Acceptance Corp., FRN, 2.026%, 9/15/30 (i) | 1,404,736 | 22,161 |
| Credit Acceptance Auto Loan Trust, 2015-2A, A , 2.4%, 2/15/23 (n) | 2,126,000 | 2,124,328 |
| Credit Suisse Commercial Mortgage Trust, A4 , FRN, 5.948%, 9/15/39 | 928,484 | 978,160 |
| Credit Suisse Mortgage Capital Certificate, 5.695%, 9/15/40 | 1,932,810 | 2,016,783 |
| CWCapital Cobalt Ltd., A4 , FRN, 5.766%, 5/15/46 | 1,209,975 | 1,276,946 |
| DT Auto Owner Trust, 0.98%, 4/16/18 (n) | 863,372 | 861,855 |
| Exeter Automobile Receivables Trust, 2015-2A, A , 1.54%, 11/15/19 (n) | 2,481,742 | 2,474,400 |
| Falcon Franchise Loan LLC, FRN, 6.62%, 1/05/23 (i)(z) | 636,297 | 66,748 |
| Ford Credit Auto Owner Trust, 2014-1, A , 2.26%, 11/15/25 (n) | 339,000 | 342,073 |
| Ford Credit Auto Owner Trust, 2014-2, A , 2.31%, 4/15/26 (n) | 1,247,000 | 1,256,762 |
| Ford Credit Floorplan Master Owner Trust, 2015-1, A2 , FRN, 0.595%, 1/15/20 | 2,470,000 | 2,454,949 |
| GE Dealer Floorplan Master Note Trust, 2014-1, A , FRN, 0.574%, 7/20/19 | 2,270,000 | 2,257,446 |
| GM Financial Automobile Leasing Trust, 2014-2A, A2 , 0.73%, 2/20/17 (n) | 1,086,992 | 1,085,996 |
| Go Financial Auto Securitization Trust, 2015-1, A , 1.81%, 3/15/18 (n) | 924,880 | 924,234 |
| JPMorgan Chase Commercial Mortgage Securities Corp., 5.42%, 1/15/49 | 1,921,372 | 1,985,570 |
| JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 5.475%, 4/15/43 | 1,796,576 | 1,805,163 |
| Kingsland III Ltd., A1 , CDO, FRN, 0.544%, 8/24/21 (n) | 704,560 | 700,665 |
| Kubota Credit Owner Trust, 2015-1A, A2 , 0.94%, 12/15/17 (n) | 2,102,609 | 2,102,002 |
| Motor PLC, 2014-1A, A1 , FRN, 0.677%, 8/25/21 (n) | 590,800 | 589,859 |
| Nextgear Floorplan Master Owner Trust, 2015-1A, A , 1.8%, 7/15/19 (n) | 1,301,000 | 1,298,682 |
| Sierra Receivables Funding Co. LLC, 2015-1A, A , 2.4%, 3/22/32 (n) | 1,473,817 | 1,467,614 |
| Suntrust Auto Receivables Trust, 0.99%, 6/15/18 (n) | 2,430,000 | 2,432,489 |

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*Portfolio of Investments continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Asset-Backed & Securitized - continued | | |
| Wachovia Bank Commercial Mortgage Trust, 5.418%, 1/15/45 | $ 47,209 | $ 47,174 |
| | | $ 37,143,471 |
| Automotive - 5.1% | | |
| American Honda Finance Corp., FRN, 0.776%, 9/20/17 | $ 1,960,000 | $ 1,962,195 |
| American Honda Finance Corp., FRN, 0.706%, 5/26/16 (n) | 2,000,000 | 2,002,882 |
| American Honda Finance Corp., FRN, 0.823%, 10/07/16 | 790,000 | 792,204 |
| Daimler Finance North America LLC, 1.875%, 1/11/18 (n) | 3,640,000 | 3,631,075 |
| Daimler Finance North America LLC, 1.65%, 5/18/18 (n) | 3,000,000 | 2,972,808 |
| Ford Motor Credit Co. LLC, 4.207%, 4/15/16 | 1,970,000 | 1,996,615 |
| Ford Motor Credit Co. LLC, FRN, 0.852%, 9/08/17 | 800,000 | 788,686 |
| Ford Motor Credit Co. LLC, FRN, 1.258%, 1/09/18 | 1,670,000 | 1,657,720 |
| Harley-Davidson Financial Services, Inc., 3.875%, 3/15/16 (n) | 2,880,000 | 2,913,826 |
| Hyundai Capital America, 2.4%, 10/30/18 (z) | 1,480,000 | 1,480,327 |
| Hyundai Capital America, 1.875%, 8/09/16 (n) | 1,590,000 | 1,594,862 |
| Hyundai Capital America, 2%, 3/19/18 (n) | 2,313,000 | 2,296,585 |
| Nissan Motor Acceptance Corp., FRN, 1.026%, 9/26/16 (n) | 2,520,000 | 2,521,661 |
| Nissan Motor Acceptance Corp., FRN, 0.884%, 3/03/17 (n) | 1,340,000 | 1,337,706 |
| Volkswagen Group of America Finance LLC, 1.65%, 5/22/18 (n) | 2,310,000 | 2,223,745 |
| | | $ 30,172,897 |
| Banks & Diversified Financials (Covered Bonds) - 1.0% | | |
| BNP Paribas Home Loan, 2.2%, 11/02/15 (n) | $ 2,640,000 | $ 2,640,000 |
| Hypothekenbank Frankfurt AG, 5.125%, 1/21/16 | 3,140,000 | 3,162,831 |
| | | $ 5,802,831 |
| Broadcasting - 0.3% | | |
| Discovery Communications, Inc., 3.45%, 3/15/25 | $ 701,000 | $ 654,381 |
| SES Global Americas Holdings GP, 2.5%, 3/25/19 (n) | 910,000 | 903,599 |
| | | $ 1,557,980 |
| Brokerage & Asset Managers - 0.7% | | |
| CME Group, Inc., 3%, 3/15/25 | $ 1,879,000 | $ 1,868,254 |
| Franklin Resources, Inc., 1.375%, 9/15/17 | 588,000 | 589,443 |
| NYSE Euronext, 2%, 10/05/17 | 1,558,000 | 1,575,679 |
| | | $ 4,033,376 |
| Building - 0.2% | | |
| CRH PLC, 8.125%, 7/15/18 | $ 1,160,000 | $ 1,340,604 |
| Business Services - 0.7% | | |
| Cisco Systems, Inc., FRN, 0.614%, 3/03/17 | $ 2,730,000 | $ 2,731,231 |
| Fidelity National Information Services, Inc., 2.85%, 10/15/18 | 1,330,000 | 1,344,070 |
| | | $ 4,075,301 |

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*Portfolio of Investments  continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Cable TV - 0.9% | | |
| Cox Communications, Inc., 3.25%, 12/15/22 (n) | $ 2,925,000 | $ 2,692,041 |
| Time Warner Cable, Inc., 4%, 9/01/21 | 2,770,000 | 2,829,369 |
| | | $ 5,521,410 |
| Chemicals - 0.9% | | |
| Chevron Phillips Chemical Co. LLC, 1.7%, 5/01/18 (n) | $ 1,810,000 | $ 1,802,708 |
| Dow Chemical Co., 8.55%, 5/15/19 | 2,490,000 | 2,994,621 |
| LyondellBasell Industries N.V., 5%, 4/15/19 | 690,000 | 742,361 |
| | | $ 5,539,690 |
| Computer Software - 0.5% | | |
| Microsoft Corp., 3.125%, 11/03/25 | $ 3,110,000 | $ 3,147,021 |
| Computer Software - Systems - 0.3% | | |
| Apple, Inc., FRN, 0.55%, 5/03/18 | $ 1,560,000 | $ 1,560,774 |
| Conglomerates - 0.3% | | |
| ABB Treasury Center (USA), Inc., 2.5%, 6/15/16 (n) | $ 1,655,000 | $ 1,668,862 |
| Consumer Products - 0.7% | | |
| Newell Rubbermaid, Inc., 2.875%, 12/01/19 | $ 1,530,000 | $ 1,540,874 |
| Reckitt Benckiser Treasury Services PLC, 3.625%, 9/21/23 (n) | 2,274,000 | 2,338,775 |
| | | $ 3,879,649 |
| Consumer Services - 0.5% | | |
| Experian Finance PLC, 2.375%, 6/15/17 (n) | $ 1,154,000 | $ 1,158,355 |
| Priceline Group, Inc., 3.65%, 3/15/25 | 1,879,000 | 1,871,589 |
| | | $ 3,029,944 |
| Defense Electronics - 0.3% | | |
| BAE Systems Holdings, Inc., 6.375%, 6/01/19 (n) | $ 1,400,000 | $ 1,576,732 |
| Electrical Equipment - 0.6% | | |
| Amphenol Corp., 1.55%, 9/15/17 | $ 890,000 | $ 888,728 |
| Arrow Electronics, Inc., 3%, 3/01/18 | 742,000 | 746,752 |
| Molex Electronic Technologies LLC, 2.878%, 4/15/20 (n) | 1,703,000 | 1,664,003 |
| | | $ 3,299,483 |
| Electronics - 0.3% | | |
| Lam Research Corp., 2.75%, 3/15/20 | $ 1,152,000 | $ 1,131,074 |
| Tyco Electronics Group S.A., 2.375%, 12/17/18 | 623,000 | 627,719 |
| | | $ 1,758,793 |

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*Portfolio of Investments    continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Emerging Market Quasi-Sovereign - 2.3% | | |
| CNPC (HK) Overseas Capital Ltd., 4.5%, 4/28/21 (n) | $ 1,090,000 | $ 1,160,034 |
| Corporacion Financiera de Desarrollo S.A., 3.25%, 7/15/19 (z) | 1,337,000 | 1,337,000 |
| Corporacion Financiera de Desarrollo S.A., 4.75%, 2/08/22 (n) | 228,000 | 236,368 |
| Corporacion Nacional del Cobre de Chile, 3.75%, 11/04/20 (n) | 840,000 | 855,819 |
| Empresa Nacional del Petroleo, 6.25%, 7/08/19 | 723,000 | 791,259 |
| Korea Gas Corp., 2.25%, 7/25/17 (n) | 1,630,000 | 1,643,508 |
| Petroleos Mexicanos, 6%, 3/05/20 | 2,970,000 | 3,225,242 |
| Ras Laffan Liquefied Natural Gas Co. Ltd., 6.75%, 9/30/19 (n) | 1,584,000 | 1,858,827 |
| Sinopec Capital (2013) Ltd., 3.125%, 4/24/23 (n) | 1,466,000 | 1,410,780 |
| State Grid International Development Co. Ltd., 1.75%, 5/22/18 (n) | 1,330,000 | 1,323,329 |
| | | $ 13,842,166 |
| Emerging Market Sovereign - 1.0% | | |
| Republic of Poland, 5%, 3/23/22 | $ 772,000 | $ 869,542 |
| Republic of Slovakia, 4.375%, 5/21/22 (n) | 2,960,000 | 3,330,355 |
| United Mexican States, 3.625%, 3/15/22 | 1,754,000 | 1,796,096 |
| | | $ 5,995,993 |
| Energy - Independent - 0.5% | | |
| Anadarko Petroleum Corp., 6.375%, 9/15/17 | $ 1,700,000 | $ 1,830,514 |
| Hess Corp., 8.125%, 2/15/19 | 1,230,000 | 1,428,630 |
| | | $ 3,259,144 |
| Energy - Integrated - 1.8% | | |
| BG Energy Capital PLC, 2.875%, 10/15/16 (n) | $ 2,320,000 | $ 2,353,550 |
| BP Capital Markets PLC, 4.5%, 10/01/20 | 853,000 | 935,889 |
| BP Capital Markets PLC, 4.742%, 3/11/21 | 1,810,000 | 2,010,492 |
| LUKOIL International Finance B.V., 3.416%, 4/24/18 (n) | 1,619,000 | 1,577,975 |
| LUKOIL International Finance B.V., 4.563%, 4/24/23 (n) | 2,192,000 | 2,032,817 |
| Petro-Canada, 6.05%, 5/15/18 | 904,000 | 989,531 |
| Total Capital International S.A., 1.5%, 2/17/17 | 1,000,000 | 1,005,693 |
| | | $ 10,905,947 |
| Financial Institutions - 0.8% | | |
| GE Capital International Funding Co., 2.342%, 11/15/20 (z) | $ 984,000 | $ 986,824 |
| GE Capital International Funding Co., 3.373%, 11/15/25 (z) | 820,000 | 828,968 |
| General Electric Capital Corp., 6%, 8/07/19 | 338,000 | 387,613 |
| General Electric Capital Corp., 3.1%, 1/09/23 | 316,000 | 319,865 |
| LeasePlan Corp. N.V., 3%, 10/23/17 (n) | 1,970,000 | 1,995,614 |
| LeasePlan Corp. N.V., 2.5%, 5/16/18 (n) | 466,000 | 462,688 |
| | | $ 4,981,572 |

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*Portfolio of Investments continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Food & Beverages - 2.6% | | |
| Diageo Capital PLC, 1.5%, 5/11/17 | $ 1,530,000 | $ 1,534,048 |
| Grupo Bimbo S.A.B. de C.V., 4.5%, 1/25/22 (n) | 290,000 | 302,043 |
| H.J. Heinz Co., 1.6%, 6/30/17 (n) | 2,090,000 | 2,091,528 |
| Kerry Group Financial Services, 3.2%, 4/09/23 (n) | 2,850,000 | 2,766,903 |
| Kraft Foods Group, Inc., 6.125%, 8/23/18 | 2,380,000 | 2,643,825 |
| Mead Johnson Nutrition Co., 3%, 11/15/20 | 669,000 | 671,705 |
| Tyson Foods, Inc., 4.5%, 6/15/22 | 1,447,000 | 1,538,754 |
| Want Want China Finance Co., 1.875%, 5/14/18 (n) | 1,430,000 | 1,407,858 |
| Wm. Wrigley Jr. Co., 2.4%, 10/21/18 (n) | 613,000 | 622,756 |
| Wm. Wrigley Jr. Co., 3.375%, 10/21/20 (n) | 1,876,000 | 1,944,384 |
| | | $ 15,523,804 |
| Food & Drug Stores - 0.7% | | |
| CVS Health Corp., 3.875%, 7/20/25 | $ 2,800,000 | $ 2,879,932 |
| Walgreens Boots Alliance, Inc., 3.3%, 11/18/21 | 1,522,000 | 1,521,037 |
| | | $ 4,400,969 |
| Gaming & Lodging - 0.8% | | |
| Wyndham Worldwide Corp., 2.95%, 3/01/17 | $ 1,686,000 | $ 1,706,652 |
| Wyndham Worldwide Corp., 5.625%, 3/01/21 | 2,890,000 | 3,116,414 |
| | | $ 4,823,066 |
| Industrial - 0.5% | | |
| Princeton University, 4.95%, 3/01/19 | $ 2,860,000 | $ 3,151,694 |
| Insurance - 2.3% | | |
| AIA Group Ltd., 3.2%, 3/11/25 (n) | $ 1,924,000 | $ 1,855,261 |
| American International Group, Inc., 3.75%, 7/10/25 | 2,808,000 | 2,852,889 |
| Metropolitan Life Global Funding I, 2%, 4/14/20 (n) | 1,600,000 | 1,586,000 |
| Principal Financial Group, Inc., 8.875%, 5/15/19 | 2,230,000 | 2,705,280 |
| Unum Group, 4%, 3/15/24 | 2,863,000 | 2,915,347 |
| UnumProvident Corp., 6.85%, 11/15/15 (n) | 890,000 | 891,639 |
| Voya Financial, Inc., 2.9%, 2/15/18 | 1,141,000 | 1,164,462 |
| | | $ 13,970,878 |
| Insurance - Health - 0.5% | | |
| UnitedHealth Group, Inc., 3.75%, 7/15/25 | $ 2,800,000 | $ 2,919,588 |
| Insurance - Property & Casualty - 2.3% | | |
| ACE Ltd., 2.6%, 11/23/15 | $ 2,000,000 | $ 2,002,124 |
| Allied World Assurance Co. Holdings Ltd., 4.35%, 10/29/25 | 3,110,000 | 3,088,040 |
| AXIS Capital Holdings Ltd., 5.875%, 6/01/20 | 1,610,000 | 1,801,493 |
| Liberty Mutual Group, Inc., 4.95%, 5/01/22 (n) | 2,197,000 | 2,367,746 |
| Marsh & McLennan Cos., Inc., 2.35%, 9/10/19 | 1,260,000 | 1,264,116 |

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*Portfolio of Investments continued*

| Issuer | | Shares/Par | Value ($) |
|---|---|---|---|
| Bonds - continued | | | |
| Insurance - Property & Casualty - continued | | | |
| ZFS Finance USA Trust V, 6.5% to 5/09/17, FRN to 5/09/67 (n) | $ | 3,000,000 | $ 3,067,500 |
| | | | $ 13,591,019 |
| International Market Quasi-Sovereign - 1.9% | | | |
| Bank Nederlandse Gemeenten N.V., 1.375%, 3/19/18 (n) | $ | 1,746,000 | $ 1,754,241 |
| Dexia Credit Local S.A., 2.25%, 1/30/19 (n) | | 3,280,000 | 3,329,958 |
| Electricite de France, 2.15%, 1/22/19 (n) | | 1,784,000 | 1,785,620 |
| Statoil A.S.A., 1.8%, 11/23/16 | | 1,420,000 | 1,433,090 |
| Statoil A.S.A., FRN, 0.61%, 5/15/18 | | 2,887,000 | 2,855,281 |
| | | | $ 11,158,190 |
| International Market Sovereign - 16.3% | | | |
| Commonwealth of Australia, 5.75%, 5/15/21 | AUD | 3,836,000 | $ 3,249,552 |
| Federal Republic of Germany, 3.25%, 7/04/21 | EUR | 1,200,000 | 1,564,753 |
| Federal Republic of Germany, 1.75%, 2/15/24 | EUR | 4,050,000 | 4,979,997 |
| Government of Canada, 4.25%, 6/01/18 | CAD | 505,000 | 422,186 |
| Government of Canada, 3.25%, 6/01/21 | CAD | 1,579,000 | 1,354,443 |
| Government of Canada, 2.5%, 6/01/24 | CAD | 2,343,000 | 1,942,543 |
| Government of Japan, 1.1%, 6/20/20 | JPY | 800,000,000 | 6,953,974 |
| Government of Japan, 0.8%, 6/20/23 | JPY | 340,000,000 | 2,959,750 |
| Government of Japan, 2.1%, 9/20/24 | JPY | 220,000,000 | 2,122,771 |
| Government of New Zealand, 5.5%, 4/15/23 | NZD | 2,664,000 | 2,099,542 |
| Government of Norway, 3.75%, 5/25/21 | NOK | 6,400,000 | 859,434 |
| Government of Norway, 3%, 3/14/24 | NOK | 7,844,000 | 1,031,181 |
| Kingdom of Belgium, 4.25%, 9/28/21 | EUR | 404,000 | 550,876 |
| Kingdom of Belgium, 2.6%, 6/22/24 | EUR | 2,845,000 | 3,644,239 |
| Kingdom of Denmark, 3%, 11/15/21 | DKK | 4,447,000 | 760,118 |
| Kingdom of Denmark, 1.5%, 11/15/23 | DKK | 4,198,000 | 663,319 |
| Kingdom of Spain, 5.4%, 1/31/23 | EUR | 1,925,000 | 2,723,298 |
| Kingdom of Spain, 5.5%, 7/30/17 | EUR | 711,000 | 856,195 |
| Kingdom of Spain, 4.6%, 7/30/19 | EUR | 4,110,000 | 5,223,214 |
| Kingdom of Sweden, 5%, 12/01/20 | SEK | 6,500,000 | 953,396 |
| Kingdom of Sweden, 3.5%, 6/01/22 | SEK | 4,235,000 | 600,649 |
| Kingdom of the Netherlands, 4%, 7/15/16 | EUR | 2,000,000 | 2,265,060 |
| Kingdom of the Netherlands, 2%, 7/15/24 | EUR | 1,251,000 | 1,546,956 |
| Republic of Austria, 1.75%, 10/20/23 | EUR | 210,000 | 254,099 |
| Republic of France, 2.5%, 10/25/20 | EUR | 1,500,000 | 1,847,610 |
| Republic of France, 5%, 10/25/16 | EUR | 9,214,000 | 10,653,985 |
| Republic of Iceland, 4.875%, 6/16/16 (n) | $ | 702,000 | 719,550 |
| Republic of Italy, 5.25%, 8/01/17 | EUR | 11,388,000 | 13,661,042 |
| Republic of Italy, 3.75%, 3/01/21 | EUR | 2,600,000 | 3,313,726 |
| Republic of Italy, 5.5%, 9/01/22 | EUR | 2,969,000 | 4,221,793 |
| United Kingdom Treasury, 8%, 6/07/21 | GBP | 2,500,000 | 5,232,311 |

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*Portfolio of Investments continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| International Market Sovereign - continued | | |
| United Kingdom Treasury, 2.25%, 9/07/23 | GBP 4,750,000 | $ 7,614,263 |
| | | $ 96,845,825 |
| Internet - 0.5% | | |
| Baidu, Inc., 3.25%, 8/06/18 | $ 1,709,000 | $ 1,744,889 |
| Baidu, Inc., 2.75%, 6/09/19 | 1,510,000 | 1,502,403 |
| | | $ 3,247,292 |
| Local Authorities - 0.5% | | |
| Province of Ontario, 4.75%, 1/19/16 | $ 3,000,000 | $ 3,026,790 |
| Machinery & Tools - 0.1% | | |
| Atlas Copco AB, 5.6%, 5/22/17 (n) | $ 510,000 | $ 538,437 |
| Major Banks - 12.4% | | |
| ABN AMRO Bank N.V., 4.25%, 2/02/17 (n) | $ 1,997,000 | $ 2,064,139 |
| ABN AMRO Bank N.V., 1.8%, 6/04/18 (n) | 1,450,000 | 1,444,570 |
| ABN AMRO Bank N.V., FRN, 0.742%, 6/06/16 (n) | 2,090,000 | 2,090,130 |
| Bank of America Corp., 6.5%, 8/01/16 | 1,420,000 | 1,477,753 |
| Bank of America Corp., 6.875%, 4/25/18 | 1,000,000 | 1,116,157 |
| Bank of America Corp., 4.125%, 1/22/24 | 2,876,000 | 2,994,905 |
| Bank of America Corp., FRN, 0.617%, 6/15/16 | 2,200,000 | 2,195,428 |
| Barclays Bank PLC, 2.5%, 2/20/19 | 3,080,000 | 3,127,657 |
| BNP Paribas, 2.7%, 8/20/18 | 1,200,000 | 1,226,645 |
| BNP Paribas, FRN, 0.814%, 3/17/17 | 2,660,000 | 2,657,518 |
| Commonwealth Bank of Australia, 5%, 10/15/19 (n) | 2,560,000 | 2,824,540 |
| Credit Suisse Group AG, 6.5%, 8/08/23 (n) | 2,480,000 | 2,715,600 |
| Credit Suisse New York, 1.75%, 1/29/18 | 1,440,000 | 1,443,884 |
| DBS Bank Ltd., 2.35%, 2/28/17 (n) | 1,830,000 | 1,852,191 |
| DNB Bank A.S.A., 3.2%, 4/03/17 (n) | 2,220,000 | 2,276,441 |
| Goldman Sachs Group, Inc., 5.75%, 1/24/22 | 3,044,000 | 3,488,144 |
| Goldman Sachs Group, Inc., FRN, 1.496%, 4/30/18 | 1,240,000 | 1,251,392 |
| Goldman Sachs Group, Inc., FRN, 1.336%, 10/23/19 | 140,000 | 140,240 |
| Huntington National Bank, FRN, 0.744%, 4/24/17 | 2,460,000 | 2,444,613 |
| ING Bank N.V., 1.8%, 3/16/18 (n) | 660,000 | 659,981 |
| ING Bank N.V., 5.8%, 9/25/23 (n) | 2,912,000 | 3,201,284 |
| JPMorgan Chase & Co., 2.2%, 10/22/19 | 2,090,000 | 2,083,157 |
| JPMorgan Chase & Co., 4.625%, 5/10/21 | 2,890,000 | 3,147,435 |
| Mizuho Bank Ltd., FRN, 1.507%, 10/20/18 (z) | 2,770,000 | 2,789,254 |
| Morgan Stanley, 6.625%, 4/01/18 | 1,532,000 | 1,701,844 |
| Morgan Stanley, 5.625%, 9/23/19 | 640,000 | 713,080 |
| Morgan Stanley, 3.7%, 10/23/24 | 1,816,000 | 1,839,107 |
| Morgan Stanley, FRN, 1.579%, 2/25/16 | 1,900,000 | 1,905,043 |

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*Portfolio of Investments continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Major Banks - continued | | |
| Morgan Stanley, FRN, 1.056%, 7/23/19 | $ 1,070,000 | $ 1,058,149 |
| Nordea Bank AB, FRN, 0.774%, 5/13/16 (n) | 1,492,000 | 1,494,166 |
| PNC Bank N.A., 1.5%, 10/18/17 | 1,600,000 | 1,601,237 |
| PNC Bank N.A., 1.6%, 6/01/18 | 2,340,000 | 2,335,732 |
| Royal Bank of Canada, FRN, 0.793%, 9/09/16 | 3,000,000 | 3,005,364 |
| Sumitomo Mitsui Banking Corp., FRN, 0.64%, 7/11/17 | 1,720,000 | 1,710,206 |
| Wells Fargo & Co., FRN, 0.592%, 9/08/17 | 3,110,000 | 3,097,190 |
| Westpac Banking Corp., 2%, 8/14/17 | 2,320,000 | 2,343,998 |
| | | $ 73,518,174 |
| Medical & Health Technology & Services - 1.1% | | |
| Becton, Dickinson and Co., 1.8%, 12/15/17 | $ 1,870,000 | $ 1,879,960 |
| Laboratory Corp. of America Holdings, 2.625%, 2/01/20 | 1,250,000 | 1,247,576 |
| Thermo Fisher Scientific, Inc., 2.25%, 8/15/16 | 3,650,000 | 3,678,463 |
| | | $ 6,805,999 |
| Metals & Mining - 1.7% | | |
| Barrick Gold Corp., 4.1%, 5/01/23 | $ 2,731,000 | $ 2,536,678 |
| Freeport-McMoRan Copper & Gold, Inc., 2.375%, 3/15/18 | 1,090,000 | 997,350 |
| Freeport-McMoRan Copper & Gold, Inc., 3.1%, 3/15/20 | 1,740,000 | 1,529,112 |
| Glencore Funding LLC, 2.125%, 4/16/18 (n) | 1,270,000 | 1,108,075 |
| Glencore Funding LLC, FRN, 1.487%, 5/27/16 (n) | 2,300,000 | 2,246,157 |
| Kinross Gold Corp., 5.95%, 3/15/24 | 1,897,000 | 1,557,775 |
| | | $ 9,975,147 |
| Midstream - 2.1% | | |
| APT Pipelines Ltd., 4.2%, 3/23/25 (n) | $ 2,246,000 | $ 2,166,516 |
| Energy Transfer Partners LP, 4.05%, 3/15/25 | 2,807,000 | 2,469,865 |
| Kinder Morgan Energy Partners LP, 3.5%, 3/01/21 | 1,854,000 | 1,756,572 |
| ONEOK Partners LP, 3.2%, 9/15/18 | 1,510,000 | 1,515,927 |
| Spectra Energy Capital LLC, 8%, 10/01/19 | 1,299,000 | 1,493,102 |
| Sunoco Logistics Partners LP, 4.25%, 4/01/24 | 774,000 | 697,162 |
| TransCanada PipeLines Ltd., 1.875%, 1/12/18 | 940,000 | 942,861 |
| TransCanada PipeLines Ltd., FRN, 1.006%, 6/30/16 | 790,000 | 789,564 |
| Williams Cos., Inc., 3.7%, 1/15/23 | 807,000 | 658,706 |
| | | $ 12,490,275 |
| Mortgage-Backed - 2.3% | | |
| Fannie Mae, 5.404%, 2/01/16 | $ 372,795 | $ 374,436 |
| Fannie Mae, 6%, 11/01/16 | 34,906 | 35,445 |
| Fannie Mae, 1.114%, 2/25/17 | 2,050,708 | 2,060,255 |
| Fannie Mae, 5.5%, 9/01/17 - 4/01/25 | 700,329 | 757,492 |
| Fannie Mae, 4.5%, 3/01/19 | 712,792 | 739,287 |
| Fannie Mae, 5%, 5/01/19 - 12/01/20 | 175,717 | 183,608 |

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*Portfolio of Investments continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Mortgage-Backed - continued | | |
| Fannie Mae, 6.5%, 11/01/31 | $ 1,197,464 | $ 1,421,099 |
| Fannie Mae, FRN, 0.494%, 12/25/17 | 1,112,502 | 1,113,031 |
| Freddie Mac, 6%, 8/01/17 - 8/01/34 | 131,677 | 139,308 |
| Freddie Mac, 5.5%, 9/01/17 - 6/01/20 | 784,165 | 833,464 |
| Freddie Mac, 3.882%, 11/25/17 | 1,423,992 | 1,491,700 |
| Freddie Mac, 5%, 6/01/19 | 469,114 | 491,826 |
| Freddie Mac, 4.224%, 3/25/20 | 2,249,154 | 2,466,140 |
| Ginnie Mae, 6%, 6/15/33 - 10/15/36 | 824,115 | 946,393 |
| Ginnie Mae, 6.357%, 4/20/58 | 363,105 | 376,500 |
| | | $ 13,429,984 |
| Network & Telecom - 1.9% | | |
| AT&T, Inc., FRN, 1.237%, 11/27/18 | $ 2,940,000 | $ 2,942,464 |
| British Telecommunications PLC, 2.35%, 2/14/19 | 1,330,000 | 1,335,406 |
| Verizon Communications, Inc., 1.35%, 6/09/17 | 1,130,000 | 1,131,208 |
| Verizon Communications, Inc., 6.1%, 4/15/18 | 1,300,000 | 1,430,858 |
| Verizon Communications, Inc., 5.15%, 9/15/23 | 3,027,000 | 3,373,912 |
| Verizon Communications, Inc., FRN, 1.104%, 6/17/19 | 1,250,000 | 1,244,990 |
| | | $ 11,458,838 |
| Oils - 0.2% | | |
| Marathon Petroleum Corp., 3.625%, 9/15/24 | $ 1,003,000 | $ 976,691 |
| Other Banks & Diversified Financials - 7.6% | | |
| Banco de Credito e Inversiones, 3%, 9/13/17 (n) | $ 200,000 | $ 203,227 |
| Banco Santander Chile, FRN, 1.22%, 4/11/17 (n) | 3,410,000 | 3,361,275 |
| Bank of Tokyo-Mitsubishi UFJ Ltd., FRN, 0.943%, 9/09/16 (n) | 2,870,000 | 2,872,442 |
| Banque Federative du Credit Mutuel, FRN, 1.173%, 10/28/16 (n) | 2,490,000 | 2,498,010 |
| Banque Federative du Credit Mutuel, FRN, 1.167%, 1/20/17 (n) | 960,000 | 964,557 |
| Capital One Bank (USA) N.A., FRN, 0.983%, 2/05/18 | 2,650,000 | 2,638,234 |
| Capital One Financial Corp., FRN, 0.941%, 11/06/15 | 1,160,000 | 1,160,019 |
| Citigroup, Inc., 8.5%, 5/22/19 | 1,960,000 | 2,366,304 |
| Discover Bank, 3.1%, 6/04/20 | 1,152,000 | 1,165,463 |
| Fifth Third Bancorp, 1.35%, 6/01/17 | 2,570,000 | 2,571,074 |
| Fifth Third Bancorp, 2.3%, 3/01/19 | 795,000 | 796,743 |
| First Republic Bank, 2.375%, 6/17/19 | 578,000 | 576,913 |
| Groupe BPCE S.A., 12.5% to 2019, FRN to 8/29/49 (n) | 2,556,000 | 3,316,410 |
| Intesa Sanpaolo S.p.A., 2.375%, 1/13/17 | 880,000 | 884,545 |
| Intesa Sanpaolo S.p.A., 3.875%, 1/16/18 | 1,752,000 | 1,808,399 |
| Lloyds Bank PLC, 2.3%, 11/27/18 | 780,000 | 789,461 |
| Lloyds TSB Bank PLC, 5.8%, 1/13/20 (n) | 2,080,000 | 2,359,683 |
| Rabobank Nederland N.V., 3.375%, 1/19/17 | 1,757,000 | 1,803,798 |
| Skandinaviska Enskilda Banken AB, 2.45%, 5/27/20 (n) | 1,810,000 | 1,818,516 |
| Svenska Handelsbanken AB, FRN, 0.795%, 3/21/16 | 1,250,000 | 1,251,441 |

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*Portfolio of Investments continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Other Banks & Diversified Financials - continued | | |
| Svenska Handelsbanken AB, FRN, 0.796%, 9/23/16 | $ 2,940,000 | $ 2,945,892 |
| Swedbank AB, 2.125%, 9/29/17 (n) | 3,568,000 | 3,606,823 |
| UBS AG, FRN, 0.689%, 8/14/17 | 1,470,000 | 1,462,715 |
| UBS Group Funding Ltd., FRN, 1.766%, 9/24/20 (z) | 1,680,000 | 1,680,400 |
| | | $ 44,902,344 |
| Pharmaceuticals - 3.3% | | |
| AbbVie, Inc., 1.8%, 5/14/18 | $ 2,410,000 | $ 2,411,933 |
| Actavis Funding SCS, 3%, 3/12/20 | 3,625,000 | 3,637,278 |
| Actavis Funding SCS, 3.45%, 3/15/22 | 3,000,000 | 2,980,638 |
| Biogen, Inc., 2.9%, 9/15/20 | 1,420,000 | 1,432,489 |
| Celgene Corp., 2.125%, 8/15/18 | 2,220,000 | 2,236,967 |
| EMD Finance LLC, 1.7%, 3/19/18 (n) | 2,500,000 | 2,505,758 |
| Gilead Sciences, Inc., 3.65%, 3/01/26 | 3,740,000 | 3,781,170 |
| Mylan, Inc., 1.8%, 6/24/16 | 770,000 | 769,492 |
| | | $ 19,755,725 |
| Pollution Control - 0.5% | | |
| Republic Services, Inc., 5.25%, 11/15/21 | $ 2,620,000 | $ 2,921,601 |
| Real Estate - Healthcare - 0.3% | | |
| Health Care REIT, Inc., 2.25%, 3/15/18 | $ 828,000 | $ 830,646 |
| Ventas Realty LP, REIT, 1.55%, 9/26/16 | 1,000,000 | 1,004,331 |
| | | $ 1,834,977 |
| Real Estate - Office - 0.5% | | |
| Boston Properties LP, REIT, 3.7%, 11/15/18 | $ 1,476,000 | $ 1,541,818 |
| Vornado Realty LP, REIT, 2.5%, 6/30/19 | 1,169,000 | 1,163,095 |
| | | $ 2,704,913 |
| Real Estate - Retail - 0.3% | | |
| Kimco Realty Corp., REIT, 6.875%, 10/01/19 | $ 690,000 | $ 800,568 |
| WEA Finance LLC/Westfield Co., REIT, 1.75%, 9/15/17 (n) | 770,000 | 767,527 |
| | | $ 1,568,095 |
| Retailers - 0.5% | | |
| Dollar General Corp., 1.875%, 4/15/18 | $ 275,000 | $ 273,975 |
| Dollar General Corp., 4.15%, 11/01/25 | 1,364,000 | 1,355,051 |
| Wesfarmers Ltd., 1.874%, 3/20/18 (n) | 1,119,000 | 1,118,972 |
| | | $ 2,747,998 |
| Specialty Chemicals - 0.5% | | |
| Airgas, Inc., 2.95%, 6/15/16 | $ 1,900,000 | $ 1,917,471 |
| Airgas, Inc., 3.05%, 8/01/20 | 870,000 | 880,181 |
| | | $ 2,797,652 |

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*Portfolio of Investments continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Supermarkets - 0.3% | | |
| Kroger Co., 3.85%, 8/01/23 | $ 1,489,000 | $ 1,545,805 |
| Supranational - 0.9% | | |
| Banco Latinoamericano de Comercio Exterior S.A., 3.25%, 5/07/20 (n) | $ 1,900,000 | $ 1,883,375 |
| Corporacion Andina de Fomento, 4.375%, 6/15/22 | 2,950,000 | 3,181,280 |
| | | $ 5,064,655 |
| Telecommunications - Wireless - 1.0% | | |
| America Movil S.A.B. de C.V., 2.375%, 9/08/16 | $ 1,007,000 | $ 1,015,928 |
| American Tower Trust I, REIT, 1.551%, 3/15/18 (n) | 1,540,000 | 1,523,287 |
| Rogers Communications, Inc., 6.8%, 8/15/18 | 1,490,000 | 1,683,116 |
| SBA Tower Trust, 2.898%, 10/15/44 (n) | 1,920,000 | 1,908,883 |
| | | $ 6,131,214 |
| Telephone Services - 0.2% | | |
| Qwest Corp., 6.5%, 6/01/17 | $ 1,200,000 | $ 1,272,000 |
| Tobacco - 0.7% | | |
| Reynolds American, Inc., 8.125%, 6/23/19 (n) | $ 1,316,000 | $ 1,556,083 |
| Reynolds American, Inc., 6.875%, 5/01/20 (n) | 1,340,000 | 1,550,789 |
| Reynolds American, Inc., 3.25%, 6/12/20 | 1,140,000 | 1,167,911 |
| | | $ 4,274,783 |
| Transportation - Services - 0.6% | | |
| ERAC USA Finance Co., 2.75%, 3/15/17 (n) | $ 1,247,000 | $ 1,269,286 |
| TTX Co., 2.6%, 6/15/20 (n) | 2,450,000 | 2,436,792 |
| | | $ 3,706,078 |
| U.S. Government Agencies and Equivalents - 1.0% | | |
| Aid-Ukraine, 1.847%, 5/29/20 | $ 2,500,000 | $ 2,517,398 |
| National Credit Union Administration Guaranteed Note, 2.9%, 10/29/20 | 402,550 | 404,795 |
| Small Business Administration, 6.35%, 4/01/21 | 246,591 | 270,188 |
| Small Business Administration, 6.34%, 5/01/21 | 207,122 | 225,580 |
| Small Business Administration, 6.44%, 6/01/21 | 204,402 | 223,049 |
| Small Business Administration, 6.625%, 7/01/21 | 218,160 | 238,757 |
| Small Business Administration, 5.34%, 11/01/21 | 653,005 | 699,198 |
| Small Business Administration, 4.93%, 1/01/24 | 391,545 | 423,353 |
| Small Business Administration, 5.36%, 11/01/25 | 613,344 | 670,130 |
| Small Business Administration, 5.39%, 12/01/25 | 436,542 | 481,503 |
| | | $ 6,153,951 |

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*Portfolio of Investments continued*

| Issuer | Shares/Par | Value ($) |
|---|---|---|
| Bonds - continued | | |
| Utilities - Electric Power - 4.9% | | |
| Dominion Resources, Inc., 3.9%, 10/01/25 | $ 2,641,000 | $ 2,677,097 |
| Dominion Resources, Inc., 1.95%, 8/15/16 | 2,660,000 | 2,675,604 |
| E.ON International Finance B.V., 5.8%, 4/30/18 (n) | 3,000,000 | 3,250,425 |
| Empresa Nacional de Electricidad S.A., 4.25%, 4/15/24 | 710,000 | 724,591 |
| Enel Finance International S.A., 6.25%, 9/15/17 (n) | 2,240,000 | 2,420,056 |
| Exelon Generation Co. LLC, 5.2%, 10/01/19 | 1,340,000 | 1,452,878 |
| Exelon Generation Co. LLC, 4.25%, 6/15/22 | 1,040,000 | 1,059,752 |
| NextEra Energy Capital Holdings, Inc., 2.056%, 9/01/17 | 2,727,000 | 2,740,133 |
| Oncor Electric Delivery Co., 4.1%, 6/01/22 | 2,206,000 | 2,309,980 |
| PG&E Corp., 2.4%, 3/01/19 | 1,448,000 | 1,456,210 |
| PPL WEM Holdings PLC, 3.9%, 5/01/16 (n) | 2,800,000 | 2,832,544 |
| PPL WEM Holdings PLC, 5.375%, 5/01/21 (n) | 546,000 | 603,713 |
| Southern Co., 2.45%, 9/01/18 | 2,280,000 | 2,306,075 |
| Transelec S.A., 4.625%, 7/26/23 (n) | 927,000 | 946,130 |
| Transelec S.A., 4.25%, 1/14/25 (n) | 228,000 | 228,912 |
| Xcel Energy, Inc., 1.2%, 6/01/17 | 1,500,000 | 1,495,130 |
| | | $ 29,179,230 |
| **Total Bonds (Identified Cost, $595,981,726)** | | **$ 592,507,321** |
| Money Market Funds - 0.0% | | |
| MFS Institutional Money Market Portfolio, 0.12%, at Cost and Net Asset Value (v) | 777 | $ 777 |
| **Total Investments (Identified Cost, $595,982,503)** | | **$ 592,508,098** |
| Other Assets, Less Liabilities - 0.3% | | 1,984,066 |
| **Net Assets - 100.0%** | | **$ 594,492,164** |

(i) Interest only security for which the fund receives interest on notional principal (Par amount). Par amount shown is the notional principal and does not reflect the cost of the security.

(n) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in the ordinary course of business in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was $181,162,773 representing 30.5% of net assets.

(v) Underlying affiliated fund that is available only to investment companies managed by MFS. The rate quoted for the MFS Institutional Money Market Portfolio is the annualized seven-day yield of the fund at period end.

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*Portfolio of Investments continued*

(z) Restricted securities are not registered under the Securities Act of 1933 and are subject to legal restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are subsequently registered. Disposal of these securities may involve time-consuming negotiations and prompt sale at an acceptable price may be difficult. The fund holds the following restricted securities:

| Restricted Securities | Acquisition Date | Cost | Value |
|---|---|---|---|
| Babson Ltd., CLO, A1 , FRN, 0.54%, 1/18/21 | 6/24/14 | $546,641 | $543,540 |
| Corporacion Financiera de Desarrollo S.A., 3.25%, 7/15/19 | 7/07/15 | 1,331,602 | 1,337,000 |
| Falcon Franchise Loan LLC, FRN, 6.62%, 1/05/23 | 1/18/02 | 93,133 | 66,748 |
| GE Capital International Funding Co., 2.342%, 11/15/20 | 8/04/09-10/19/15 | 983,604 | 986,824 |
| GE Capital International Funding Co., 3.373%, 11/15/25 | 1/03/13-10/19/15 | 819,031 | 828,968 |
| Hyundai Capital America, 2.4%, 10/30/18 | 10/27/15 | 1,479,823 | 1,480,327 |
| Mizuho Bank Ltd., FRN, 1.507%, 10/20/18 | 10/13/15 | 2,770,000 | 2,789,254 |
| UBS Group Funding Ltd., FRN, 1.766%, 9/24/20 | 9/21/15 | 1,680,000 | 1,680,400 |
| Total Restricted Securities | | | $9,713,061 |
| % of Net assets | | | 1.6% |

The following abbreviations are used in this report and are defined:

| | |
|---|---|
| CDO | Collateralized Debt Obligation |
| CLO | Collateralized Loan Obligation |
| FRN | Floating Rate Note. Interest rate resets periodically and the current rate may not be the rate reported at period end. |
| PLC | Public Limited Company |
| REIT | Real Estate Investment Trust |

Abbreviations indicate amounts shown in currencies other than the U.S. dollar. All amounts are stated in U.S. dollars unless otherwise indicated. A list of abbreviations is shown below:

| | |
|---|---|
| AUD | Australian Dollar |
| CAD | Canadian Dollar |
| DKK | Danish Krone |
| EUR | Euro |
| GBP | British Pound |
| JPY | Japanese Yen |
| NOK | Norwegian Krone |
| NZD | New Zealand Dollar |
| SEK | Swedish Krona |

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*Portfolio of Investments continued*

**Derivative Contracts at 10/31/15**

**Forward Foreign Currency Exchange Contracts at 10/31/15**

| Type | Currency | Counter-party | Contracts to Deliver/ Receive | Settlement Date Range | In Exchange For | Contracts at Value | Net Unrealized Appreciation (Depreciation) |
|---|---|---|---|---|---|---|---|
| **Asset Derivatives** | | | | | | | |
| SELL | AUD | Westpac Banking Corp. | 4,469,012 | 1/15/16 | $3,210,360 | $3,175,348 | $35,012 |
| SELL | DKK | Goldman Sachs International | 9,466,576 | 1/15/16 | 1,433,020 | 1,398,896 | 34,124 |
| SELL | EUR | Deutsche Bank AG | 25,135,754 | 12/17/15 - 1/15/16 | 28,509,001 | 27,660,468 | 848,533 |
| SELL | EUR | Goldman Sachs International | 27,276,947 | 1/15/16 | 30,776,770 | 30,036,297 | 740,473 |
| SELL | JPY | Credit Suisse Group | 1,396,213,134 | 1/15/16 | 11,664,319 | 11,587,338 | 76,981 |
| SELL | NOK | Goldman Sachs International | 16,602,437 | 1/15/16 | 1,995,262 | 1,951,811 | 43,451 |
| SELL | SEK | Goldman Sachs International | 11,649,976 | 1/15/16 | 1,416,177 | 1,366,165 | 50,012 |
| | | | | | | | $1,828,586 |
| **Liability Derivatives** | | | | | | | |
| SELL | CAD | Merrill Lynch International | 4,854,367 | 1/15/16 | $3,702,783 | $3,711,037 | $(8,254) |
| SELL | GBP | BNP Paribus S.A. | 9,405,477 | 1/15/16 | 14,312,051 | 14,495,796 | (183,745) |
| SELL | NZD | Westpac Banking Corp. | 3,052,658 | 1/15/16 | 2,011,473 | 2,056,251 | (44,778) |
| | | | | | | | $(236,777) |

**Futures Contracts at 10/31/15**

| Description | Currency | Contracts | Value | Expiration Date | Unrealized Appreciation (Depreciation) |
|---|---|---|---|---|---|
| **Asset Derivatives** | | | | | |
| ***Interest Rate Futures*** | | | | | |
| U.S. Treasury Note 10 yr (Long) | USD | 240 | $30,645,000 | December - 2015 | $96,660 |

At October 31, 2015, the fund had cash collateral of $356,400 to cover any commitments for certain derivative contracts. Cash collateral is comprised of Deposits with brokers in the Statement of Assets and Liabilities.

**See Notes to Financial Statements**

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# STATEMENT OF ASSETS AND LIABILITIES

At 10/31/15

This statement represents your fund s balance sheet, which details the assets and liabilities comprising the total value of the fund.

| | |
|---|---|
| **Assets** | |
| Investments | |
| Non-affiliated issuers, at value (identified cost, $595,981,726) | $592,507,321 |
| Underlying affiliated funds, at cost and value | 777 |
| Total investments, at value (identified cost, $595,982,503) | $592,508,098 |
| Deposits with brokers | 356,400 |
| Receivables for | |
| Forward foreign currency exchange contracts | 1,828,586 |
| Daily variation margin on open futures contracts | 18,750 |
| Investments sold | 661,439 |
| Interest | 4,362,287 |
| Other assets | 19,162 |
| Total assets | $599,754,722 |
| **Liabilities** | |
| Payable to custodian | $172,078 |
| Payables for | |
| Distributions | 169,711 |
| Forward foreign currency exchange contracts | 236,777 |
| Investments purchased | 4,437,166 |
| Payable to affiliates | |
| Investment adviser | 27,422 |
| Transfer agent and dividend disbursing costs | 16,007 |
| Payable for independent Trustees compensation | 33,312 |
| Accrued expenses and other liabilities | 170,085 |
| Total liabilities | $5,262,558 |
| Net assets | $594,492,164 |
| **Net assets consist of** | |
| Paid-in capital | $621,853,549 |
| Unrealized appreciation (depreciation) on investments and translation of assets and liabilities in foreign currencies | (1,800,320) |
| Accumulated net realized gain (loss) on investments and foreign currency | (22,374,954) |
| Accumulated distributions in excess of net investment income | (3,186,111) |
| Net assets | $594,492,164 |
| Shares of beneficial interest outstanding | 117,738,574 |
| Net asset value per share (net assets of $594,492,164 / 117,738,574 shares of beneficial interest outstanding) | $5.05 |

**See Notes to Financial Statements**

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*Financial Statements*

# STATEMENT OF OPERATIONS

Year ended 10/31/15

This statement describes how much your fund earned in investment income and accrued in expenses. It also describes any gains and/or losses generated by fund operations.

| | |
|---|---|
| **Net investment income** | |
| Income | |
| Interest | $17,687,620 |
| Dividends from underlying affiliated funds | 13,060 |
| Foreign taxes withheld | (286) |
| Total investment income | $17,700,394 |
| Expenses | |
| Management fee | $3,094,253 |
| Transfer agent and dividend disbursing costs | 117,496 |
| Administrative services fee | 108,026 |
| Independent Trustees compensation | 104,511 |
| Stock exchange fee | 110,283 |
| Custodian fee | 77,032 |
| Shareholder communications | 238,301 |
| Audit and tax fees | 78,200 |
| Legal fees | 14,832 |
| Miscellaneous | 37,311 |
| Total expenses | $3,980,245 |
| Fees paid indirectly | (195) |
| Net expenses | $3,980,050 |
| Net investment income | $13,720,344 |
| **Realized and unrealized gain (loss) on investments and foreign currency** | |
| Realized gain (loss) (identified cost basis) | |
| Investments | $3,881,418 |
| Futures contracts | (832,660) |
| Foreign currency | 10,739,525 |
| Net realized gain (loss) on investments and foreign currency | $13,788,283 |
| Change in unrealized appreciation (depreciation) | |
| Investments | $(21,196,377) |
| Futures contracts | 261,855 |
| Translation of assets and liabilities in foreign currencies | (189,952) |
| Net unrealized gain (loss) on investments and foreign currency translation | $(21,124,474) |
| Net realized and unrealized gain (loss) on investments and foreign currency | $(7,336,191) |
| Change in net assets from operations | $6,384,153 |

**See Notes to Financial Statements**

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# STATEMENTS OF CHANGES IN NET ASSETS

These statements describe the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

| | Years ended 10/31 | |
|---|---|---|
| | 2015 | 2014 |
| **Change in net assets** | | |
| **From operations** | | |
| Net investment income | $13,720,344 | $17,595,633 |
| Net realized gain (loss) on investments and foreign currency | 13,788,283 | 8,052,696 |
| Net unrealized gain (loss) on investments and foreign currency translation | (21,124,474) | (6,449,139) |
| Change in net assets from operations | $6,384,153 | $19,199,190 |
| **Distributions declared to shareholders** | | |
| From net investment income | $(29,146,313) | $(24,901,357) |
| From tax return of capital | (23,830,946) | (31,517,817) |
| Total distributions declared to shareholders | $(52,977,259) | $(56,419,174) |
| Change in net assets from fund share transactions | $(856,992) | $ |
| Total change in net assets | $(47,450,098) | $(37,219,984) |
| **Net assets** | | |
| At beginning of period | 641,942,262 | 679,162,246 |
| At end of period (including accumulated distributions in excess of net investment income of $3,186,111 and $2,744,583, respectively) | $594,492,164 | $641,942,262 |

**See Notes to Financial Statements**

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# FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the fund s financial performance for the past 5 years. Certain information reflects financial results for a single fund share. The total returns in the table represent the rate by which an investor would have earned (or lost) on an investment in the fund share class (assuming reinvestment of all distributions) held for the entire period.

| | Years ended 10/31 | | | | |
|---|---|---|---|---|---|
| | **2015** | **2014** | **2013** | **2012** | **2011** |
| Net asset value, beginning of period | $5.44 | $5.76 | $6.25 | $6.37 | $6.82 |
| **Income (loss) from investment operations** | | | | | |
| Net investment income (d) | $0.12 | $0.15 | $0.18 | $0.21 | $0.22 |
| Net realized and unrealized gain (loss) on investments and foreign currency | (0.06) | 0.01 | (0.16) | 0.20 | (0.11) |
| Total from investment operations | $0.06 | $0.16 | $0.02 | $0.41 | $0.11 |
| **Less distributions declared to shareholders** | | | | | |
| From net investment income | $(0.25) | $(0.21) | $(0.18) | $(0.30) | $(0.26) |
| From tax return of capital | (0.20) | (0.27) | (0.33) | (0.23) | (0.30) |
| Total distributions declared to shareholders | $(0.45) | $(0.48) | $(0.51) | $(0.53) | $(0.56) |
| Net increase from repurchase of capital shares | $0.00(w) | $ | $ | $ | $ |
| Net asset value, end of period (x) | $5.05 | $5.44 | $5.76 | $6.25 | $6.37 |
| Market value, end of period | $4.56 | $5.05 | $5.28 | $6.53 | $6.29 |
| Total return at market value (%) | (0.82) | 4.78 | (11.67) | 13.01 | (1.19) |
| Total return at net asset value (%) (j)(r)(s)(x) | 1.96 | 3.47 | 0.67 | 6.80 | 1.97 |
| **Ratios (%) (to average net assets) and Supplemental data:** | | | | | |
| Expenses before expense reductions (f) | 0.64 | 0.65 | 0.68 | 0.71 | 0.71 |
| Expenses after expense reductions (f) | N/A | 0.65 | 0.68 | 0.71 | 0.71 |
| Net investment income | 2.22 | 2.66 | 2.99 | 3.30 | 3.45 |
| Portfolio turnover | 31 | 25 | 30 | 29 | 16 |
| Net assets at end of period (000 omitted) | $594,492 | $641,942 | $679,162 | $735,110 | $745,539 |

(d) Per share data is based on average shares outstanding.
(f) Ratios do not reflect reductions from fees paid indirectly, if applicable.
(j) Total return at net asset value is calculated using the net asset value of the fund, not the publicly traded price and therefore may be different than the total return at market value.
(r) Certain expenses have been reduced without which performance would have been lower.
(s) From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.
(w) Per share amount was less than $0.01.
(x) The net asset values and total returns at net asset value have been calculated on net assets which include adjustments made in accordance with U.S. generally accepted accounting principles required at period end for financial reporting purposes.

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# NOTES TO FINANCIAL STATEMENTS

**(1) Business and Organization**

MFS Intermediate Income Trust (the fund) is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as a diversified closed-end management investment company.

The fund is an investment company and accordingly follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946 Financial Services Investment Companies.

**(2) Significant Accounting Policies**

**General** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates. In the preparation of these financial statements, management has evaluated subsequent events occurring after the date of the fund s Statement of Assets and Liabilities through the date that the financial statements were issued. The fund invests in foreign securities. Investments in foreign securities are vulnerable to the effects of changes in the relative values of the local currency and the U.S. dollar and to the effects of changes in each country s legal, political, and economic environment.

**Balance Sheet Offsetting** The fund s accounting policy with respect to balance sheet offsetting is that, absent an event of default by the counterparty or a termination of the agreement, the International Swaps and Derivatives Association (ISDA) Master Agreement does not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the fund and the applicable counterparty. The fund s right to setoff may be restricted or prohibited by the bankruptcy or insolvency laws of the particular jurisdiction to which a specific master netting agreement counterparty is subject. Balance sheet offsetting disclosures, to the extent applicable to the fund, have been included in the fund s Significant Accounting Policies note under the captions for each of the fund s in-scope financial instruments and transactions.

**Investment Valuations** Debt instruments and floating rate loans, including restricted debt instruments, are generally valued at an evaluated or composite bid as provided by a third-party pricing service. Short-term instruments with a maturity at issuance of 60 days or less may be valued at amortized cost, which approximates market value. Futures contracts are generally valued at last posted settlement price as provided by a third-party pricing service on the market on which they are primarily traded. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation as provided by a third-party pricing service on the market on which such futures contracts are primarily traded. Forward foreign currency exchange contracts are generally valued at the mean of bid and asked prices for the time period interpolated from rates provided by a third-party pricing service for proximate time periods. Open-end investment companies are

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*Notes to Financial Statements  continued*

generally valued at net asset value per share. Securities and other assets generally valued on the basis of information from a third-party pricing service may also be valued at a broker/dealer bid quotation. Values obtained from third-party pricing services can utilize both transaction data and market information such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, and other market data. The values of foreign securities and other assets and liabilities expressed in foreign currencies are converted to U.S. dollars using the mean of bid and asked prices for rates provided by a third-party pricing service.

The Board of Trustees has delegated primary responsibility for determining or causing to be determined the value of the fund s investments (including any fair valuation) to the adviser pursuant to valuation policies and procedures approved by the Board. If the adviser determines that reliable market quotations are not readily available, investments are valued at fair value as determined in good faith by the adviser in accordance with such procedures under the oversight of the Board of Trustees. Under the fund s valuation policies and procedures, market quotations are not considered to be readily available for most types of debt instruments and floating rate loans and many types of derivatives. These investments are generally valued at fair value based on information from third-party pricing services. In addition, investments may be valued at fair value if the adviser determines that an investment s value has been materially affected by events occurring after the close of the exchange or market on which the investment is principally traded (such as foreign exchange or market) and prior to the determination of the fund s net asset value, or after the halting of trading of a specific security where trading does not resume prior to the close of the exchange or market on which the security is principally traded. The adviser generally relies on third-party pricing services or other information (such as the correlation with price movements of similar securities in the same or other markets; the type, cost and investment characteristics of the security; the business and financial condition of the issuer; and trading and other market data) to assist in determining whether to fair value and at what value to fair value an investment. The value of an investment for purposes of calculating the fund s net asset value can differ depending on the source and method used to determine value. When fair valuation is used, the value of an investment used to determine the fund s net asset value may differ from quoted or published prices for the same investment. There can be no assurance that the fund could obtain the fair value assigned to an investment if it were to sell the investment at the same time at which the fund determines its net asset value per share.

Various inputs are used in determining the value of the fund s assets or liabilities. These inputs are categorized into three broad levels. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fund s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, and credit risk). Level 3 includes unobservable inputs, which may include the adviser s own assumptions in determining

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*Notes to Financial Statements   continued*

the fair value of investments. Other financial instruments are derivative instruments not reflected in total investments, such as futures contracts and forward foreign currency exchange contracts. The following is a summary of the levels used as of October 31, 2015 in valuing the fund s assets or liabilities:

| Investments at Value | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| U.S. Treasury Bonds & U.S. Government Agency & Equivalents | $ | $6,153,951 | $ | $6,153,951 |
| Non-U.S. Sovereign Debt | | 132,906,829 | | 132,906,829 |
| U.S. Corporate Bonds | | 233,277,379 | | 233,277,379 |
| Residential Mortgage-Backed Securities | | 13,429,984 | | 13,429,984 |
| Commercial Mortgage-Backed Securities | | 8,198,705 | | 8,198,705 |
| Asset-Backed Securities (including CDOs) | | 28,944,766 | | 28,944,766 |
| Foreign Bonds | | 169,595,707 | | 169,595,707 |
| Mutual Funds | 777 | | | 777 |
| Total Investments | $777 | $592,507,321 | $ | $592,508,098 |
| | | | | |
| **Other Financial Instruments** | | | | |
| Futures Contracts | $96,660 | $ | $ | $96,660 |
| Forward Foreign Currency Exchange Contracts | | 1,591,809 | | 1,591,809 |

For further information regarding security characteristics, see the Portfolio of Investments.

**Foreign Currency Translation**   Purchases and sales of foreign investments, income, and expenses are converted into U.S. dollars based upon currency exchange rates prevailing on the respective dates of such transactions or on the reporting date for foreign denominated receivables and payables. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on receivables, payables, income and expenses are recorded for financial statement purposes as foreign currency transaction gains and losses. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

**Derivatives**   The fund uses derivatives for different purposes, primarily to increase or decrease exposure to a particular market or segment of the market, or security, to increase or decrease interest rate or currency exposure, or as alternatives to direct investments. Derivatives are used for hedging or non-hedging purposes. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. When the fund uses derivatives as an investment to increase market exposure, or for hedging purposes, gains and losses from derivative instruments may be substantially greater than the derivative s original cost.

The derivative instruments used by the fund were futures contracts and forward foreign currency exchange contracts. The fund s period end derivatives, as presented in the Portfolio of Investments and the associated Derivative Contract tables, generally are indicative of the volume of its derivative activity during the period.

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*Notes to Financial Statements  continued*

The following table presents, by major type of derivative contract, the fair value, on a gross basis, of the asset and liability components of derivatives held by the fund at October 31, 2015 as reported in the Statement of Assets and Liabilities:

| | | Fair Value (a) | |
|---|---|---|---|
| **Risk** | **Derivative Contracts** | **Asset Derivatives** | **Liability Derivatives** |
| Interest Rate | Interest Rate Futures | $96,660 | $ |
| Foreign Exchange | Forward Foreign Currency Exchange | 1,828,586 | (236,777) |
| Total | | $1,925,246 | $(236,777) |

(a) The value of futures contracts includes cumulative appreciation (depreciation) as reported in the fund s Portfolio of Investments. Only the current day variation margin for futures contracts is separately reported within the fund s Statement of Assets and Liabilities.

The following table presents, by major type of derivative contract, the realized gain (loss) on derivatives held by the fund for the year ended October 31, 2015 as reported in the Statement of Operations:

| **Risk** | **Futures Contracts** | **Foreign Currency** |
|---|---|---|
| Interest Rate | $(832,660) | $ |
| Foreign Exchange | | 10,922,086 |
| Total | $(832,660) | $10,922,086 |

The following table presents, by major type of derivative contract, the change in unrealized appreciation (depreciation) on derivatives held by the fund for the year ended October 31, 2015 as reported in the Statement of Operations:

| **Risk** | **Futures Contracts** | **Translation of Assets and Liabilities in Foreign Currencies** |
|---|---|---|
| Interest Rate | $261,855 | $ |
| Foreign Exchange | | (214,671) |
| Total | $261,855 | $(214,671) |

Derivative counterparty credit risk is managed through formal evaluation of the creditworthiness of all potential counterparties. On certain, but not all, uncleared derivatives, the fund attempts to reduce its exposure to counterparty credit risk whenever possible by entering into an ISDA Master Agreement on a bilateral basis. The ISDA Master Agreement gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a certain deterioration in the credit quality of the other party. Upon an event of default or a termination of the ISDA Master Agreement, the non- defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each transaction to one net amount payable by one party to the other. This right to close out and net payments across all transactions traded under the ISDA Master Agreement could result in a reduction of the fund s credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any.

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*Notes to Financial Statements continued*

Collateral and margin requirements differ by type of derivative. Margin requirements are set by the clearing broker and the clearing house for cleared derivatives (e.g., futures contracts, cleared swaps, and exchange-traded options) while collateral terms are contract specific for uncleared derivatives (e.g., forward foreign currency exchange contracts, uncleared swap agreements, and uncleared options). For derivatives traded under an ISDA Master Agreement, which contains a collateral support annex, the collateral requirements are netted across all transactions traded under such agreement and one amount is posted from one party to the other to collateralize such obligations. Cash that has been segregated to cover the fund s collateral or margin obligations under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities as Restricted cash or Deposits with brokers. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments.

**Futures Contracts** The fund entered into futures contracts which may be used to hedge against or obtain broad market exposure, interest rate exposure, currency exposure, or to manage duration. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the fund is required to deposit with the broker, either in cash or securities, an initial margin in an amount equal to a certain percentage of the notional amount of the contract. Subsequent payments (variation margin) are made or received by the fund each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gain or loss by the fund until the contract is closed or expires at which point the gain or loss on futures contracts is realized.

The fund bears the risk of interest rates, exchange rates or securities prices moving unexpectedly, in which case, the fund may not achieve the anticipated benefits of the futures contracts and may realize a loss. While futures contracts may present less counterparty risk to the fund since the contracts are exchange traded and the exchange s clearinghouse guarantees payments to the broker, there is still counterparty credit risk due to the insolvency of the broker. The fund s maximum risk of loss due to counterparty credit risk is equal to the margin posted by the fund to the broker plus any gains or minus any losses on the outstanding futures contracts.

**Forward Foreign Currency Exchange Contracts** The fund entered into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. These contracts may be used to hedge the fund s currency risk or for non-hedging purposes. For hedging purposes, the fund may enter into contracts to deliver or receive foreign currency that the fund will receive from or use in its normal investment activities. The fund may also use contracts to hedge against declines in the value of foreign currency denominated securities due to unfavorable exchange rate movements. For non-hedging purposes, the fund may enter into contracts with the intent of changing the relative exposure of the fund s portfolio of securities to different currencies to take advantage of anticipated exchange rate changes.

Forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any unrealized gains or losses are recorded as a receivable or payable for forward foreign currency exchange contracts until the contract settlement date. On contract settlement date, any gain or loss on the contract is recorded as realized gains or losses on foreign currency.

Risks may arise upon entering into these contracts from unanticipated movements in the value of the contract and from the potential inability of counterparties to meet the terms of their contracts. Generally, the fund s maximum risk due to counterparty credit risk is the unrealized gain on the contract due to the use of Continuous Linked Settlement, an industry accepted settlement system. This risk is mitigated in cases where there is an ISDA Master Agreement between the fund and the counterparty providing for netting as described above and, where applicable, by the posting of collateral by the counterparty to the fund to cover the fund s exposure to the counterparty under such ISDA Master Agreement.

**Indemnifications**  Under the fund s organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the fund. Additionally, in the normal course of business, the fund enters into agreements with service providers that may contain indemnification clauses. The fund s maximum exposure under these agreements is unknown as this would involve future claims that may be made against the fund that have not yet occurred.

**Investment Transactions and Income**  Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with U.S. generally accepted accounting principles. Interest payments received in additional securities are recorded on the ex-interest date in an amount equal to the value of the security on such date.

The fund may receive proceeds from litigation settlements. Any proceeds received from litigation involving portfolio holdings are reflected in the Statement of Operations in realized gain/loss if the security has been disposed of by the fund or in unrealized gain/loss if the security is still held by the fund. Any other proceeds from litigation not related to portfolio holdings are reflected as other income in the Statement of Operations.

The fund invests a significant portion of its assets in asset-backed and/or mortgage-backed securities. The value of these securities may depend, in part, on the issuer s or borrower s credit quality or ability to pay principal and interest when due and that value may fall if an issuer or borrower defaults on its obligation to pay principal or interest or if the instrument s credit rating is downgraded by a credit rating agency. U.S. Government securities not supported as to the payment of principal or interest by the U.S. Treasury, such as those issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, are subject to greater credit risk than are U.S. Government securities supported by the U.S. Treasury, such as those issued by Ginnie Mae.

The fund purchased or sold debt securities on a when-issued or delayed delivery basis, or in a  To Be Announced  (TBA) or  forward commitment transaction with delivery or payment to occur at a later date beyond the normal settlement period. At the time a fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the security acquired is reflected in the fund s net asset

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*Notes to Financial Statements  continued*

value. The price of such security and the date that the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. No interest accrues to the fund until payment takes place. At the time that a fund enters into this type of transaction, the fund is required to have sufficient cash and/or liquid securities to cover its commitments. Losses may arise due to changes in the value of the underlying securities or if the counterparty does not perform under the contract s terms, or if the issuer does not issue the securities due to political, economic or other factors. Additionally, losses may arise due to declines in the value of the securities prior to settlement date.

To mitigate this risk of loss on TBA securities and other types of forward settling mortgage-backed securities, the fund whenever possible enters into a Master Securities Forward Transaction Agreement ( MSFTA ) on a bilateral basis with each of the counterparties with whom it undertakes a significant volume of transactions. The MSFTA gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a certain deterioration in the credit quality of the other party. Upon an event of default or a termination of the MSFTA, the non-defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each transaction to one net amount payable by one party to the other. This right to close out and net payments across all transactions traded under the MSFTA could result in a reduction of the fund s credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any.

For mortgage-backed securities traded under a MSFTA, the collateral and margining requirements are contract specific. Collateral amounts across all transactions traded under such agreement are netted and one amount is posted from one party to the other to collateralize such obligations. Cash that has been pledged to cover the fund s collateral or margin obligations under a MSFTA, if any, will be reported separately on the Statement of Assets and Liabilities as restricted cash. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments.

**Fees Paid Indirectly**  Prior to October 1, 2015, the fund s custody fee could be reduced by a credit earned under an arrangement that measured the value of U.S. dollars deposited with the custodian by the fund. The amount of the credit, for the year ended October 31, 2015, is shown as a reduction of total expenses in the Statement of Operations.

**Tax Matters and Distributions**  The fund intends to qualify as a regulated investment company, as defined under Subchapter M of the Internal Revenue Code, and to distribute all of its taxable income, including realized capital gains. As a result, no provision for federal income tax is required. The fund s federal tax returns, when filed, will remain subject to examination by the Internal Revenue Service for a three year period. Management has analyzed the fund s tax positions taken on federal and state tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability. Foreign taxes, if any, have been accrued by the fund in the accompanying financial statements in accordance with the applicable foreign tax law. Foreign income taxes may be withheld by certain countries in which the fund invests. Additionally, capital gains realized by the fund on securities issued in or by certain foreign countries may be subject to capital gains tax imposed by those countries.

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*Notes to Financial Statements continued*

Distributions to shareholders are recorded on the ex-dividend date. The fund seeks to pay monthly distributions based on an annual rate of 8.5% of the fund s average monthly net asset value. As a result, distributions may exceed actual earnings which may result in a tax return of capital or, to the extent the fund has long-term gains, distributions of current year long-term gains may be recharacterized as ordinary income. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments have no impact on net assets or net asset value per share. Temporary differences which arise from recognizing certain items of income, expense, gain or loss in different periods for financial statement and tax purposes will reverse at some time in the future. Distributions from other sources, in excess of net investment income or net realized gains are temporary overdistributions for financial statement purposes resulting from differences in the recognition or classification of income or distributions for financial statement and tax purposes.

Book/tax differences primarily relate to expiration of capital loss carryforwards, amortization and accretion of debt securities, straddle loss deferrals, and derivative transactions.

The tax character of distributions declared to shareholders for the last two fiscal years is as follows:

| | 10/31/15 | 10/31/14 |
|---|---|---|
| Ordinary income (including any short-term capital gains) (a) | $29,146,313 | $24,901,357 |
| Tax return of capital (b) | 23,830,946 | 31,517,817 |
| Total distributions | $52,977,259 | $56,419,174 |

(a) Included in the fund s distributions from ordinary income for the years ended October 31, 2015 and October 31, 2014 is $3,568,045 and $679,951, respectively, in excess of investment company taxable income which, in accordance with applicable U.S. tax law, is taxable to shareholders as ordinary income distributions.
(b) Distributions in excess of tax basis earnings and profits are reported in the financial statements as a tax return of capital.

The federal tax cost and the tax basis components of distributable earnings were as follows:

| As of 10/31/15 | |
|---|---|
| Cost of investments | $601,291,468 |
| Gross appreciation | 12,407,330 |
| Gross depreciation | (21,190,700) |
| Net unrealized appreciation (depreciation) | $(8,783,370) |
| Capital loss carryforwards | (16,783,474) |
| Other temporary differences | (1,794,541) |

Under the Regulated Investment Company Modernization Act of 2010 (the Act ), net capital losses recognized for fund fiscal years beginning after October 31, 2011 may be

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*Notes to Financial Statements continued*

carried forward indefinitely, and their character is retained as short-term and/or long-term losses ( post-enactment losses ). Previously, net capital losses were carried forward for eight years and treated as short-term losses ( pre-enactment losses ). As a transition rule, the Act requires that all post-enactment net capital losses be used before pre-enactment net capital losses.

As of October 31, 2015, the fund had capital loss carryforwards available to offset future realized gains. Such pre-enactment losses expire as follows:

| | |
|---|---|
| 10/31/16 | $(16,783,474) |

**(3) Transactions with Affiliates**

**Investment Adviser** The fund has an investment advisory agreement with MFS to provide overall investment management and related administrative services and facilities to the fund. The management fee is computed daily and paid monthly at an annual rate of 0.32% of the fund s average daily net assets and 5.65% of gross income. Gross income is calculated based on tax elections that generally include the accretion of discount and exclude the amortization of premium, which may differ from investment income reported in the Statement of Operations. MFS has agreed to reduce its management fee to the lesser of the contractual management fee as set forth above or 0.85% of the average daily net assets. This written agreement will continue until modified by the fund s Board of Trustees, but such agreement will continue at least until October 31, 2016. For the year ended October 31, 2015, the fund s average daily net assets and gross income did not meet the thresholds required to waive the management fee under this agreement. The management fee, from net assets and gross income, incurred for the year ended October 31, 2015 was equivalent to an annual effective rate of 0.50% of the fund s average daily net assets.

**Transfer Agent** The fund engages Computershare Trust Company, N.A. ( Computershare ) as the sole transfer agent for the fund. MFS Service Center, Inc. (MFSC) monitors and supervises the activities of Computershare for an agreed upon fee approved by the Board of Trustees. For the year ended October 31, 2015, these fees paid to MFSC amounted to $37,269.

**Administrator** MFS provides certain financial, legal, shareholder communications, compliance, and other administrative services to the fund. Under an administrative services agreement, the fund reimburses MFS the costs incurred to provide these services. The fund is charged an annual fixed amount of $17,500 plus a fee based on average daily net assets. The administrative services fee incurred for the year ended October 31, 2015 was equivalent to an annual effective rate of 0.0174% of the fund s average daily net assets.

**Trustees and Officers Compensation** The fund pays compensation to independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The fund does not pay compensation directly to Trustees or officers of the fund who are also officers of the investment adviser, all of whom receive remuneration for their services to the fund from MFS. Certain officers and Trustees of the fund are officers or directors of MFS and MFSC.

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*Notes to Financial Statements continued*

Prior to December 31, 2001, the fund had an unfunded defined benefit plan ( DB plan ) for independent Trustees. As of December 31, 2001, the Board took action to terminate the DB plan with respect to then-current and any future independent Trustees, such that the DB plan covers only certain of those former independent Trustees who retired on or before December 31, 2001. The DB plan resulted in a pension expense of $1,610 and is included in Independent Trustees compensation in the Statement of Operations for the year ended October 31, 2015. The liability for deferred retirement benefits payable to certain independent Trustees under the DB plan amounted to $33,305 at October 31, 2015, and is included in Payable for independent Trustees compensation in the Statement of Assets and Liabilities.

**Other** This fund and certain other funds managed by MFS (the funds) have entered into a service agreement (the ISO Agreement) which provides for payment of fees solely by the funds to Tarantino LLC in return for the provision of services of an Independent Senior Officer (ISO) for the funds. Frank L. Tarantino serves as the ISO and is an officer of the funds and the sole member of Tarantino LLC. The funds can terminate the ISO Agreement with Tarantino LLC at any time under the terms of the ISO Agreement. For the year ended October 31, 2015, the fee paid by the fund under this agreement was $2,511 and is included in Miscellaneous expense in the Statement of Operations. MFS has agreed to bear all expenses associated with office space, other administrative support, and supplies provided to the ISO.

The fund invests in the MFS Institutional Money Market Portfolio which is managed by MFS and seeks current income consistent with preservation of capital and liquidity. Income earned on this investment is included in Dividends from underlying affiliated funds in the Statement of Operations. This money market fund does not pay a management fee to MFS.

**(4) Portfolio Securities**

For the year ended October 31, 2015, purchases and sales of investments, other than short-term obligations, were as follows:

| | Purchases | Sales |
|---|---|---|
| U.S. Government securities | $ | $7,909,128 |
| Investments (non-U.S. Government securities) | $185,854,235 | $192,358,038 |

**(5) Shares of Beneficial Interest**

The fund s Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest. The Trustees have authorized the repurchase by the fund of up to 10% annually of its own shares of beneficial interest. The fund repurchased and retired 187,061 shares of beneficial interest during the year ended October 31, 2015 at an average price per share of $4.58 and a weighted average discount of 9.69% per share. The fund did not repurchase any shares of beneficial interest during the year ended October 31, 2014. Transactions in fund shares were as follows:

| | Year ended 10/31/15 | | Year ended 10/31/14 | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Capital shares reacquired | (187,061) | $(856,992) | | $ |

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*Notes to Financial Statements continued*

**(6) Line of Credit**

The fund and certain other funds managed by MFS participate in a $1.25 billion unsecured committed line of credit, subject to a $1 billion sublimit, provided by a syndication of banks under a credit agreement. Borrowings may be made for temporary financing needs. Interest is charged to each fund, based on its borrowings, generally at a rate equal to the higher of the Overnight Federal Reserve funds rate or daily one month LIBOR plus an agreed upon spread. A commitment fee, based on the average daily, unused portion of the committed line of credit, is allocated among the participating funds at the end of each calendar quarter. In addition, the fund and other funds managed by MFS have established unsecured uncommitted borrowing arrangements with certain banks for temporary financing needs. Interest is charged to each fund, based on its borrowings, at a rate equal to the Overnight Federal Reserve funds rate plus an agreed upon spread. For the year ended October 31, 2015, the fund s commitment fee and interest expense were $2,056 and $0, respectively, and are included in Miscellaneous expense in the Statement of Operations.

**(7) Transactions in Underlying Affiliated Funds-Affiliated Issuers**

An affiliated issuer may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. For the purposes of this report, the fund assumes the following to be an affiliated issuer:

| Underlying Affiliated Fund | Beginning Shares/Par Amount | Acquisitions Shares/Par Amount | Dispositions Shares/Par Amount | Ending Shares/Par Amount |
|---|---|---|---|---|
| MFS Institutional Money Market Portfolio | 8,955,378 | 164,830,561 | (173,785,162) | 777 |

| Underlying Affiliated Fund | Realized Gain (Loss) | Capital Gain Distributions | Dividend Income | Ending Value |
|---|---|---|---|---|
| MFS Institutional Money Market Portfolio | $ | $ | $13,060 | $777 |

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# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and the Shareholders of MFS Intermediate Income Trust:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of MFS Intermediate Income Trust (the Fund ) as of October 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2015, by correspondence with the custodian and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of MFS Intermediate Income Trust as of October 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Boston, Massachusetts

December 15, 2015

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# RESULTS OF SHAREHOLDER MEETING

(unaudited)

At the annual meeting of shareholders of MFS Intermediate Income Trust, which was held on October 1, 2015, the following action was taken:

**Item 1:** To elect the following individuals as Trustees:

| | Number of Shares | |
|---|---|---|
| **Nominee** | **For** | **Withheld Authority** |
| Robert E. Butler | 90,646,065.679 | 14,753,686.764 |
| David H. Gunning | 90,741,348.679 | 14,658,403.764 |
| Robin A. Stelmach | 90,608,307.689 | 14,791,444.754 |

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# TRUSTEES AND OFFICERS    IDENTIFICATION AND BACKGROUND

The Trustees and Officers of the Trust, as of December 1, 2015, are listed below, together with their principal occupations during the past five years. (Their titles may have varied during that period.) The address of each Trustee and Officer is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

| Name, Age | Position(s) Held with Fund | Trustee/Officer Since [h] | Term Expiring | Principal Occupations During the Past Five Years | Other Directorships [j] |
|---|---|---|---|---|---|
| **INTERESTED TRUSTEES** | | | | | |
| Robert J. Manning [k] (age 52) | Trustee | February 2004 | 2016 | Massachusetts Financial Services Company, Co-Chairman, Chief Executive Officer and Director; Chief Investment Officer (until 2010) | N/A |
| Robin A. Stelmach [k] (age 54) | Trustee and President | January 2014 | 2018 | Massachusetts Financial Services Company, Executive Vice President and Chief Operating Officer | N/A |
| **INDEPENDENT TRUSTEES** | | | | | |
| David H. Gunning (age 73) | Trustee and Chair of Trustees | January 2004 | 2018 [m] | Private investor | Lincoln Electric Holdings, Inc., Director; Development Alternatives, Inc., Director/Non-Executive Chairman |
| Steven E. Buller (age 64) | Trustee | February 2014 | 2017 | Chairman, Financial Accounting Standards Advisory Council; Standing Advisory Group, Public Company Accounting Oversight Board, Member (until 2014); BlackRock, Inc. (investment management), Managing Director (until 2014), BlackRock Finco UK (investment management), Director (until 2014) | N/A |

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*Trustees and Officers continued*

| Name, Age | Position(s) Held with Fund | Trustee/Officer Since [h] | Term Expiring | Principal Occupations During the Past Five Years | Other Directorships [j] |
|---|---|---|---|---|---|
| Robert E. Butler (age 74) | Trustee | January 2006 | 2018 [n] | Consultant investment company industry regulatory and compliance matters | N/A |
| Maureen R. Goldfarb (age 60) | Trustee | January 2009 | 2016 | Private investor | N/A |
| William R. Gutow (age 74) | Trustee | December 1993 | 2017 [n] | Private investor and real estate consultant; Capitol Entertainment Management Company (video franchise), Vice Chairman | Texas Donuts, Vice Chairman (until 2010) |
| Michael Hegarty (age 70) | Trustee | December 2004 | 2017 | Private investor | Rouse Properties Inc., Director; Capmark Financial Group Inc., Director |
| John P. Kavanaugh (age 61) | Trustee | January 2009 | 2017 | Private investor | N/A |
| Maryanne L. Roepke (age 59) | Trustee | May 2014 | 2016 | American Century Investments (investment management), Senior Vice President and Chief Compliance Officer (until 2014) | N/A |
| Laurie J. Thomsen (age 58) | Trustee | March 2005 | 2016 | Private investor; New Profit, Inc. (venture philanthropy), Executive Partner (until 2010) | The Travelers Companies, Director; Dycom Industries, Inc., Director |
| Robert W. Uek (age 74) | Trustee | January 2006 | 2017 [n] | Consultant to investment company industry | N/A |
| **OFFICERS** | | | | | |
| Christopher R. Bohane [k] (age 41) | Assistant Secretary and Assistant Clerk | July 2005 | N/A | Massachusetts Financial Services Company, Vice President and Assistant General Counsel | N/A |

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*Trustees and Officers continued*

| **Name, Age** | **Position(s) Held with Fund** | **Trustee/Officer Since [h]** | **Term Expiring** | **Principal Occupations During the Past Five Years** | **Other Directorships [j]** |
|---|---|---|---|---|---|
| Kino Clark [k] (age 47) | Assistant Treasurer | January 2012 | N/A | Massachusetts Financial Services Company, Vice President | N/A |
| Kristin V. Collins [k] (age 42) | Assistant Secretary and Assistant Clerk | September 2015 | N/A | Massachusetts Financial Services Company, Vice President and Assistant General Counsel | N/A |
| Thomas H. Connors [k] (age 56) | Assistant Secretary and Assistant Clerk | September 2012 | N/A | Massachusetts Financial Services Company, Vice President and Senior Counsel; Deutsche Investment Management Americas Inc. (financial service provider), Director and Senior Counsel (until 2012) | N/A |
| Ethan D. Corey [k] (age 52) | Assistant Secretary and Assistant Clerk | July 2005 | N/A | Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel | N/A |
| David L. DiLorenzo [k] (age 47) | Treasurer | July 2005 | N/A | Massachusetts Financial Services Company, Senior Vice President | N/A |
| Brian E. Langenfeld [k] (age 42) | Assistant Secretary and Assistant Clerk | June 2006 | N/A | Massachusetts Financial Services Company, Vice President and Senior Counsel | N/A |
| Kenneth Paek [k] (age 41) | Assistant Treasurer | February 2015 | N/A | Massachusetts Financial Services Company, Vice President; Cohen & Steers, Vice President/Head of Fund Administration (until 2014) | N/A |

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*Trustees and Officers continued*

| Name, Age | Position(s) Held with Fund | Trustee/Officer Since (h) | Term Expiring | Principal Occupations During the Past Five Years | Other Directorships (j) |
|---|---|---|---|---|---|
| Susan A. Pereira (k) (age 45) | Assistant Secretary and Assistant Clerk | July 2005 | N/A | Massachusetts Financial Services Company, Vice President and Senior Counsel | N/A |
| Kasey L. Phillips (k) (age 44) | Assistant Treasurer | September 2012 | N/A | Massachusetts Financial Services Company, Vice President; Wells Fargo Funds Management, LLC, Senior Vice President, Fund Treasurer (until 2012) | N/A |
| Mark N. Polebaum (k) (age 63) | Secretary and Clerk | January 2006 | N/A | Massachusetts Financial Services Company, Executive Vice President, General Counsel and Secretary | N/A |
| Matthew A. Stowe (k) (age 41) | Assistant Secretary and Assistant Clerk | October 2014 | N/A | Massachusetts Financial Services Company, Vice President and Assistant General Counsel | N/A |
| Frank L. Tarantino (age 71) | Independent Senior Officer | June 2004 | N/A | Tarantino LLC (provider of compliance services), Principal | N/A |
| Richard S. Weitzel (k) (age 45) | Assistant Secretary and Assistant Clerk | October 2007 | N/A | Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel | N/A |

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*Trustees and Officers continued*

| Name, Age | Position(s) Held with Fund | Trustee/Officer Since (h) | Term Expiring | Principal Occupations During the Past Five Years | Other Directorships (j) |
|---|---|---|---|---|---|
| Martin J. Wolin (k) (age 48) | Chief Compliance Officer | July 2015 | N/A | Massachusetts Financial Services Company, Senior Vice President and Chief Compliance Officer (since July 2015); Mercer (financial service provider), Chief Risk and Compliance Officer, North America and Latin America (until June 2015) | N/A |
| James O. Yost (k) (age 55) | Deputy Treasurer | September 1990 | N/A | Massachusetts Financial Services Company, Senior Vice President | N/A |

(h) Date first appointed to serve as Trustee/officer of an MFS Fund. Each Trustee has served continuously since appointment unless indicated otherwise. For the period from December 15, 2004 until February 22, 2005, Mr. Manning served as Advisory Trustee. Prior to January 2012, Messrs. DiLorenzo and Yost served as Assistant Treasurers of the Funds. Ms. Stelmach was appointed as President of the Funds as of October 1, 2014.

(j) Directorships or trusteeships of companies required to report to the Securities and Exchange Commission (i.e., public companies ).

(k) Interested person of the Trust within the meaning of the Investment Company Act of 1940 (referred to as the 1940 Act), which is the principal federal law governing investment companies like the fund, as a result of a position with MFS. The address of MFS is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

(m) With respect to Mr. Gunning, the Board has agreed to a one-year extension of his ability to serve as a Trustee from January 1, 2016 through December 31, 2016, subject to Board approval for a second one-year extension for the 2017 calendar year pursuant to the retirement policy.

(n) With respect to Messrs. Butler, Gutow and Uek, the Board has agreed to a one-year extension of each Trustee s ability to serve as a Trustee from January 1, 2016 through December 31, 2016 pursuant to the retirement policy.

The Trust holds annual shareholder meetings for the purpose of electing Trustees, and Trustees are elected for fixed terms. The Board of Trustees is currently divided into three classes, each having a term of three years which term expires on the date of the third annual meeting following the election to office of the Trustee s class. Each year the term of one class expires. Each Trustee and officer will serve until next elected or his or her earlier death, resignation, retirement or removal.

Messrs. Butler, Kavanaugh, Uek and Mses. Thomsen and Roepke are members of the Fund s Audit Committee.

Each of the Fund s Trustees and officers holds comparable positions with certain other funds of which MFS or a subsidiary is the investment adviser or distributor, and, in the case of the officers, with certain affiliates of MFS. As of December 1, 2015, the Trustees served as board members of 138 funds within the MFS Family of Funds.

**Table of Contents**

*Trustees and Officers continued*

**Investment Adviser**
Massachusetts Financial Services Company
111 Huntington Avenue

Boston, MA 02199-7618

**Portfolio Managers**
James Calmas
Erik Weisman

**Custodian**
State Street Bank and Trust Company
1 Lincoln Street, Boston

Boston, MA 02111-2900

**Independent Registered Public Accounting Firm**
Deloitte & Touche LLP
200 Berkeley Street

Boston, MA 02116

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# BOARD REVIEW OF INVESTMENT ADVISORY AGREEMENT

The Investment Company Act of 1940 requires that both the full Board of Trustees and a majority of the non-interested ( independent ) Trustees, voting separately, annually approve the continuation of the Fund s investment advisory agreement with MFS. The Trustees consider matters bearing on the Fund and its advisory arrangements at their meetings throughout the year, including a review of performance data at each regular meeting. In addition, the independent Trustees met several times over the course of three months beginning in May and ending in July, 2015 ( contract review meetings ) for the specific purpose of considering whether to approve the continuation of the investment advisory agreement for the Fund and the other investment companies that the Board oversees (the MFS Funds ). The independent Trustees were assisted in their evaluation of the Fund s investment advisory agreement by independent legal counsel, from whom they received separate legal advice and with whom they met separately from MFS during various contract review meetings. The independent Trustees were also assisted in this process by the MFS Funds Independent Senior Officer, a senior officer appointed by and reporting to the independent Trustees.

In connection with their deliberations regarding the continuation of the investment advisory agreement, the Trustees, including the independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. The investment advisory agreement for the Fund was considered separately, although the Trustees also took into account the common interests of all MFS Funds in their review. As described below, the Trustees considered the nature, quality, and extent of the various investment advisory, administrative, and shareholder services performed by MFS under the existing investment advisory agreement and other arrangements with the Fund.

In connection with their contract review meetings, the Trustees received and relied upon materials that included, among other items: (i) information provided by Lipper Inc., an independent third party, on the investment performance (based on net asset value) of the Fund for various time periods ended December 31, 2014 and the investment performance (based on net asset value) of a group of funds with substantially similar investment classifications/objectives (the Lipper performance universe ), (ii) information provided by Lipper Inc. on the Fund s advisory fees and other expenses and the advisory fees and other expenses of comparable funds identified by Lipper Inc. (the Lipper expense group ), (iii) information provided by MFS on the advisory fees of comparable portfolios of other clients of MFS, including institutional separate accounts and other clients, (iv) information as to whether and to what extent applicable expense waivers, reimbursements or fee breakpoints are observed for the Fund, (v) information regarding MFS financial results and financial condition, including MFS and certain of its affiliates estimated profitability from services performed for the Fund and the MFS Funds as a whole, and compared to MFS institutional business, (vi) MFS views regarding the outlook for the mutual fund industry and the strategic business plans of MFS, (vii) descriptions of various functions performed by MFS for the Funds, such as compliance monitoring and portfolio trading practices, and (viii) information regarding the overall organization of MFS, including information about MFS senior management and other personnel providing investment

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*Board Review of Investment Advisory Agreement continued*

advisory, administrative and other services to the Fund and the other MFS Funds. The comparative performance, fee and expense information prepared and provided by Lipper Inc. was not independently verified and the independent Trustees did not independently verify any information provided to them by MFS.

The Trustees conclusion as to the continuation of the investment advisory agreement was based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors. It is also important to recognize that the fee arrangements for the Fund and other MFS Funds are the result of years of review and discussion between the independent Trustees and MFS, that certain aspects of such arrangements may receive greater scrutiny in some years than in others, and that the Trustees conclusions may be based, in part, on their consideration of these same arrangements during the course of the year and in prior years.

Based on information provided by Lipper Inc. and MFS, the Trustees reviewed the Fund s total return investment performance as well as the performance of peer groups of funds over various time periods. The Trustees placed particular emphasis on the total return performance of the Fund s common shares in comparison to the performance of funds in its Lipper performance universe over the three-year period ended December 31, 2014, which the Trustees believed was a long enough period to reflect differing market conditions. The total return performance of the Fund s common shares ranked 8th out of a total of 10 funds in the Lipper performance universe for this three-year period (a ranking of first place out of the total number of funds in the performance universe indicating the best performer and a ranking of last place out of the total number of funds in the performance universe indicating the worst performer). The total return performance of the Fund s common shares ranked 9th out of a total of 10 funds for the one-year period and 8th out of a total of 9 funds for the five-year period ended December 31, 2014. Given the size of the Lipper performance universe and information previously provided by MFS regarding differences between the Fund and other funds in its Lipper performance universe, the Trustees also reviewed the Fund s performance in comparison to a custom benchmark developed by MFS. The Fund underperformed its custom benchmark for the one-year period (3.8% total return for the Fund versus 4.8% total return for the benchmark) and out-performed its custom benchmark for the three- and five-year periods ended December 31, 2014 (three-year: 3.7% total return for the Fund versus 2.9% total return for the benchmark; five-year: 4.2% total return for the Fund versus 3.9% total return for the benchmark). Because of the passage of time, these performance results may differ from the performance results for more recent periods, including those shown elsewhere in this report.

In the course of their deliberations, the Trustees took into account information provided by MFS in connection with the contract review meetings, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding the Fund s performance. After reviewing these and

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*Board Review of Investment Advisory Agreement continued*

related factors, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that they were satisfied with MFS responses and efforts relating to investment performance.

In assessing the reasonableness of the Fund s advisory fee, the Trustees considered, among other information, the Fund s advisory fee and the total expense ratio of the Fund s common shares as a percentage of average daily net assets and the advisory fee and total expense ratios of peer groups of funds based on information provided by Lipper Inc. The Trustees considered that MFS has agreed in writing to reduce its advisory fee, which may not be changed without the Trustees approval. The Trustees also considered that, according to the Lipper data (which takes into account any fee reductions or expense limitations that were in effect during the Fund s last fiscal year), the Fund s effective advisory fee rate was approximately at the Lipper expense group median and the Fund s total expense ratio was lower than the Lipper expense group median.

The Trustees also considered the advisory fees charged by MFS to any institutional separate accounts advised by MFS ( separate accounts ) and unaffiliated investment companies for which MFS serves as subadviser ( subadvised funds ) that have comparable investment strategies to the Fund. In comparing these fees, the Trustees considered information provided by MFS as to the generally broader scope of services provided by MFS to the Fund, as well as the more extensive regulatory burdens imposed on MFS in managing the Fund, in comparison to separate accounts and subadvised funds.

The Trustees considered that, as a closed-end fund, the Fund is unlikely to experience meaningful asset growth. As a result, the Trustees did not view the potential for realization of economies of scale as the Fund s assets grow to be a material factor in their deliberations. The Trustees noted that they would consider economies of scale in the future in the event the Fund experiences significant asset growth, such as through an offering of preferred shares (which is not currently contemplated) or a material increase in the market value of the Fund s portfolio securities.

The Trustees also considered information prepared by MFS relating to MFS costs and profits with respect to the Fund, the MFS Funds considered as a group, and other investment companies and accounts advised by MFS, as well as MFS methodologies used to determine and allocate its costs to the MFS Funds, the Fund and other accounts and products for purposes of estimating profitability.

After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that the advisory fees charged to the Fund represent reasonable compensation in light of the services being provided by MFS to the Fund.

In addition, the Trustees considered MFS resources and related efforts to continue to retain, attract and motivate capable personnel to serve the Fund. The Trustees also considered current and developing conditions in the financial services industry, including the presence of large and well-capitalized companies which are spending, and appear to be prepared to continue to spend, substantial sums to engage personnel and to provide services to competing investment companies. In this regard, the

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*Board Review of Investment Advisory Agreement  continued*

Trustees also considered the financial resources of MFS and its ultimate parent, Sun Life Financial Inc. The Trustees also considered the advantages and possible disadvantages to the Fund of having an adviser that also serves other investment companies as well as other accounts.

The Trustees also considered the nature, quality, cost, and extent of administrative services provided to the Fund by MFS under agreements other than the investment advisory agreement. The Trustees also considered the nature, extent and quality of certain other services MFS performs or arranges for on the Fund s behalf, which may include securities lending programs, directed expense payment programs, class action recovery programs, and MFS  interaction with third-party service providers, principally custodians and sub-custodians. The Trustees concluded that the various non-advisory services provided by MFS and its affiliates on behalf of the Fund were satisfactory.

The Trustees also considered benefits to MFS from the use of the Fund s portfolio brokerage commissions, if applicable, to pay for investment research and various other factors. Additionally, the Trustees considered so-called  fall-out benefits  to MFS such as reputational value derived from serving as investment manager to the Fund.

Based on their evaluation of factors that they deemed to be material, including those factors described above, the Board of Trustees, including the independent Trustees, concluded that the Fund s investment advisory agreement with MFS should be continued for an additional one-year period, commencing August 1, 2015.

## PROXY VOTING POLICIES AND INFORMATION

MFS votes proxies on behalf of the fund pursuant to proxy voting policies and procedures that are available without charge, upon request, by calling 1-800-225-2606, by visiting the Proxy Voting section of *mfs.com* or by visiting the SEC s Web site at *http://www.sec.gov*.

Information regarding how the fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available without charge by visiting the Proxy Voting section of *mfs.com* or by visiting the SEC s Web site at *http://www.sec.gov*.

## QUARTERLY PORTFOLIO DISCLOSURE

The fund will file a complete schedule of portfolio holdings with the Securities and Exchange Commission (the Commission) for the first and third quarters of each fiscal year on Form N-Q. A shareholder can obtain the quarterly portfolio holdings report at mfs.com. The fund s Form N-Q is also available on the EDGAR database on the Commission s Internet Web site at *http://www.sec.gov,* and may be reviewed and copied at the:

Public Reference Room

Securities and Exchange Commission

100 F Street, NE, Room 1580

Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. Copies of the fund s Form N-Q also may be obtained, upon payment of a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov or by writing the Public Reference Section at the above address.

## FURTHER INFORMATION

From time to time, MFS may post important information about the fund or the MFS funds on the MFS web site *(mfs.com)*. This information is available by visiting the Market Commentary and Announcements sub sections in the Market Outlooks section of *mfs.com* or by clicking on the fund s name under Closed-End Funds in the Products section of *mfs.com*.

Additional information about the fund (e.g. performance, dividends and the fund s price history) is also available by clicking on the fund s name under Closed-End Funds in the Products section of *mfs.com*.

## FEDERAL TAX INFORMATION (unaudited)

The fund will notify shareholders of amounts for use in preparing 2015 income tax forms in January 2016.

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rev. 3/11

# FACTS

**WHAT DOES MFS DO WITH YOUR PERSONAL INFORMATION?**

**Why?**

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

**What?**

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and account balances
- Account transactions and transaction history
- Checking account information and wire transfer instructions

When you are *no longer* our customer, we continue to share your information as described in this notice.

**How?**

All financial companies need to share customers personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers personal information; the reasons MFS chooses to share; and whether you can limit this sharing.

| Reasons we can share your personal information | Does MFS share? | Can you limit this sharing? |
|---|---|---|
| **For our everyday business purposes** such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus | Yes | No |
| **For our marketing purposes** to offer our products and services to you | No | We don t share |
| **For joint marketing with other financial companies** | No | We don t share |
| **For our affiliates everyday business purposes** information about your transactions and experiences | No | We don t share |
| **For our affiliates everyday business purposes** information about your creditworthiness | No | We don t share |

| | | |
|---|---|---|
| **For nonaffiliates to market to you** | No | We don t share |

| | |
|---|---|
| **Questions?** | Call **800-225-2606** or go to **mfs.com**. |

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**Page 2**

| Who we are | |
|---|---|
| **Who is providing this notice?** | MFS Funds, MFS Investment Management, MFS Institutional Advisors, Inc., MFS Fund Distributors, Inc., MFS Heritage Trust Company, and MFS Service Center, Inc. |

| What we do | |
|---|---|
| **How does MFS protect my personal information?** | To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include procedural, electronic, and physical safeguards for the protection of the personal information we collect about you. |
| **How does MFS collect my personal information?** | We collect your personal information, for example, when you<br>open an account or provide account information<br>direct us to buy securities or direct us to sell your securities<br>make a wire transfer<br>We also collect your personal information from others, such as credit bureaus, affiliates and other companies. |
| **Why can t I limit all sharing?** | Federal law gives you the right to limit only<br>sharing for affiliates everyday business purposes information about your creditworthiness<br>affiliates from using your information to market to you<br>sharing for nonaffiliates to market to you<br>State laws and individual companies may give you additional rights to limit sharing. |

| Definitions | |
|---|---|
| **Affiliates** | Companies related by common ownership or control. They can be financial and nonfinancial companies. |

| | |
|---|---|
| | *MFS does not share personal information with affiliates, except for everyday business purposes as described on page one of this notice.* |
| **Nonaffiliates** | Companies not related by common ownership or control. They can be financial and nonfinancial companies. |
| | *MFS does not share with nonaffiliates so they can market to you.* |
| **Joint Marketing** | A formal agreement between nonaffiliated financial companies that together market financial products or services to you. |
| | *MFS doesn t jointly market.* |

## Other important information

If you own an MFS product or receive an MFS service in the name of a third party such as a bank or broker-dealer, their privacy policy may apply to you instead of ours.

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# CONTACT US

**TRANSFER AGENT, REGISTRAR, AND**

**DIVIDEND DISBURSING AGENT**

**CALL**

1-800-637-2304

9 a.m. to 5 p.m. Eastern time

**WRITE**

Computershare Trust Company, N.A.

P.O. Box 43078

Providence, RI 02940-3078

New York Stock Exchange Symbol: **MIN**

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**ITEM 2. CODE OF ETHICS.**

The Registrant has adopted a Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act and as defined in Form N-CSR that applies to the Registrant s principal executive officer and principal financial and accounting officer. During the period covered by this report, the Registrant has not amended any provision in its Code of Ethics (the Code ) that relates to an element of the Code s definitions enumerated in paragraph (b) of Item 2 of this Form N-CSR. During the period covered by this report, the Registrant did not grant a waiver, including an implicit waiver, from any provision of the Code.

A copy of the Code of Ethics is filed as an exhibit to this Form N-CSR.

**ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.**

Messrs. Robert E. Butler, John P. Kavanaugh and Robert W. Uek and Mses. Maryanne L. Roepke and Laurie J. Thomsen, members of the Audit Committee, have been determined by the Board of Trustees in their reasonable business judgment to meet the definition of audit committee financial expert as such term is defined in Form N-CSR. In addition, Messrs. Butler, Kavanaugh and Uek and Mses. Roepke and Thomsen are independent members of the Audit Committee (as such term has been defined by the Securities and Exchange Commission in regulations implementing Section 407 of the Sarbanes-Oxley Act of 2002). The Securities and Exchange Commission has stated that the designation of a person as an audit committee financial expert pursuant to this Item 3 on the Form N-CSR does not impose on such a person any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the Audit Committee and the Board of Trustees in the absence of such designation or identification.

**ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

**Items 4(a) through 4(d) and 4(g):**

The Board of Trustees has appointed Deloitte & Touche LLP ( Deloitte ) to serve as independent accountants to the Registrant (hereinafter the Registrant or the Fund ). The tables below set forth the audit fees billed to the Fund as well as fees for non-audit services provided to the Fund and/or to the Fund s investment adviser, Massachusetts Financial Services Company ( MFS ) and to various entities either controlling, controlled by, or under common control with MFS that provide ongoing services to the Fund ( MFS Related Entities ).

For the fiscal years ended October 31, 2015 and 2014, audit fees billed to the Fund by Deloitte were as follows:

| | Audit Fees | |
|---|---|---|
| | **2015** | **2014** |
| **Fees billed by Deloitte:** | | |
| MFS Intermediate Income Trust | 60,484 | 59,221 |

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For the fiscal years ended October 31, 2015 and 2014, fees billed by Deloitte for audit-related, tax and other services provided to the Fund and for audit-related, tax and other services provided to MFS and MFS Related Entities were as follows:

| | Audit-Related Fees[1] | | Tax Fees[2] | | All Other Fees[3] | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **Fees billed by Deloitte:** | | | | | | |
| To MFS Intermediate Income Trust | 10,000 | 10,000 | 6,221 | 6,117 | 517 | 1,721 |

| | Audit-Related Fees[1] | | Tax Fees[2] | | All Other Fees[3] | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **Fees billed by Deloitte:** | | | | | | |
| To MFS and MFS Related Entities of MFS Intermediate Income Trust* | 628,289 | 1,671,337 | 0 | 0 | 5,000 | 0 |

| | Aggregate Fees for Non-audit Services | |
|---|---|---|
| | 2015 | 2014 |
| **Fees Billed by Deloitte:** | | |
| To MFS Intermediate Income Trust, MFS and MFS Related Entities# | 650,027 | 1,692,513 |

* This amount reflects the fees billed to MFS and MFS Related Entities for non-audit services relating directly to the operations and financial reporting of the Fund (portions of which services also related to the operations and financial reporting of other funds within the MFS Funds complex).

# This amount reflects the aggregate fees billed by Deloitte for non-audit services rendered to the Fund and for non-audit services rendered to MFS and the MFS Related Entities.

1 The fees included under Audit-Related Fees are fees related to assurance and related services that are reasonably related to the performance of the audit or review of financial statements, but not reported under Audit Fees, including accounting consultations, agreed-upon procedure reports, attestation reports, comfort letters and internal control reviews.

2 The fees included under Tax Fees are fees associated with tax compliance, tax advice and tax planning, including services relating to the filing or amendment of federal, state or local income tax returns, regulated investment company qualification reviews and tax distribution and analysis.

3 The fees included under All Other Fees are fees for products and services provided by Deloitte other than those reported under Audit Fees, Audit-Related Fees and Tax Fees, including fees for services related to review of internal controls and review of Rule 38a-1 compliance program.

**Item 4(e)(1):**

Set forth below are the policies and procedures established by the Audit Committee of the Board of Trustees relating to the pre-approval of audit and non-audit related services:

To the extent required by applicable law, pre-approval by the Audit Committee of the Board is needed for all audit and permissible non-audit services rendered to the Fund and all permissible non-audit services rendered to MFS or MFS Related Entities if the services relate directly to the operations and financial reporting of the Registrant. Pre-approval is currently on an engagement-by-engagement basis. In the event pre-approval of such services is necessary between regular meetings of the Audit Committee and it is not practical to wait to seek pre-approval at the next regular meeting of the Audit Committee, pre-approval of such services may be referred to the Chair of the Audit Committee for approval; provided that the Chair may not pre-approve any individual engagement for such services exceeding $50,000 or multiple engagements for such services in the aggregate exceeding $100,000 between such regular meetings of the Audit Committee. Any engagement pre-approved by the Chair between regular meetings of the Audit Committee shall be presented for ratification by the entire Audit Committee at its next regularly scheduled meeting.

**Item 4(e)(2):**

None, or 0%, of the services relating to the Audit-Related Fees, Tax Fees and All Other Fees paid by the Fund and MFS and MFS Related Entities relating directly to the operations and financial reporting of the Registrant disclosed above were approved by the audit committee pursuant to paragraphs (c)(7)(i)(C) of Rule 2-01 of Regulation S-X (which permits audit committee approval after the start of the engagement with respect to services other than audit, review or attest services, if certain conditions are satisfied).

**Item 4(f):** Not applicable.

**Item 4(h):** The Registrant s Audit Committee has considered whether the provision by a Registrant s independent registered public accounting firm of non-audit services to MFS and MFS Related Entities that were not pre-approved by the Committee (because such services were provided prior to the effectiveness of SEC rules requiring pre-approval or because such services did not relate directly to the operations and financial reporting of the Registrant) was compatible with maintaining the independence of the independent registered public accounting firm as the Registrant s principal auditors.

**ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.**

The Registrant has an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Messrs. Robert E. Butler, John P. Kavanaugh, and Robert W. Uek and Mses. Maryanne L. Roepke and Laurie J. Thomsen.

**ITEM 6. SCHEDULE OF INVESTMENTS**

A schedule of investments of the Registrant is included as part of the report to shareholders of the Registrant under Item 1 of this Form N-CSR.

**ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.**

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***MASSACHUSETTS FINANCIAL SERVICES COMPANY***

**PROXY VOTING POLICIES AND PROCEDURES**

**February 1, 2015**

Massachusetts Financial Services Company, MFS Institutional Advisors, Inc., MFS International (UK) Limited, MFS Heritage Trust Company, MFS Investment Management (Canada) Limited, MFS Investment Management Company (Lux) S.à r.l., MFS International Singapore Pte. Ltd., MFS Investment Management K.K., and MFS other subsidiaries that perform discretionary investment management activities (collectively, MFS ) have adopted proxy voting policies and procedures, as set forth below ( MFS Proxy Voting Policies and Procedures ), with respect to securities owned by the clients for which MFS serves as investment adviser and has the power to vote proxies, including the pooled investment vehicles sponsored by MFS (the MFS Funds ). References to clients in these policies and procedures include the MFS Funds and other clients of MFS, such as funds organized offshore, sub-advised funds and separate account clients, to the extent these clients have delegated to MFS the responsibility to vote proxies on their behalf under the MFS Proxy Voting Policies and Procedures.

The MFS Proxy Voting Policies and Procedures include:

A. Voting Guidelines;

B. Administrative Procedures;

C Records Retention; and

D. Reports.

***A. VOTING GUIDELINES***

**1. General Policy; Potential Conflicts of Interest**

MFS policy is that proxy voting decisions are made in what MFS believes to be the best long-term economic interests of MFS clients, and not in the interests of any other party or iv style="overflow:hidden;font-size:10pt;">

6/4/2014

1,405

—

32

23 Mile Road Self Storage, LLC

Chesterfield, MI

8/19/2014

5,804

4,350

33

36th Street Self Storage, LLC

Wyoming, MI

8/19/2014

4,800

3,600

34

Ball Avenue Self Storage, LLC

Grand Rapids, MI

8/19/2014

7,281

5,460

S-32

| No. | Property Name | City | Acquisition Date | Purchase Price | Mortgage Outstanding |
|---|---|---|---|---|---|
| 35 | Ford Road Self Storage, LLC | Westland, MI | 8/29/2014 | 4,642 | 3,480 |
| 36 | Ann Arbor Kalamazoo Self Storage, LLC | Ann Arbor, MI | 8/29/2014 | 4,458 | 3,345 |
| 37 | Ann Arbor Kalamazoo Self Storage, LLC | Ann Arbor, MI | 8/29/2014 | 8,927 | 6,695 |
| 38 | Ann Arbor Kalamazoo Self Storage, LLC | Kalamazoo, MI | 8/29/2014 | 2,363 | 1,775 |
| 39 | Canterbury Green Apartments Holdings LLC | Fort Wayne, IN | 9/29/2014 | 85,500 | 74,258 |
| 40 | Abbie Lakes OH Partners, LLC | Canal Winchester, OH | 9/30/2014 | 12,600 | 10,440 |
| 41 | Kengary Way OH Partners, LLC | Reynoldsburg, OH | 9/30/2014 | 11,500 | 11,000 |
| 42 | Lakeview Trail OH Partners, LLC | Canal Winchester, OH | 9/30/2014 | 26,500 | 20,142 |
| 43 | Lakepoint OH Partners, LLC | Pickerington, OH | 9/30/2014 | 11,000 | 10,080 |
| 44 | Sunbury OH Partners, LLC | Columbus, OH | 9/30/2014 | 13,000 | 10,480 |
| 45 | Heatherbridge OH Partners, LLC | Blacklick, OH | 9/30/2014 | 18,416 | 15,480 |
| 46 | Jefferson Chase OH Partners, LLC | Blacklick, OH | 9/30/2014 | 13,551 | 12,240 |
| 47 | Goldenstrand OH Partners, LLC | Hilliard, OH | 10/29/2014 | 7,810 | 8,040 |
| 48 | Jolly Road Self Storage, LLC | Okemos, MI | 1/16/2015 | 7,492 | 5,620 |
| 49 | Eaton Rapids Road Self Storage, LLC | Lansing West, MI | 1/16/2015 | 1,741 | 1,305 |
| 50 | Haggerty Road Self Storage, LLC | Novi, MI | 1/16/2015 | 6,700 | 5,025 |
| 51 | Waldon Road Self Storage, LLC | Lake Orion, MI | 1/16/2015 | 6,965 | 5,225 |
| 52 | Tyler Road Self Storage, LLC | Ypsilanti, MI | 1/16/2015 | 3,507 | 2,630 |
| 53 | SSIL I, LLC | Aurora, IL | 11/5/2015 | 34,500 | 26,450 |
| 54 | Vesper Tuscaloosa, LLC | Tuscaloosa, AL | 9/28/2016 | 54,500 | 41,250 |
| 55 | Vesper Iowa City, LLC | Iowa City, IA | 9/28/2016 | 32,750 | 24,825 |
| 56 | Vesper Corpus Christi, LLC | Corpus Christi, TX | 9/28/2016 | 14,250 | 10,800 |
| 57 | Vesper Campus Quarters, LLC | Corpus Christi, TX | 9/28/2016 | 18,350 | 14,175 |
| 58 | Vesper College Station, LLC | College Station, TX | 9/28/2016 | 41,500 | 32,058 |
| 58 | Vesper Kennesaw, LLC | Kennesaw, GA | 9/28/2016 | 57,900 | 44,727 |
| 60 | Vesper Statesboro, LLC | Statesboro, GA | 9/28/2016 | 7,500 | 6,087 |
| 61 | Vesper Manhattan KS, LLC | Manhattan, KS | 9/28/2016 | 23,250 | 18,460 |
| | | | | 1,450,441 | 1,164,155 |

The Board of Directors increased the fair value of our investment in NPRC to $979,990 as of September 30, 2016, a premium of $147,429 from its amortized cost, compared to the $116,557 unrealized appreciation, inclusive of APRC and UPRC, recorded at June 30, 2016. This increase is primarily due to improved operating performance at the property level.

NMMB, Inc.

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

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 $9,883, representing a discount of 58% to its amortized cost basis, as of September 30, 2016, from $10,007, representing a discount of 58% to its amortized cost

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basis, as of June 30, 2016. 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 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 September 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 pullback in capital and maintenance spending across the energy sector. In addition the company did not benefit from any large emergency response projects. As a result a number of changes have been made to position the company for growth again. The Company has replaced the CEO and CFO. Under the new leadership, the company is now operating under a right sized cost structure. The company is also improving its fleet of equipment with support from Prospect and other financing sources. Management has implemented a new sales strategy that is helping build the company's revenue backlog across multiple end markets and service lines.

Due to increased margin on projects outweighing the effects of the softening energy markets, the Board of Directors determined the fair value of our investment in USES to be $42,387 as of September 30, 2016, a discount of $19,339 from its amortized cost, compared to the $21,440 unrealized depreciation recorded at June 30, 2016.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric as of September 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 $30,531 as of September 30, 2016, a discount of $30,302 from its amortized cost, compared to the $29,345 unrealized depreciation recorded at June 30, 2016.

Equity positions in our portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results and market multiples. Several of our controlled companies experienced such volatility and we recorded corresponding fluctuations in valuations during the three months ended September 30, 2016. See above for discussions regarding the fluctuations in Arctic Energy, CP Energy, First Tower Finance, Freedom Marine, Gulf Coast, NMMB, NPRC, USES and Valley Electric. In total, eight of the controlled investments are valued at the original investment amounts or higher, and nine of the controlled investments have been valued at discounts to the original cost basis. Overall, at September 30, 2016, control investments are valued at $2,405 below their amortized cost.

Our one affiliate investment, Targus, did not experience a significant change in valuation during the three months ended September 30, 2016 and was valued at $1,564 below its amortized cost.

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan's par value, plus any prepayment premium that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/non-affiliate investments did not experience significant changes and are generally performing as expected or better. 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 $34,377 and $15,272, respectively, as of September 30, 2016 due to a decline in operating results from softness of the energy markets. During the three months ended September 30, 2016, the value of our CLO residual interest investments decreased by $23,564 primarily due to a slight increase in defaults and ratings migration in the underlying collateral and an increase in the LIBOR rate. Overall, at September 30, 2016, non-control/non-affiliate investments are valued $40,572 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 September 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 April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in March 2013, April 2014, December 2015, and from time to time, through our 2024 Notes Follow-on Program; and Prospect Capital InterNotes® which we issue from time to time. Our equity capital is comprised entirely of common equity.

The following table shows our outstanding debt as of September 30, 2016.

| | September 30, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Principal Outstanding | Unamortized Discount & Debt Issuance Costs | Net Carrying Value | | Fair Value (1) | | Effective Interest Rate | | |
| Revolving Credit Facility (2) | $44,000 | $ 6,834 | $44,000 | (3) | $44,000 | | 1ML+2.25% | | (6) |
| | | | | | | | | | |
| 2017 Notes | 129,500 | 693 | 128,807 | | 132,090 | (4) | 5.91 | % | (7) |
| 2018 Notes | 200,000 | 1,860 | 198,140 | | 205,450 | (4) | 6.42 | % | (7) |
| 2019 Notes | 200,000 | 2,682 | 197,318 | | 206,500 | (4) | 6.51 | % | (7) |
| 2020 Notes | 392,000 | 8,025 | 383,975 | | 397,880 | (4) | 5.38 | % | (7) |
| Convertible Notes | 921,500 | | 908,240 | | 941,920 | | | | |
| | | | | | | | | | |
| 2023 Notes | 250,000 | 4,528 | 245,472 | | 250,000 | (4) | 6.22 | % | (7) |
| 5.00% 2019 Notes | 300,000 | 2,288 | 297,712 | | 306,975 | (4) | 5.29 | % | (7) |
| 2024 Notes | 199,281 | 5,644 | 193,637 | | 204,303 | (4) | 6.52 | % | (7) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Public Notes | 749,281 | | 736,821 | 761,278 | | | |
| Prospect Capital InterNotes® | 945,746 | 14,932 | 930,814 | 952,054 | (5) | 5.71 | %(8) |
| Total | $2,660,527 | | $2,619,875 | $2,699,252 | | | |

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(1) As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® at fair value. The fair value of these debt obligations are categorized as Level 2 under ASC 820 as of September 30, 2016.
(2) The maximum draw amount of the Revolving Credit facility as of September 30, 2016 is $885,000.
(3) Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Critical Accounting Policies and Estimates for accounting policy details.
(4) We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.
(5) The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates.
(6) For the Revolving Credit Facility, we have adjusted the stated rate as the fees are amortized on a straight-line method over the stated life of the obligation.
(7) The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.
(8) For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate.

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of September 30, 2016.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility | $44,000 | $ — | $— | $44,000 | $— |
| Convertible Notes | 921,500 | — | 529,500 | 392,000 | — |
| Public Notes | 749,281 | — | 300,000 | — | 449,281 |
| Prospect Capital InterNotes® | 945,746 | 8,819 | 270,957 | 385,415 | 280,555 |
| Total Contractual Obligations | $2,660,527 | $ 8,819 | $1,100,457 | $821,415 | $729,836 |

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2016.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility | $— | $— | $— | $— | $— |
| Convertible Notes | 1,089,000 | 167,500 | 529,500 | 392,000 | — |
| Public Notes | 711,380 | — | — | 300,000 | 411,380 |
| Prospect Capital InterNotes® | 908,808 | 8,819 | 257,198 | 360,599 | 282,192 |
| Total Contractual Obligations | $2,709,188 | $176,319 | $786,698 | $1,052,599 | $693,572 |

Historically, we have funded a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to $5,000,000 less issuances to date. As of September 30, 2016, we can issue up to $4,730,685 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

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

Revolving Credit Facility

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

On August 29, 2014, we renegotiated the 2012 Facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” and collectively with the 2012 Facility, the “Revolving Credit Facility”). The lenders have extended commitments of $885,000 under the 2014 Facility as of September 30, 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 September 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. Additionally, the lenders charge a fee on the unused portion of the 2014 Facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise. The 2014 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

As of September 30, 2016 and June 30, 2016, we had $658,173 and $538,456, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was $44,000 and $0, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of $885,000. As of September 30, 2016, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of $1,478,009, which represents 23.7% 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 $6,834 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2016.

During the three months ended September 30, 2016 and September 30, 2015, we recorded $2,963 and $3,701, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Convertible Notes

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

On February 18, 2011, we issued $172,500 aggregate principal amount of convertible notes that mature on August 15, 2016 (the “2016 Notes”), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear interest at a rate of 5.50% per year, payable semi-annually on February 15 and August 15 of each year, beginning August 15, 2011. Total proceeds from the issuance of the 2016 Notes, net of underwriting discounts and offering costs, were $167,325. Between January 30, 2012 and February 2, 2012, we repurchased $5,000 aggregate principal amount of the 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing $10 of loss in the year ended June 30, 2012. On August 15, 2016, we repaid the outstanding principal amount of the 2016 Notes, plus interest. No gain or loss was realized on the transaction.

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On April 16, 2012, we issued $130,000 aggregate principal amount of convertible notes that mature on October 15, 2017 (the “2017 Notes”), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were $126,035. On March 28, 2016, we repurchased $500 aggregate principal amount of the 2017 Notes at a price of 98.25, including commissions. The transaction resulted in our recognizing a $9 gain for the period ended March 31, 2016.

On August 14, 2012, we issued $200,000 aggregate principal amount of convertible notes that mature on March 15, 2018 (the “2018 Notes”), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were $193,600.

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

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

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

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

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

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

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

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

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

No holder of Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. We will not issue any shares in connection with the conversion or redemption of the Convertible Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

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

In connection with the issuance of the Convertible Notes, we incurred $29,112 of fees which are being amortized over the terms of the notes, of which $13,260 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of September 30, 2016.

During the three months ended September 30, 2016 and September 30, 2015, we recorded $14,713 and $18,729, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Public Notes

On March 15, 2013, we issued $250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "2023 Notes"). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were $243,641.

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

On December 10, 2015, we issued $160,000 aggregate principal amount of unsecured notes that mature on June 15, 2024 (the "2024 Notes"). The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning March 15, 2016. Total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, were $155,043. On June 16, 2016, we entered into an at-the-market program with FBR Capital Markets & Co. through which we could sell, by means of at-the-market offerings, from time to time, up to $100,000 in aggregate principal amount of our existing 2024 Notes. During the three months ended September 30, 2016, we issued $37,901 in aggregate principal amount under our 2024 Notes Follow-on Program for net proceeds of $37,425 after commissions and offering costs. As of September 30, 2016, total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, was $193,637.

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 $13,580 of fees which are being amortized over the term of the notes, of which $10,366 remains to be amortized and is included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities as of September 30, 2016.

During the three months ended September 30, 2016 and September 30, 2015, we recorded $10,780 and $7,821, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

Prospect Capital InterNotes®

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

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

During the three months ended September 30, 2016, we issued $38,917 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $38,435. These notes were issued with stated interest rates ranging from 5.00% to 5.50% with a weighted average interest rate of 5.42%. These notes mature between July 15, 2021 and September 15, 2021.
During the three months ended September 30, 2015, we issued $48,134 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $47,381. These notes were issued with stated interest rates ranging from 4.63% to 5.25% with a weighted average interest rate of 5.06%. These notes mature between July 15, 2020 and March 15, 2022. The following table summarizes the Prospect Capital InterNotes® issued during the three months ended September 30, 2015.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | | Maturity Date Range |
|---|---|---|---|---|---|
| 5 | $17,784 | 4.63%–4.75% | 4.74 | % | July 15, 2020 – September 15, 2020 |
| 6.5 | 30,350 | 5.10%–5.25% | 5.24 | % | January 15, 2022 – March 15, 2022 |
| | $48,134 | | 0.051 | | |

During the three months ended September 30, 2016, we repaid $1,979 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor’s Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended September 30, 2016 was $61. The following table summarizes the Prospect Capital InterNotes® outstanding as of September 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 | 297,916 | 4.25%–5.50% | 5.01 | % | July 15, 2018 – September 15, 2021 |
| 5.2 | 4,440 | 4.63% | 4.63 | % | August 15, 2020 – September 15, 2020 |
| 5.3 | 2,686 | 4.63% | 4.63 | % | September 15, 2020 |
| 5.4 | 5,000 | 4.75% | 4.75 | % | August 15, 2019 |
| 5.5 | 109,718 | 4.25%–5.00% | 4.65 | % | February 15, 2019 – November 15, 2020 |
| 6 | 2,197 | 3.38% | 3.38 | % | April 15, 2021 – May 15, 2021 |
| 6.5 | 40,817 | 5.10%–5.50% | 5.24 | % | February 15, 2020 – May 15, 2022 |
| 7 | 192,016 | 4.00%–6.55% | 5.13 | % | June 15, 2019 – December 15, 2022 |
| 7.5 | 1,996 | 5.75% | 5.75 | % | February 15, 2021 |
| 10 | 37,519 | 3.85%–7.00% | 6.13 | % | 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 | 22,238 | 4.13%–6.25% | 5.53 | % | December 15, 2030 – August 15, 2031 |
| 20 | 4,452 | 5.63%–6.00% | 5.89 | % | November 15, 2032 – October 15, 2033 |
| 25 | 35,015 | 6.25%–6.50% | 6.39 | % | August 15, 2038 – May 15, 2039 |
| 30 | 114,924 | 5.50%–6.75% | 6.23 | % | November 15, 2042 – October 15, 2043 |
| | $945,746 | | | | |

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

The following table summarizes the Prospect Capital InterNotes® outstanding as of 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 |
| 5.20 | 4,440 | 4.63% | 4.63 | % | August 15, 2020 – September 15, 2020 |
| 5.3 | 2,686 | 4.63% | 4.63 | % | September 15, 2020 |
| 5 | 5,000 | 4.75% | 4.75 | % | August 15, 2019 |
| 5.5 | 109,808 | 4.25%–5.00% | 4.65 | % | February 15, 2019 – November 15, 2020 |
| 6 | 2,197 | 3.38% | 3.38 | % | April 15, 2021 – May 15, 2021 |
| 6.5 | 40,867 | 5.10%–5.50% | 5.24 | % | February 15, 2020 – May 15, 2022 |
| 7 | 192,076 | 4.00%–6.55% | 5.13 | % | June 15, 2019 – December 15, 2022 |
| 8 | 1,996 | 5.75% | 5.75 | % | February 15, 2021 |
| 10 | 37,533 | 3.62%–7.00% | 6.11 | % | March 15, 2022 – December 15, 2025 |
| 12 | 2,978 | 6.00% | 6.00 | % | November 15, 2025 – December 15, 2025 |
| 15 | 17,325 | 5.25%–6.00% | 5.36 | % | May 15, 2028 – November 15, 2028 |
| 18 | 22,303 | 4.13%–6.25% | 5.53 | % | December 15, 2030 – August 15, 2031 |
| 20 | 4,462 | 5.63%–6.00% | 5.89 | % | November 15, 2032 – October 15, 2033 |
| 25 | 35,110 | 6.25%–6.50% | 6.39 | % | August 15, 2038 – May 15, 2039 |
| 30 | 116,327 | 5.50%–6.75% | 6.23 | % | November 15, 2042 – October 15, 2043 |
| | $908,808 | | | | |

In connection with the issuance of Prospect Capital InterNotes®, we incurred $22,797 of fees which are being amortized over the term of the notes, of which $14,932 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of September 30, 2016. During the three months ended September 30, 2016 and September 30, 2015, we recorded $13,213 and $11,706 , respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Net Asset Value

During the three months ended September 30, 2016, our net asset value was stable on a dollars basis and decreased by $0.02 per share, primarily due to distributions to our shareholders exceeding net investment income. Our net investment income decreased primarily from a decrease in interest and other income following the sale of Harbortouch in May 2016. This decrease was partially offset by the increased earnings from new non-control investments during three months ended September 30, 2016 and lower management fees. The following table shows the calculation of net asset value per share as of September 30, 2016 and June 30, 2016.

| | September 30, 2016 | June 30, 2016 |
|---|---|---|
| Net assets | $3,435,609 | $3,435,917 |
| Shares of common stock issued and outstanding | 358,042,158 | 357,107,231 |
| Net asset value per share | $9.60 | $9.62 |

Results of Operations

Net increase in net assets resulting from operations for the three months ended September 30, 2016 and September 30, 2015 was $81,366 and $27,817. During the three months ended September 30, 2016 the $53,549 increase is primarily due to a $65,918 favorable increase in net realized and unrealized losses on investments when comparing results for the three months ended September 30, 2016 and September 30, 2015. This $65,918 increase is due to a favorable decrease in unrealized losses on our investments.

While we seek to maximize gains and minimize losses, our investments in portfolio companies can expose our capital to risks greater than those we may anticipate. These companies typically do not issue securities rated investment grade, and have limited resources, limited operating history, and concentrated product lines or customers. These are generally private companies with limited operating information available and are likely to depend on a small core of management talents. Changes in any of these factors can have a significant impact on the value of the portfolio company.

Investment Income

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was $179,832 and $200,251 for the three months ended September 30, 2016 and September 30, 2015, respectively. Investment income decreased during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to a decrease in interest income. The following table describes the various components of investment income and the related levels of debt investments:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Interest income | $171,650 | $191,303 |
| Dividend income | 2,384 | 3,215 |
| Other income | 5,798 | 5,733 |
| Total investment income | $179,832 | $200,251 |
| | | |
| Average debt principal of performing investments | $5,688,154 | $6,385,514 |
| Weighted average interest rate earned on performing debt and equity investments | 12.07 % | 11.98 % |

Average interest income producing assets decreased from $6,385,514 for the three months ended September 30, 2015 to $5,688,154 for the three months ended September 30, 2016. The average interest earned on interest bearing performing assets increased from 11.98% for the three months ended September 30, 2015 to 12.07% for the three months ended September 30, 2016. This increase is primarily due to repayments of lower yielding portfolio investments.

Investment income is also generated from dividends and other income which is less predictable than interest income. Dividend income decreased from $3,215 for the three months ended September 30, 2015 to $2,384 for the three months ended September 30, 2016. The $831 decrease in dividend income is primarily attributed to an overall decrease in the level of dividends received from our controlled portfolio investments. The level of dividends received from our investment in CCPI decreased $2,659 during the three months ended September 30, 2016 as compared to the same period in the prior year. This decrease in dividend income was partially offset by an increase in the level of dividends received from our investment in Nationwide of $1,485 during the three months ended September 30, 2016 as compared to the same period in the prior year.

Other income has come primarily from structuring fees, which are generated from originations and will fluctuate as levels of originations and types of originations fluctuate. Income from other sources was $5,798 and $5,733 for the three months ended September 30, 2016 and September 30, 2015, respectively, holding consistent at approximately $0.02 per weighted average shares outstanding. Included within other income is $4,476 and $3,642 of structuring fees for the three months ended September 30, 2016 and 2015, respectively, consistent with a comparable level of originations. Total originations were $347,150 and $345,743 for the three months ended September 30, 2016 and September 30, 2015, respectively.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate the Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were $100,913 and $109,009 for the three months ended September 30, 2016 and September 30, 2015, respectively.

The net base management fee was $30,792 and $32,954 for the three months ended September 30, 2016 and September 30, 2015, respectively. The changes are directly related to the level of our total assets.

The Investment Adviser has entered into a servicing agreement with certain institutions, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. We received payments of $548 and $462 from these institutions for the three months ended September 30, 2016 and September 30, 2015, respectively, on behalf of the Investment Adviser for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net total base management fees of $30,792 and $32,954 for the three months ended September 30, 2016 and September 30, 2015, respectively. The total gross base management fee incurred to the favor of the Investment Adviser was $31,340 and $33,416 for the three months ended September 30, 2016 and September 30, 2015, respectively.

For the three months ended September 30, 2016 and September 30, 2015, we incurred $19,730 and $22,810 of income incentive fees, respectively. For the three months ended September 30, 2016, the pre-incentive fee net investment income was $0.28 per weighted average share ($0.04 less than three months ended September 30, 2015) due to a year over year decrease in interest income primarily due a decrease in interest and other income due to repayments on investments and a decrease in interest income due to increased default rates in the underlying collateral of our CLO investments. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended September 30, 2016 and September 30, 2015, we incurred $41,669 and $41,957, respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Notes"). These expenses are related directly to the leveraging capacity put into place for each of those years and the levels of indebtedness actually undertaken in those years.

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Interest on borrowings | $35,714 | $37,316 |
| Amortization of deferred financing costs | 3,634 | 3,556 |
| Accretion of discount on Public Notes | 64 | 49 |
| Facility commitment fees | 2,257 | 1,036 |
| Total interest and credit facility expenses | $41,669 | $41,957 |
| | | |
| Average principal debt outstanding | $2,667,420 | $2,956,726 |
| Weighted average stated interest rate on borrowings(1) | 5.36 % | 5.05 % |
| Weighted average interest rate on borrowings(2) | 6.25 % | 5.68 % |

(1) Includes only the stated interest expense.

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

Interest expense is relatively stable for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn

facility fees) increased from 5.05% for the three months ended September 30, 2015 to 5.36% for the three months ended September 30, 2016. This increase is primarily due to issuances of the 2024 Notes at higher rates.
The allocation of gross overhead expense from Prospect Administration was $4,871 and $5,876 for the three months ended September 30, 2016 and 2015, respectively. Prospect Administration received estimated payments of $1,338 and $1,698 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the three months ended September 30, 2016 and 2015, respectively. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration, resulting in net overhead expense of $3,533 and $4,178 during the three months ended September 30, 2016 and 2015, respectively. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration ("Other Operating Expenses") was $5,189 and $7,110 for the three months ended September 30, 2016 and September 30, 2015, respectively. The decrease of $1,921 during the three months ended September 30, 2016 is primarily due to a decrease in other general and administrative expenses from tax related expenses in our controlled companies.

Net Investment Income
Net investment income represents the difference between investment income and operating expenses. Net investment income was $78,919 and $91,242 and for three months ended September 30, 2016 and September 30, 2015, respectively. Net investment income for three months ended September 30, 2016 and September 30, 2015 was $0.22 and $0.26 per weighted average share, respectively. During the three months ended September 30, 2016, the decrease is primarily due to a $19,653 , or $0.06 per weighted average share, decrease in interest and other income due to repayments on investments and a decrease in interest income due to increased default rates in the underlying collateral of our CLO investments. This decrease was offset by a $5,242, or $0.02 per weighted average share, decrease in total advisory fees.
Net Realized Gains/Losses
During the three months ended September 30, 2016, we recognized a net realized gain of $714, as compared to the $2,135 of net realized losses recognized during three months ended September 30, 2015. The net realized gain during the three months ended September 30, 2016 was primarily due to the receipt of bankruptcy proceeds from our investment in New Century Transportation, Inc. of $936, as well as from the sales of our investments in Biotronic, Big Tex and Nathan's for which we recognized total realized gains of $514. These gains were offset by the write-off of defaulted loans in our small business lending portfolio of $740.
Net Change in Unrealized Gains (Losses )
Net change in unrealized gains (losses) was $1,794 and $(61,275) for the three months ended September 30, 2016 and September 30, 2015, respectively. The variability in results is primarily due to the valuation of equity positions in our controlled company portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the three months ended September 30, 2016, the $1,794 change in net unrealized gains was driven primarily due to improved operating performance in our controlled companies comprising $13,366 of total net change in unrealized gains, along with certain non-controlled investments - Pacific World Corporation, LaserShip, Capstone Logistics Acquisition, Inc., and Arctic Glacier - comprising $12,093 of total net change in unrealized gains. These combined unrealized gains were partially offset by unrealized losses in our CLO portfolio primarily due to a slight increase in defaults and ratings migration in the underlying collateral and an increase in the LIBOR rate.
For the three months ended September 30, 2015, the $(61,275) net change in unrealized losses was primarily the result of market fluctuations and the competitive environment faced by our energy-related companies. Unrealized losses on our CLO debt and equity investments comprised $13,053 of total net change in unrealized losses, and unrealized losses on our energy-related investments comprised $9,100 of total net change in unrealized losses for the three months ended September 30, 2015. Additionally, during the three months ended September 30, 2015, we reduced the value of our investment in Harbortouch by $17,290 due to then current market developments and our investment in LaserShip by $4,418 due to declining operating results. The value of our investment in Echelon decreased by $8,388

due to an early lease termination for one aircraft. Due to an increase in the observed market cap rate for our largest property under NPRC and an increase in the market yield for the online consumer loans, we reduced the value of our investment in NPRC by $11,025.

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Financial Condition, Liquidity and Capital Resources

For the three months ended September 30, 2016 and September 30, 2015, our operating activities (used) provided $(53,833) and $244,354 of cash, respectively. There were no investing activities for the three months ended September 30, 2016 and September 30, 2015. Financing activities used $131,725 and $282,552 of cash during the three months ended September 30, 2016 and September 30, 2015, respectively, which included dividend payments of $81,596 and $85,755, respectively.

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

Our primary sources of funds have historically been issuances of debt and equity. More recently, we have and may continue to fund a portion of our cash needs through repayments and opportunistic sales of our existing investment portfolio. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the three months ended September 30, 2016, we borrowed $44,000 and did not may any repayments on the Revolving Credit Facility. As of September 30, 2016, we had, net of deferred financing cost and debt discount, $908,240 outstanding on the Convertible Notes, $736,821 outstanding on the Public Notes and $930,814 outstanding on the Prospect Capital InterNotes®, along with $44,000 outstanding on the Revolving Credit Facility. (See "Capitalization" above.)

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 6.00%. As of September 30, 2016 and June 30, 2016, we had $42,484 and $40,560, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. The fair value of our undrawn committed revolvers and delayed draw term loans was zero as of September 30, 2016 and June 30, 2016.

Our shareholders' equity accounts as of September 30, 2016 and June 30, 2016 reflect cumulative shares issued, net of shares repurchased, as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

As part of our Repurchase Program, we delivered a notice with our annual proxy mailing on September 23, 2015 and our most recent notice was delivered with a shareholder letter mailing on February 2, 2016. This notice extends for six months after the date that notice is delivered. We did not repurchase any shares of our common stock for the three months ended September 30, 2016. During the three months ended September 30, 2015, we repurchased 4,358,750 shares of our common stock pursuant to our publicly announced Repurchase Program for $31,530, or approximately $7.23 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 $0.04 for the three months ended September 30, 2015 as a result of the share repurchases.

On November 3, 2015, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $4,730,685 of additional debt and equity securities in the public market as of September 30, 2016. See Recent Developments for updates to our Registration Statement subsequent to September 30, 2016.

Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

On October 4, 2016, we made a $40,000 second lien senior secured investment to support the recapitalization of Coinstar, LLC, an automated network of self-service coin counting machines.

On October 5, 2016, Focus Brands, Inc. repaid the $18,000 loan receivable to us.

On October 7, 2016, we made an $11,500 second lien senior secured debt investment in Dunn Paper Holdings, Inc, a leading specialty packaging supplier, in support of an acquisition of the company.

On October 14, 2016, Trinity Services Group, Inc. repaid the $134,576 loan receivable to us.
On October 14, 2016, Security Alarm Financing Enterprise, L.P. repaid the $25,000 loan receivable to us.

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On October 14, 2016, Harbortouch repaid the $27,711 loan receivable to us.
On October 14, 2016, we provided $22,500 of second lien senior secured debt to support the refinancing of Vivid Seats LLC, a secondary marketplace for entertainment tickets.
On October 14, 2016, we received a partial repayment of $60,778 for the NPRC and its wholly-owned subsidiaries' loan previously outstanding and $2,222 as a return of capital on the equity investment in NPRC.
On October 20, 2016, we made a $50,000 second lien senior secured debt investment in Rocket to support an acquisition and dividend recapitalization.
On October 31, 2016, System One Holdings, LLC repaid the $104,553 loan receivable to us.
On November 1, 2016, we made a $13,000 second lien secured investment to support an acquisition of K&N Parent, Inc., a leader in aftermarket automotive performance filtration products.
On November 3, 2016, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $5,000,000 of additional debt and equity securities in the public market.
During the period from October 1, 2016 through November 10, 2016 we issued $16,177 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $15,975.
On November 8, 2016, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.08333 per share for November 2016 to holders of record on November 30, 2016 with a payment date of December 22, 2016;
- $0.08333 per share for December 2016 to holders of record on December 30, 2016 with a payment date of January 19, 2017; and
- $0.08333 per share for January 2017 to holders of record on January 31, 2017 with a payment date of February 16, 2017.

Critical Accounting Policies and Estimates

Basis of Presentation and Consolidation

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

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the three months ended September 30, 2016.

Use of Estimates

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

Investment Classification

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

Investment Transactions

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Amounts for investments recognized or derecognized but not yet settled are reported in due to broker or as a receivable for investments sold, respectively, in the Consolidated Statements of Assets and Liabilities.

Investment Risks

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

Market Risk

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

Credit Risk

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

Liquidity Risk

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

Interest Rate Risk

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

Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making us less likely to fully earn all of the expected income of that security and reinvesting in a lower yielding instrument.

Structured Credit Related Risk

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

Online consumer and Small and Medium Sized Business Risk

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

Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.
2. The independent valuation firms prepare independent valuations for each investment based on their own independent assessments and issue their report.
3. The Audit Committee of our Board of Directors reviews and discusses with the independent valuation firms the valuation reports, and then makes a recommendation to the Board of Directors of the value for each investment.
4. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

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

future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

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

Our investments in CLOs are classified as ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date (i.e., expected maturity). For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. Our valuation agent utilizes additional methods to validate the results from the discounted cash flow method, such as Monte Carlo simulations of key model variables, analysis of relevant data observed in the CLO market, and review of certain benchmark credit indices. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using appropriate market discount rates. We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold as those portfolios are managed by non-affiliated third party CLO collateral managers. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

Valuation of Other Financial Assets and Financial Liabilities

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

Convertible Notes

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

Revenue Recognition

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans using the effective interest method or straight-line, as applicable, and adjusted only for material amendments or prepayments. Upon a prepayment of a loan, prepayment premiums, OID, or market discounts are recorded as interest income. Other income generally includes amendment fees, commitment fees, administrative agent fees and structuring fees which are recorded when earned.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis depending upon management's judgment of the collectibility of the loan receivable. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, is likely to remain current. As of September 30, 2016, approximately 1.6% of our total assets at fair value are in non-accrual status.

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

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

Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income combined with prior year underdistributed taxable income could be in excess of estimated current year dividend distributions from such combined taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of September 30, 2016, we accrued $1,100 for any unpaid potential excise tax liability and have included this amount within other liabilities on the accompanying Consolidated Statements of Assets and Liabilities.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate income tax rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of September 30, 2016 and for the three months then ended, we did not record any unrecognized tax benefits or liabilities. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for our federal tax years ended August 31, 2013 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

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

Financing Costs

We record origination expenses related to our Revolving Credit Facility, and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes® and our 2024 Notes Follow-on Program. The effective interest method is used for our remaining Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, Modification and Extinguishments (“ASC 470-50”). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

For the year ending June 30, 2017, we have changed our method of presentation relating to debt issuance costs in accordance with ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). Prior to July 1, 2016, our policy was to present debt issuance costs in Deferred financing costs as an asset on the Consolidated Statements of Assets and Liabilities, net of accumulated amortization. Beginning with the period ended September 30, 2016, we have presented these costs, except those incurred by the Revolving Credit Facility, as a direct deduction to our Unsecured Notes. Unamortized deferred financing costs of $40,526, $44,140, $57,010, $37,607, and $15,693 previously reported as an asset on the Consolidated Statements of Assets and Liabilities for the years ended June 30, 2016, 2015, 2014, 2013, and 2012, respectively, have been reclassified as a direct deduction to the respective Unsecured Notes (see Notes 5, 6, and 7 in the accompanying Consolidated Financial Statements for further discussion).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of September 30, 2016 and June 30, 2016, there are no prepaid expenses related to registration expenses and all amounts incurred have been expensed.

Guarantees and Indemnification Agreements

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

Per Share Information

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

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments, which clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. ASU 2016-06 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses certain aspects of cash flow statement classification. One such amendment requires cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of the amended guidance in ASU 2016-15 is not expected to have a significant effect on our consolidated financial statements and disclosures.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. Interest rate sensitivity refers to the change in our earnings that may result from changes in the level of interest rates impacting some of the loans in our portfolio which have floating interest rates. Additionally, because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. See “Risk Factors - Risks Relating to Our Business - Changes in interest rates may affect our cost of capital and net investment income” in the accompanying prospectus.

Our debt investments may be based on floating rates or fixed rates. For our floating rate loans the rates are determined from the LIBOR, EURO Interbank Offer Rate, the Federal Funds Rate or the Prime Rate. The floating interest rate loans may be subject to a LIBOR floor. Our loans typically have durations of one to three months after which they reset to current market interest rates. As of September 30, 2016, 90.1% of the interest earning investments in our portfolio, at fair value, bore interest at floating rates.

We also have a revolving credit facility and certain Prospect Capital InterNotes® issuances that are based on floating LIBOR rates. Interest on borrowings under the revolving credit facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor and there is no outstanding balance as of September 30, 2016. Interest on five Prospect Capital InterNotes® is three-month LIBOR plus a range of 350 to 300 basis points with no minimum LIBOR floor. The Convertible Notes, Public Notes and remaining Prospect Capital InterNotes® bear interest at fixed rates.

The following table shows the approximate annual impact on net investment income of base rate changes in interest rates (considering interest rate flows for floating rate instruments, excluding our investments in CLO residual interests) to our loan portfolio and outstanding debt as of September 30, 2016, assuming no changes in our investment and borrowing structure:

| (in thousands)<br>Basis Point Change | Interest Income | Interest Expense | Net Income | Net Investment Income (1) |
|---|---|---|---|---|
| Up 300 basis points | $92,748 | $ 1,363 | $91,384 | $ 73,107 |
| Up 200 basis points | 54,474 | 909 | 53,565 | 42,852 |
| Up 100 basis points | 18,619 | 456 | 18,163 | 14,531 |
| Down 100 basis points | (220 ) | (246 ) | 26 | 21 |

(1) Includes the impact of income incentive fees. See Note 13 to our consolidated financial statements for the period ended September 30, 2016 for more information on the income incentive fees.

(2) As of September 30, 2016 one and three month LIBOR was 0.53% and 0.85%, respectively.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended September 30, 2016, we did not engage in hedging activities.

REGISTRATION AND SETTLEMENT

The Depository Trust Company

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

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

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

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

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

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

The following is based on information furnished by DTC:

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's direct participants deposit with DTC.

DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of the notes under the DTC system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The beneficial interest of each actual purchaser of each note is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase.

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Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in notes, except in the event that use of the book-entry system for the notes is discontinued.

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

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

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

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

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

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

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

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

Registration, Transfer and Payment of Certificated Notes

If we ever issue notes in certificated form, those notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have originally designated

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American Stock Transfer & Trust Company, LLC to act in those capacities for the notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any notes at any time.

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

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

SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

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

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

This discussion applies only to a holder of notes that acquires the notes pursuant to this offering at their "issue price" within the meaning of the applicable provisions of the Code and who holds the notes as a capital asset (generally, property held for investment) under the Code. This discussion does not address any U.S. federal estate or gift tax consequences or any state, local or non-U.S. tax consequences. In addition, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, including, but not limited to:

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

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

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

Consequences to U.S. Noteholders

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a U.S. noteholder. U.S. federal income tax consequences generally applicable to non-U.S. noteholders are described under "Consequences to Non-U.S. Noteholders" below. For purposes of this summary, the term "U.S. noteholder" means a beneficial owner of a note that is, for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the U.S., any of the States or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

Stated interest and OID on the notes

Except as discussed below, a U.S. noteholder generally will be required to recognize stated interest as ordinary income at the time it is paid or accrued on the notes in accordance with its regular method of accounting for U.S.

federal income tax purposes. In addition, if the notes' "issue price" (the first price at which a substantial amount of the notes is sold to investors) is less than their "stated redemption price at maturity" (the sum of all payments to be made on the notes other than "qualified stated interest") by more than a statutorily defined de minimis threshold, the notes will be issued with original issue discount

("OID") for U.S. federal income tax purposes. The term "qualified stated interest" generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, if certain requirements are met (as described below), certain variable rates.

If the notes are issued with OID, a U.S. noteholder generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such holder's regular method of tax accounting. Such OID will be included in gross income for each day during each taxable year in which the note is held using a constant yield-to-maturity method that reflects the compounding of interest. This means that the holder will have to include in income increasingly greater amounts of OID over time. Notice will be given in the applicable pricing supplement if we determine that a particular note will be issued with OID. We are required to provide information returns stating the amount of OID accrued on the notes held by persons of record other than certain exempt holders.

If the notes are "step-up notes" (i.e., notes with a fixed interest rate that increases at pre-determined intervals), the tax treatment described in the first sentence under "—Consequences to U.S. Noteholders—Stated interest and OID on the notes" assumes that we will have the right to call the notes at par (plus accrued but unpaid interest) on each date that the interest rate increases. If this is not the case, interest that exceeds the lowest rate payable under the step-up note may not be treated as qualified stated interest and, depending on the amount of such excess, may thus cause the step-up note to be treated as issued with OID, in which case the notes generally would be subject to the OID rules discussed above. Prospective investors are urged to consult their own tax advisors regarding the treatment of step-up notes or similar notes.

If you own a note issued with de minimis OID (i.e., discount that is not OID), you generally must include the de minimis OID in income at the time principal payments on the notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

Short-term notes

Notes that have a fixed maturity of one year or less ("short-term notes") will be subject to the following special rules. All of the interest on a short-term note is treated as part of the short-term note's stated redemption price at maturity, thereby giving rise to OID. Thus, all short-term notes will be OID debt securities. OID will be treated as accruing on a short-term debt instrument ratably or, at the election of a U.S. noteholder, under a constant yield method.

A U.S. noteholder that uses the cash method of tax accounting (with certain exceptions) will generally not be required to include OID in respect of the short-term note in income on a current basis, though they may be required to include stated interest in income as the income is received. Such a U.S. noteholder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such a short-term note until the maturity of the note or its earlier disposition in a taxable transaction. In addition, such a U.S. noteholder will be required to treat any gain realized on a disposition of the note as ordinary income to the extent of the holder's accrued OID on the note, and short-term capital gain to the extent the gain exceeds accrued OID. A U.S. noteholder that uses the cash method of tax accounting may, however, elect to include OID on a short-term note in income on a current basis. In such case, the limitation on the deductibility of interest described above will not apply. A U.S. noteholder that uses the accrual method of tax accounting and certain cash method holders generally will be required to include OID on a short-term note in income on a current basis.

Floating rate notes

In the case of a note that is a floating rate note (including a note based on LIBOR), special rules apply. In general, if a note qualifies for treatment as a "variable rate debt instrument" under Treasury Regulations and provides for stated interest that is unconditionally payable at least annually at a variable rate that, subject to certain exceptions, is a single "qualified floating rate" or "objective rate," each as defined below, all stated interest on the note is treated as qualified stated interest. In that case, both the note's "yield to maturity" and "qualified stated interest" will be determined, for purposes of calculating the accrual of OID, if any, as though the note will bear interest in all periods throughout its term at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its issue date or, in the case of an objective rate (other than a "qualified inverse floating rate"), the rate that reflects the yield to maturity that is reasonably expected for the note. A U.S. noteholder of a variable rate debt instrument would then recognize OID, if any, that is calculated based on the note's assumed yield to maturity. If the interest actually accrued or paid during an accrual period exceeds or is less than the assumed fixed interest, the qualified stated interest allocable to that period is increased or decreased under rules set forth in Treasury Regulations. Special rules apply for determining the amount of OID for other variable rate debt instruments, such as instruments with more than one qualified floating rate or instruments with a single fixed rate and one or more qualified floating rates. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding any investment in a note that qualifies a "variable rate debt instrument."

A note will generally qualify as a variable rate debt instrument if (a) the note's issue price does not exceed the total noncontingent principal payments by more than the lesser of: (i) .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or (ii) 15% of the total noncontingent principal payments; (b) the note provides for stated interest, compounded or paid at least annually, only at one or more qualified floating rates, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) the value of the rate on any date during the term of the note is set no earlier than three months prior to the first day on which that value is in effect or no later than one year following that first day.

Generally, a rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated. A rate that equals LIBOR or LIBOR plus or minus a fixed spread is, in general, a qualified floating rate. However, a rate (including a rate based on LIBOR) will generally not be a qualified floating rate if, among other circumstances:

- the rate is subject to one or more minimum or maximum rate floors or ceilings or one or more governors limiting the amount of increase or decrease in each case which are not fixed throughout the term of the note and which are reasonably expected as of the issue date to cause the rate in some accrual periods to be significantly higher or lower than the overall expected return on the note determined without the floor, ceiling, or governor; or
- the rate is a multiple of a qualified floating rate unless the multiple is a fixed multiple that is greater than 0.65 but not more than 1.35 (provided, however, that if a multiple of a qualified floating rate is not within such limits and thus is not itself a qualified floating rate, it may nevertheless qualify as an "objective rate").

If a note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of the note, the qualified floating rates together constitute a single qualified floating rate.

Generally, an objective rate is a rate that is determined using a single fixed formula that is based on objective financial or economic information such as one or more qualified floating rates. An objective rate is a qualified inverse floating rate if that rate is equal to a fixed rate minus a qualified floating rate and variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. A variable rate will generally not qualify as an objective rate if, among other circumstances, it is reasonably expected that the average value of the variable rate during the first half of the term of the note will be either significantly less than or significantly greater than the average value of the rate during the final half of the term of the note.

If a floating rate note does not qualify as a "variable rate debt instrument," the note generally will be subject to taxation under special rules applicable to contingent payment debt instruments. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding such notes.

Sale, exchange, redemption or other taxable disposition of the notes

Subject to the special rules for short-term notes discussed above, upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. noteholder generally will recognize capital gain or loss in an amount equal to the difference between (1) the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which, to the extent not previously included in income, generally will be taxable as ordinary income) and (2) its adjusted tax basis in the note. A U.S. noteholder's adjusted tax basis in a note generally will equal the price the U.S. noteholder paid for the note increased by OID (including with respect to a short-term note), if any, previously included in income with respect to that note, and reduced by any cash payments on the note other than qualified stated interest. Such capital gain or loss will be long-term capital gain or loss if, at the time of such taxable disposition, the U.S. noteholder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

Medicare tax

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

Information reporting and backup withholding

In general, information reporting requirements will apply to certain payments of principal and interest (including OID) and to the proceeds of sale of a note paid to a U.S. noteholder (unless such noteholder is an exempt recipient). A backup

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withholding tax may apply to such payments if a U.S. noteholder fails to provide a taxpayer identification number or certification of exempt status, or if it is otherwise subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

Consequences to Non-U.S. Noteholders

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a non-U.S. noteholder. A beneficial owner of a note that is not a partnership for U.S. federal income tax purposes (including any entity or arrangement otherwise treated as a partnership for U.S. federal income tax purposes) or a U.S. noteholder is referred to herein as a "non-U.S. noteholder."

Stated interest and OID on the notes

Stated interest and OID, if any, paid or accrued to a non-U.S. noteholder will generally not be subject to U.S. federal income or withholding tax if the interest or OID is not effectively connected with its conduct of a trade or business within the United States and is not considered contingent interest within the meaning of Section 871(h)(4)(A) of the Code (generally relating to interest payments that are determined by reference to the income, profits, receipts, cash flow, changes in the value of non-publicly-traded property or other attributes of, or distributions or similar payments paid by, the debtor or a related party), and the non-U.S. noteholder:

- does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;
- is not a "controlled foreign corporation" with respect to which we are, directly or indirectly, a "related person";
- is not a bank whose receipt of interest on the notes is described in section 881(c)(3)(A) of the Code; and
- provides its name and address, and certifies, under penalties of perjury, that it is not a U.S. person (on a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form)), or holds its notes through certain foreign intermediaries and satisfies the certification requirements of applicable Treasury Regulations.

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

Sale, exchange, redemption or other taxable disposition of the notes

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

- the gain is effectively connected with its conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment); or
- the non-U.S. noteholder is a nonresident alien individual present in the U.S. for 183 or more days in the taxable year within which the sale, exchange, redemption or other disposition takes place and certain other requirements are met.

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

Information Reporting and Backup Withholding

Generally, we must report to the IRS and to a non-U.S. noteholder the amount of interest (including OID) on the notes paid to a non-U.S. noteholder and the amount of tax, if any, withheld with respect to those payments if the notes are in registered form. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which a non-U.S. noteholder resides under the provisions of an applicable income tax treaty.

In general, a non-U.S. noteholder will not be subject to backup withholding with respect to payments on the notes that we make to such noteholder provided that we do not have actual knowledge or reason to know that such noteholder is a U.S. person as defined under the Code, and we have received from you the statement described above under the fourth bullet point under "Consequences to Non-U.S. Noteholders—Stated interest and OID on the notes."

In addition, no information reporting requirements or backup withholding will be required regarding the proceeds of the sale of a note made within the United States or conducted through certain United States-related financial intermediaries, if the payor receives the statement described above and does not have actual knowledge or reason to know that the non-U.S. noteholder is a U.S. person as defined under the Code, or the non-U.S. noteholder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a non-U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

Other withholding rules

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

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

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

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

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

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

By purchasing and holding the notes, the person making the decision to invest on behalf of an ERISA plan is representing that the purchase and holding of the notes will not result in a prohibited transaction under ERISA or the Code. Therefore, an ERISA plan should not invest in the notes unless the plan fiduciary or other person acquiring securities on behalf of the ERISA plan determines that neither we nor an affiliate is a party in interest or a disqualified person or, alternatively, that an exemption from the prohibited transaction rules is available. If an ERISA plan engages in a prohibited transaction, the transaction may require "correction" and may cause the ERISA plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to excise taxes.

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

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

USE OF PROCEEDS

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

As of November 10, 2016, our credit facility is undrawn, and based on the assets currently pledged as collateral on the facility, a total of approximately $593.8 million was available to us for borrowing under our credit facility including outstanding borrowings. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least 35% of the credit facility is used or 100 basis points otherwise.

SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of September 30, 2016. (All figures in this item are in thousands except per unit data.)

| | Total Amount Outstanding(1) | Asset Coverage per Unit(2) | Involuntary Liquidating Preference per Unit(3) | Average Market Value per Unit(4) |
|---|---|---|---|---|
| Credit Facility | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 44,000 | $138,549 | — | — |
| Fiscal 2016 (as of June 30, 2016) | — | — | — | — |
| Fiscal 2015 (as of June 30, 2015) | 368,700 | 18,136 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 92,000 | 69,470 | — | — |
| Fiscal 2013 (as of June 30, 2013) | 124,000 | 34,996 | — | — |
| Fiscal 2012 (as of June 30, 2012) | 96,000 | 22,668 | — | — |
| Fiscal 2011 (as of June 30, 2011) | 84,200 | 18,065 | — | — |
| Fiscal 2010 (as of June 30, 2010) | 100,300 | 8,093 | — | — |
| Fiscal 2009 (as of June 30, 2009) | 124,800 | 5,268 | — | — |
| Fiscal 2008 (as of June 30, 2008) | 91,167 | 5,712 | — | — |
| Fiscal 2007 (as of June 30, 2007) | — | N/A | — | — |
| 2015 Notes(5) | | | | |
| Fiscal 2015 (as of June 30, 2015) | $ 150,000 | $44,579 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 150,000 | 42,608 | — | — |
| Fiscal 2013 (as of June 30, 2013) | 150,000 | 28,930 | — | — |
| Fiscal 2012 (as of June 30, 2012) | 150,000 | 14,507 | — | — |
| Fiscal 2011 (as of June 30, 2011) | 150,000 | 10,140 | — | — |
| 2016 Notes(6) | | | | |
| Fiscal 2016 (as of June 30, 2016) | $ 167,500 | $36,677 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 167,500 | 39,921 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 167,500 | 38,157 | — | — |
| Fiscal 2013 (as of June 30, 2013) | 167,500 | 25,907 | — | — |
| Fiscal 2012 (as of June 30, 2012) | 167,500 | 12,992 | — | — |
| Fiscal 2011 (as of June 30, 2011) | 172,500 | 8,818 | — | — |
| 2017 Notes | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 129,500 | $47,074 | — | — |
| Fiscal 2016 (as of June 30, 2016) | 129,500 | 47,439 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 130,000 | 51,437 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 130,000 | 49,163 | — | — |
| Fiscal 2013 (as of June 30, 2013) | 130,000 | 33,381 | — | — |
| Fiscal 2012 (as of June 30, 2012) | 130,000 | 16,739 | — | — |
| 2018 Notes | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 200,000 | $30,481 | — | — |
| Fiscal 2016 (as of June 30, 2016) | 200,000 | 30,717 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 200,000 | 33,434 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 200,000 | 31,956 | — | — |

| | | | | |
|---|---|---|---|---|
| Fiscal 2013 (as of June 30, 2013) | 200,000 | 21,697 | — | — |

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| | Total Amount Outstanding(1) | Asset Coverage per Unit(2) | Involuntary Liquidating Preference per Unit(3) | Average Market Value per Unit(4) |
|---|---|---|---|---|
| 2019 Notes | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 200,000 | $ 30,481 | — | — |
| Fiscal 2016 (as of June 30, 2016) | 200,000 | 30,717 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 200,000 | 33,434 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 200,000 | 31,956 | — | — |
| Fiscal 2013 (as of June 30, 2013) | 200,000 | 21,697 | — | — |
| 5.00% 2019 Notes | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 300,000 | $ 20,320 | — | — |
| Fiscal 2016 (as of June 30, 2016) | 300,000 | 20,478 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 300,000 | 22,289 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 300,000 | 21,304 | — | — |
| 2020 Notes | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 392,000 | $ 15,551 | — | — |
| Fiscal 2016 (as of June 30, 2016) | 392,000 | 15,672 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 392,000 | 17,058 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 400,000 | 15,978 | — | — |
| 2022 Notes(7) | | | | |
| Fiscal 2014 (as of June 30, 2014) | $ 100,000 | $ 63,912 | — | $ 1,038 |
| Fiscal 2013 (as of June 30, 2013) | 100,000 | 43,395 | — | 1,036 |
| Fiscal 2012 (as of June 30, 2012) | 100,000 | 21,761 | — | 996 |
| 2023 Notes(9) | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 250,000 | $ 24,385 | — | — |
| Fiscal 2016 (as of June 30, 2016) | 248,293 | 24,742 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 248,094 | 26,953 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 247,881 | 25,783 | — | — |
| Fiscal 2013 (as of June 30, 2013) | 247,725 | 17,517 | — | — |
| 2024 Notes | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 199,281 | $ 30,591 | — | $ 1,025 |
| Fiscal 2016 (as of June 30, 2016) | 161,364 | 38,072 | — | 951 |
| Prospect Capital InterNotes® | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 945,746 | $ 6,446 | — | — |
| Fiscal 2016 (as of June 30, 2016) | 908,808 | 6,760 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 827,442 | 8,081 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 785,670 | 8,135 | — | — |
| Fiscal 2013 (as of June 30, 2013) | 363,777 | 11,929 | — | — |
| Fiscal 2012 (as of June 30, 2012) | 20,638 | 105,442 | — | — |
| All Senior Securities(8) | | | | |
| Fiscal 2017 (as of September 30, 2016, unaudited) | $ 2,660,527 | $ 2,291 | — | — |

| | | | | |
|---|---|---|---|---|
| Fiscal 2016 (as of June 30, 2016) | 2,707,465 | 2,269 | — | — |
| Fiscal 2015 (as of June 30, 2015) | 2,983,736 | 2,241 | — | — |
| Fiscal 2014 (as of June 30, 2014) | 2,773,051 | 2,305 | — | — |
| Fiscal 2013 (as of June 30, 2013) | 1,683,002 | 2,578 | — | — |
| Fiscal 2012 (as of June 30, 2012) | 664,138 | 3,277 | — | — |

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

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage Per Unit.

(3) This column is inapplicable.

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

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

(6) We repaid the outstanding principal amount of the 2016 Notes on August 15, 2016.

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

(8) While we do not consider commitments to fund under revolving arrangements to be Senior Securities, if we were to elect to treat such unfunded commitments, which were $42,484 as of September 30, 2016, as Senior Securities for purposes of Section 18 of the 1940 Act, our asset coverage per unit would be $2,271.

(9) For all fiscal years ended June 30th, the notes are presented net of unamortized discount.

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RATIO OF EARNINGS TO FIXED CHARGES

For the three months ended September 30, 2016 and the years ended June 30, 2016, 2015, 2014, 2013 and 2012, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

| | For the three months ended September 30, 2016 | For the Year Ended June 30, 2016 | For the Year Ended June 30, 2015 | For the Year Ended June 30, 2014 | For the Year Ended June 30, 2013 | For the Year Ended June 30, 2012 |
|---|---|---|---|---|---|---|
| Earnings to Fixed Charges(1) | 2.95 | 1.63 | 3.04 | 3.45 | 3.89 | 5.95 |

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

(1) Earnings include the net change in unrealized appreciation or depreciation. Net change in unrealized appreciation or depreciation can vary substantially from year to year. Excluding the net change in unrealized appreciation or depreciation, the earnings to fixed charges ratio would be 2.91 for the three months ended September 30, 2016, 3.08 for the year ended June 30, 2016, 2.06 for the year ended June 30, 2015, 3.72 for the year ended June 30, 2014, 4.91 for the year ended June 30, 2013, and 6.79 for the year ended June 30, 2012.

PLAN OF DISTRIBUTION

Under the terms of the Sixth Amended and Restated Selling Agent Agreement dated November 10, 2016, which we refer to as the “Selling Agent Agreement,” the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to agents, including Citigroup Global Markets Inc. and RBC Capital Markets, LLC and other dealers who are broker-dealers and securities firms. The agents, including the Purchasing Agent, and the additional agents named from time to time pursuant to the Selling Agent Agreement, are, or will be, parties to the Selling Agent Agreement. The notes will be offered for sale in the United States only. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. We also may appoint additional agents to sell the notes. Any sale of the notes through those additional agents, however, will be on the same terms and conditions to which the original agents have agreed. The Purchasing Agent will purchase the notes at a discount ranging from 0.4% to 3.8% of the non-discounted price for each note sold. However, we also may sell the notes to the Purchasing Agent at a discount greater than or less than the range specified above. The discount at which we sell the notes to the Purchasing Agent will be set forth in the applicable pricing supplement. The Purchasing Agent also may sell notes to dealers at a concession not in excess of the discount it received from us. In certain cases, the Purchasing Agent and the other agents and dealers may agree that the Purchasing Agent will retain the entire discount. We will disclose any particular arrangements in the applicable pricing supplement.

Following the solicitation of orders, each of the agents, severally and not jointly, may purchase notes as principal for its own account from the Purchasing Agent. Unless otherwise set forth in the applicable pricing supplement, these notes will be purchased by the agents and resold by them to one or more investors at a fixed public offering price. After the initial public offering of notes, the public offering price (in the case of notes to be resold at a fixed public offering price), discount and concession may be changed.

We have the sole right to accept offers to purchase notes and may reject any proposed offer to purchase notes in whole or in part. Each agent also has the right, in its discretion reasonably exercised, to reject any proposed offer to purchase notes in whole or in part. We reserve the right to withdraw, cancel or modify any offer without notice. We also may change the terms, including the interest rate we will pay on the notes, at any time prior to our acceptance of an offer to purchase.

Each agent, including the Purchasing Agent, may be deemed to be an “underwriter” within the meaning of the Securities Act. We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act, or to contribute to any payments they may be required to make in respect of such liabilities. We also have agreed to reimburse the agents for certain expenses.

No note will have an established trading market when issued. We do not intend to apply for the listing of the notes on any securities exchange. However, we have been advised by the agents that they may purchase and sell notes in the secondary market as permitted by applicable laws and regulations. The agents are not obligated to make a market in the notes, and they may discontinue making a market in the notes at any time without notice. Neither we nor the agents can provide any assurance regarding the development, liquidity or maintenance of any trading market for any notes. All secondary trading in the notes will settle in same-day funds. See “Registration and Settlement.”

In connection with certain offerings of notes, the rules of the SEC permit the Purchasing Agent to engage in transactions that may stabilize the price of the notes. The Purchasing Agent will conduct these activities for the agents. These transactions may consist of short sales, stabilizing transactions and purchases to cover positions created by short sales. A short sale is the sale by the Purchasing Agent of a greater amount of notes than the amount the Purchasing Agent has agreed to purchase in connection with a specific offering of notes. Stabilizing transactions consist of certain bids or purchases made by the Purchasing Agent to prevent or retard a decline in the price of the notes while an offering of notes is in process. In general, these purchases or bids for the notes for the purpose of stabilization or to reduce a syndicate short position could cause the price of the notes to be higher than it might otherwise be in the absence of those purchases or bids. Neither we nor the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that these transactions may have on the price of any notes. In addition, neither we nor the Purchasing Agent makes any representation that, once commenced, these transactions will not be discontinued without notice. The Purchasing Agent is not required to engage in these activities and may end any of these activities at any time.

Some of the agents and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The agents and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN

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

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

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

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

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

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

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

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

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any payable date for the payment of any dividend by us or distribution pursuant to any additional cash payment made. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer and Trust Company LLC, 6201 15th Avenue, Brooklyn, New York 11219, or by telephone at 888-888-0313. Stockholders who purchased their shares through or hold their shares in the name of a broker or financial institution should consult with a representative of their broker or financial institution with respect to their participation in our dividend reinvestment plan and direct stock purchase plan. Such holders of our stock may not be identified as our registered stockholders with the plan administrator and may not automatically have their cash dividend or distribution reinvested in shares of our common stock by the plan administrator.

1. How do I purchase shares if I am not an existing registered holder?
To make an investment online, log on to www.amstock.com, click on “Shareholders” followed by “Invest Online,” then select “All Plans” from the left toolbar. Select “Prospect Capital Corporation” Common Stock,” followed by “Invest Now.” Follow the “Steps to Invest,” which will guide you through the six-step investment process. Follow the prompts to provide your banking account number and ABA routing number to allow for the direct debit of funds from your savings or checking account. You will receive a receipt of your transaction upon completion of the investment process, as well as a subsequent e-mail confirming the number of shares purchased and their price (generally within two business days). To invest by mail, complete an Enrollment Application, which can be obtained by calling the Plan Administrator at 1-888-888-0313, and enclose a check made payable to American Stock Transfer & Trust Company, LLC for the value of your investment. The Enrollment Application may also be downloaded from the Plan Administrator’s website (www.amstock.com). The minimum initial investment is $250.00. The maximum investment is $10,000.00 per transaction. Once you are a stockholder, the minimum purchase amount is reduced to $25.00. For purchases made with voluntary contributions, there is a transaction fee of $2.50 per purchase and a per-share commission of $0.10, each to be paid by the participants in the Plan. Your cash payment, less applicable service charges, fees and commissions, will be used to purchase shares on the open market for your account. Both full and fractional shares, up to three decimal places, will be credited to your Plan account. The Plan Administrator will commingle net funds (if applicable) with cash payments from all participants to purchase shares in the open market. Purchase orders will be submitted daily. The Plan Administrator may, at its discretion, submit purchase orders less frequently but no later than 30 days after receipt. No interest will be paid by the Plan Administrator pending investment. Instructions sent to the Plan Administrator may not be rescinded. You may also authorize the Plan Administrator, on the enrollment application or the Plan Administrator’s website, to make monthly purchases of a specified dollar amount, by automatic withdrawal from your bank account. Funds will be withdrawn from your bank account, via electronic funds transfer (EFT), on the 10th day of each month (or the next following day if the 10th is not a business day). To terminate monthly purchases by automatic withdrawal, please send the Plan Administrator written, signed instructions, which must be received by the Plan Administrator not less than 3 business days prior to an automatic withdrawal for such termination to take effect prior to such withdrawal. It is your responsibility to notify the Plan Administrator if your direct debit information changes. If a check or ACH withdrawal is returned to the Plan Administrator as “unpaid,” the Plan Administrator will sell shares if already purchased and liquidate additional shares, if necessary, to reimburse itself for any loss incurred, as well as a returned check fee of $25.00. This is in addition to any other rights the Plan Administrator may have.
Stockholders who purchased their shares through or hold their shares in the name of a broker or financial institution should consult with a representative of their broker or financial institution with respect to their participation in the Plan. Such holders of common stock may not be identified as registered stockholders of Prospect Capital Corporation with the Plan Administrator.
2. How do I purchase additional shares if I am already a registered stockholder?
Additional shares may be purchased at any time. All of the terms outlined in Section #1 above apply, except the minimum investment is only $25.00. To make an investment online, log on to www.amstock.com and select “Shareholders” followed by “Account Access and General Information,” and finally “Account Access.” You will be prompted to enter your Unique Account ID. If you do not have a Unique Account ID, register directly online and your Unique Account ID will be provided. Follow the prompts when registering for your Unique Account ID. From the left toolbar, select “Purchase Additional Shares” and complete the steps. Optional cash payments may also be mailed to the Plan Administrator using the tear-off portion of your account statement (sent in conjunction with each scheduled dividend) or purchase transaction advice, or via detailed written instructions. You may also authorize the Plan Administrator, on an enrollment application or the Plan Administrator’s website, to make monthly purchases of a specified dollar amount by automatic withdrawal from your bank account. Funds will be withdrawn from your bank account, via electronic funds transfer (EFT), on the 10th day of each month (or the next following day if the 10th is not a business day). To terminate monthly purchases by automatic withdrawal, you must send the Plan Administrator written, signed instructions. It is your responsibility to notify the Plan Administrator if your direct debit information changes. All shares will be purchased in the open market at the current market price.

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LEGAL MATTERS

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

INDEPENDENT ACCOUNTING FIRMS

BDO USA, LLP is the independent registered public accounting firm of the Company and National Property REIT Corp. MSPC is the independent registered public accounting firm of Harbortouch Payments, LLC. Hood & Strong LLP is the independent registered public accounting firm of NPH McDowell, LLC. Tidwell Group, LLC is the independent public accounting firm of Michigan Storage, LLC. RSM US LLP is the independent registered public accounting firm of First Tower Finance Company LLC.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the notes offered by this prospectus supplement and accompanying prospectus. The registration statement contains additional information about us and the notes being registered by this prospectus supplement and accompanying prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2016, are available free of charge by contacting us at 10 East 40$^{th}$ Street, 42$^{nd}$ floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at http://www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

No dealer, salesperson or other individual has been authorized to give any information or to make any representation other than those contained in this prospectus supplement and accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us or the Purchasing Agent or any agent. This prospectus supplement does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus supplement and accompanying prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs or that information contained herein is correct as of any time subsequent to the date hereof.

INDEX TO FINANCIAL STATEMENTS

Financial Statements

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

| | September 30, 2016 (Unaudited) | June 30, 2016 (Audited) |
|---|---|---|
| Assets | | |
| Investments at fair value: | | |
| Control investments (amortized cost of $1,870,228 and $1,768,220, respectively) | $1,867,823 | $1,752,449 |
| Affiliate investments (amortized cost of $8,530 and $10,758, respectively) | 6,966 | 11,320 |
| Non-control/non-affiliate investments (amortized cost of $4,422,436 and $4,312,122, respectively) | 4,234,807 | 4,133,939 |
| Total investments at fair value (amortized cost of $6,301,194 and $6,091,100, respectively) | 6,109,596 | 5,897,708 |
| Cash | 132,240 | 317,798 |
| Receivables for: | | |
| Interest, net | 9,920 | 12,127 |
| Other | 197 | 168 |
| Prepaid expenses | 703 | 855 |
| Deferred financing costs on Revolving Credit Facility (Note 4) | 6,834 | 7,525 |
| Total Assets | 6,259,490 | 6,236,181 |
| | | |
| Liabilities | | |
| Revolving Credit Facility (Notes 4 and 8) | 44,000 | — |
| Prospect Capital InterNotes® (Notes 7 and 8) | 930,814 | 893,210 |
| Convertible Notes (Notes 5 and 8) | 908,240 | 1,074,361 |
| Public Notes (Notes 6 and 8) | 736,821 | 699,368 |
| Interest payable | 33,086 | 40,804 |
| Due to broker | 80,397 | 957 |
| Due to Prospect Capital Management (Note 13) | 51,091 | 54,149 |
| Due to Prospect Administration (Note 13) | 1,719 | 1,765 |
| Accrued expenses | 2,764 | 2,259 |
| Other liabilities | 5,113 | 3,633 |
| Dividends payable | 29,836 | 29,758 |
| Total Liabilities | 2,823,881 | 2,800,264 |
| Commitments and Contingencies (Note 3) | — | — |
| Net Assets | $3,435,609 | $3,435,917 |
| | | |
| Components of Net Assets | | |
| Common stock, par value $0.001 per share (1,000,000,000 common shares authorized; 358,042,158 and 357,107,231 issued and outstanding, respectively) (Note 9) | $358 | $357 |
| Paid-in capital in excess of par (Note 9) | 3,973,957 | 3,967,397 |
| Accumulated overdistributed net investment income | (11,643) | (3,623) |
| Accumulated net realized loss | (335,465) | (334,822) |
| Net unrealized loss | (191,598) | (193,392) |
| Net Assets | $3,435,609 | $3,435,917 |
| | | |
| Net Asset Value Per Share (Note 16) | $9.60 | $9.62 |

See notes to consolidated financial statements.

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Investment Income | | |
| Interest income: | | |
| Control investments | $45,909 | $51,944 |
| Affiliate investments | — | 885 |
| Non-control/non-affiliate investments | 86,660 | 93,708 |
| Structured credit securities | 39,081 | 44,766 |
| Total interest income | 171,650 | 191,303 |
| Dividend income: | | |
| Control investments | 2,240 | 3,213 |
| Non-control/non-affiliate investments | 144 | 2 |
| Total dividend income | 2,384 | 3,215 |
| Other income: | | |
| Control investments | 2,940 | 2,409 |
| Non-control/non-affiliate investments | 2,858 | 3,324 |
| Total other income (Note 10) | 5,798 | 5,733 |
| Total Investment Income | 179,832 | 200,251 |
| Operating Expenses | | |
| Investment advisory fees: | | |
| Base management fee (Note 13) | 30,792 | 32,954 |
| Income incentive fee (Note 13) | 19,730 | 22,810 |
| Interest and credit facility expenses | 41,669 | 41,957 |
| Allocation of overhead from Prospect Administration (Note 13) | 3,533 | 4,178 |
| Audit, compliance and tax related fees | 1,395 | 1,877 |
| Directors' fees | 113 | 94 |
| Other general and administrative expenses | 3,681 | 5,139 |
| Total Operating Expenses | 100,913 | 109,009 |
| Net Investment Income | 78,919 | 91,242 |
| Net Realized and Change in Unrealized Gains (Losses) | | |
| Net realized gains (losses) | | |
| Control investments | — | — |
| Affiliate investments | 137 | — |
| Non-control/non-affiliate investments | 572 | (2,134) |
| Foreign currency transactions | 5 | (1) |
| Net realized gains (losses) | 714 | (2,135) |
| Net change in unrealized gains (losses) | | |
| Control investments | 13,345 | (39,852) |
| Affiliate investments | (2,126) | 105 |
| Non-control/non-affiliate investments | (9,446) | (21,197) |
| Foreign currency translations | 21 | (331) |
| Net change in unrealized gains (losses) | 1,794 | (61,275) |
| Net Realized and Change in Unrealized Gains (Losses) | 2,508 | (63,410) |

| | | |
|---|---|---|
| Net realized losses on extinguishment of debt | (61 ) | (15 ) |
| Net Increase in Net Assets Resulting from Operations | $81,366 | $27,817 |
| Net increase in net assets resulting from operations per share | $0.23 | $0.08 |
| Dividends declared per share | $(0.25 ) | $(0.25 ) |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(in thousands, except share data)
(Unaudited)

| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operations | | |
| Net investment income | $78,919 | $91,242 |
| Net realized gains (losses) | 653 | (2,150) |
| Net change in unrealized gains (losses) | 1,794 | (61,275) |
| Net Increase in Net Assets Resulting from Operations | 81,366 | 27,817 |
| Distributions to Shareholders | | |
| Distribution from net investment income | (89,428) | (89,115) |
| Net Decrease in Net Assets Resulting from Distributions to Shareholders | (89,428) | (89,115) |
| Common Stock Transactions | | |
| Offering costs from issuance of common stock | — | 118 |
| Repurchase of common stock under stock repurchase program | — | (31,530) |
| Value of shares issued through reinvestment of dividends | 7,754 | 3,682 |
| Net Increase (Decrease) in Net Assets Resulting from Common Stock Transactions | 7,754 | (27,730) |
| Total Decrease in Net Assets | (308) | (89,028) |
| Net assets at beginning of period | 3,435,917 | 3,703,049 |
| Net Assets at End of Period | $3,435,609 | $3,614,021 |
| Common Stock Activity | | |
| Shares repurchased under stock repurchase program | — | (4,358,750) |
| Shares issued through reinvestment of dividends | 934,927 | 490,473 |
| Net shares issued (repurchased) due to common stock activity | 934,927 | (3,868,277) |
| Shares issued and outstanding at beginning of period | 357,107,231 | 359,090,759 |
| Shares Issued and Outstanding at End of Period | 358,042,158 | 355,222,482 |

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share data)
(Unaudited)

| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operating Activities | | |
| Net increase in net assets resulting from operations | $81,366 | $27,817 |
| Net realized losses on extinguishment of debt | 61 | 15 |
| Net realized (gains) losses on investments and foreign currency transactions | (714) | 2,135 |
| Net change in unrealized (gains) losses on investments and foreign currency transactions | (1,794) | 61,275 |
| Amortization of discounts and premiums, net | 23,439 | 24,072 |
| Accretion of discount on Public Notes (Note 6) | 64 | 49 |
| Amortization of deferred financing costs | 3,631 | 3,556 |
| Payment-in-kind interest | (5,439) | (1,279) |
| Structuring fees | (3,028) | (3,556) |
| Change in operating assets and liabilities: | | |
| Payments for purchases of investments | (338,683) | (340,908) |
| Proceeds from sale of investments and collection of investment principal | 114,331 | 436,919 |
| Decrease in interest receivable, net | 2,207 | 6,029 |
| (Increase) decrease in other receivables | (29) | 1,978 |
| Decrease in prepaid expenses | 152 | 32 |
| Increase in due to broker | 79,440 | 28,475 |
| Decrease in interest payable | (7,718) | (4,020) |
| (Decrease) increase in due to Prospect Administration | (46) | 1,177 |
| Decrease in due to Prospect Capital Management | (3,058) | (2,388) |
| Increase (decrease) in accrued expenses | 505 | (45) |
| Increase in other liabilities | 1,480 | 3,021 |
| Net Cash (Used in) Provided by Operating Activities | (53,833) | 244,354 |
| Financing Activities | | |
| Borrowings under Revolving Credit Facility (Note 4) | 44,000 | 200,000 |
| Principal payments under Revolving Credit Facility (Note 4) | — | (412,000) |
| Issuances of Public Notes, net of original issue discount (Note 6) | 37,466 | — |
| Redemptions of Convertible Notes (Note 5) | (167,500) | — |
| Issuances of Prospect Capital InterNotes® (Note 7) | 38,917 | 48,134 |
| Redemptions of Prospect Capital InterNotes®, net (Note 7) | (1,979) | (628) |
| Financing costs paid and deferred | (1,033) | (891) |
| Cost of shares repurchased under stock repurchase program | — | (31,530) |
| Offering costs from issuance of common stock | — | 118 |
| Dividends paid | (81,596) | (85,755) |
| Net Cash Used in Financing Activities | (131,725) | (282,552) |
| | | |
| Net Decrease in Cash | (185,558) | (38,198) |
| Cash at beginning of period | 317,798 | 110,026 |
| Cash at End of period | $132,240 | $71,828 |
| | | |
| Supplemental Disclosures | | |
| Cash paid for interest | $44,542 | $43,004 |
| Non-Cash Financing Activities | | |

| | | |
|---|---|---|
| Value of shares issued through reinvestment of dividends | $7,754 | $3,682 |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value / Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | |
| Control Investments (greater than 25.00% voting control)(40) | | | | | |
| Arctic Energy Services, LLC(15) | Wyoming / Oil & Gas Services | Class D Units (32,915 units) | $ 31,640 | $ 20,167 | 0.6% |
| | | Class E Units (21,080 units) | 20,230 | — | —% |
| | | Class A Units (700 units) | 9,006 | — | —% |
| | | Class C Units (10 units) | — | — | —% |
| | | | 60,876 | 20,167 | 0.6% |
| CCPI Inc.(16) | Ohio / Manufacturing | Senior Secured Term Loan A (10.00%, due 12/31/2017)(3) | 12,200 | 12,200 | 0.4% |
| | | Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)(39) | 9,320 | 9,320 | 0.3% |
| | | Common Stock (14,857 shares) | 6,759 | 20,722 | 0.5% |
| | | | 28,279 | 42,242 | 1.2% |
| CP Energy Services Inc.(17) | Oklahoma / Oil & Gas Services | Series B Convertible Preferred Stock (1,043 shares) | 98,273 | 76,002 | 2.2% |
| | | Common Stock (2,924 shares) | 15,227 | — | —% |
| | | | 113,500 | 76,002 | 2.2% |
| Credit Central Loan Company, LLC(18) | South Carolina / Consumer Finance | Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(13)(39) | 50,510 / 42,989 | 50,510 | 1.5% |
| | | Class A Shares (10,640,642 shares)(13) | 13,731 | 9,341 | 0.3% |
| | | Net Revenues Interest (25% of Net Revenues)(13) | — | 4,069 | 0.1% |
| | | | 56,720 | 63,920 | 1.9% |
| Echelon Aviation LLC | New York / Aerospace & Defense | Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(10)(12)(39) | 31,055 | 31,055 | 0.9% |
| | | Membership Interest (99%) | 19,907 | 23,988 | 0.7% |
| | | | 50,962 | 55,043 | 1.6% |
| Edmentum Ultimate Holdings, LLC(19) | Minnesota / Consumer Services | Second Lien Revolving Credit Facility to Edmentum, Inc. – $7,834 Commitment (5.00%, due 6/9/2020)(14) | —— | — | —% |
| | | Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)(39) | 6,478 | 6,478 | 0.2% |
| | | Unsecured Junior PIK Note (10.00% PIK, due 6/9/2020)(39) | 29,571 / 23,073 | 24,766 | 0.7% |
| | | Class A Common Units (370,964 units) | 6,577 | 4,241 | 0.1% |
| | | | 36,128 | 35,485 | 1.0% |
| First Tower Finance Company LLC(20) | Mississippi / Consumer Finance | Subordinated Term Loan to First Tower, LLC (10.00% plus 12.00% PIK, due | 256,578 | 256,578 | 7.5% |

| | | | | | |
|---|---|---|---|---|---|
| | | 6/24/2019)(13)(39) | | | |
| | | Class A Shares (86,711,625 shares)(13) | 70,476 | 95,275 | 2.7% |
| | | | 327,054 | 351,853 | 10.2% |
| Freedom Marine Solutions, LLC(21) | Louisiana / Oil & Gas Services | Membership Interest (100%) | 41,411 | 26,671 | 0.8% |
| | | | 41,411 | 26,671 | 0.8% |
| Gulf Coast Machine & Supply Company | Texas / Manufacturing | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), in non-accrual status effective 1/1/2015, due 10/12/2017)(10)(11) | 38,906 33,403 | 7,394 | 0.2% |
| | | Series A Convertible Preferred Stock (99,900 shares) | 25,950 | — | —% |
| | | | 59,353 | 7,394 | 0.2% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| | | | September 30, 2016 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| Portfolio Company | Locale / Industry | Investments(1) | Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(40) | | | | | | |
| MITY, Inc.(22) | Utah / Durable Consumer Products | Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(10)(11) | $18,250 | $ 18,250 | $18,250 | 0.5% |
| | | Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(3)(10)(11)(39) | 16,442 | 16,442 | 16,442 | 0.5% |
| | | Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(13) | 5,646 | 7,200 | 5,646 | 0.2% |
| | | Common Stock (42,053 shares) | | 6,849 | 13,177 | 0.4% |
| | | | | 48,741 | 53,515 | 1.6% |
| National Property REIT Corp.(23) | Various / Real Estate | Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(10)(11)(39) | 283,972 | 283,972 | 283,972 | 8.3% |
| | | Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(11)(39) | 212,819 | 212,819 | 212,819 | 6.2% |
| | | Senior Secured Term Loan C to ACL Loan Holdings, Inc. (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(11)(13)(39) | 135,818 | 135,818 | 135,818 | 4.0% |
| | | Senior Secured Term Loan C to American Consumer Lending Limited (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(11)(13)(39) | 11,508 | 11,508 | 11,508 | 0.3% |
| | | Common Stock (1,656,276 shares) | — | 188,444 | 267,511 | 7.7% |
| | | Net Operating Income Interest (5% of Net Operating Income) | — | — | 68,362 | 2.0% |
| | | | | 832,561 | 979,990 | 28.5% |
| Nationwide Loan Company LLC(24) | Illinois / Consumer Finance | Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(13)(39) | 16,819 | 16,819 | 16,819 | 0.5% |
| | | Class A Shares (29,559,899 shares)(13) | | 16,292 | 20,690 | 0.6% |
| | | | | 33,111 | 37,509 | 1.1% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Senior Secured Note (14.00%, due 5/6/2021) | 3,714 | 3,714 | 3,404 | 0.1% |
| NMMB, Inc.(25) | New York / Media | Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021) | 7,000 | 7,000 | 6,416 | 0.2% |
| | | Series A Preferred Stock (7,200 shares) | | 7,200 | 28 | —% |
| | | Series B Preferred Stock (5,669 shares) | | 5,669 | 35 | —% |
| | | | | 23,583 | 9,883 | 0.3% |
| R-V Industries, Inc. | Pennsylvania / Manufacturing | Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(10)(11) | 28,622 | 28,622 | 28,622 | 0.8% |
| | | Common Stock (545,107 shares) | | 5,087 | 4,824 | 0.1% |
| | | Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017) | | 1,681 | 1,769 | 0.1% |
| | | | | 35,390 | 35,215 | 1.0% |
| USES Corp.(26) | Texas / Commercial Services | Senior Secured Term Loan A (9.00% PIK, in non-accrual status effective 4/1/2016, due 3/31/2019) | 26,683 | 26,158 | 26,683 | 0.8% |
| | | Senior Secured Term Loan B (15.50% PIK, in non-accrual status effective 4/1/2016, due 3/31/2019) | 36,905 | 35,568 | 15,704 | 0.4% |
| | | Common Stock (268,962 shares) | | — | — | —% |
| | | | | 61,726 | 42,387 | 1.2% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(40) | | | | | | |
| Valley Electric Company, Inc.(27) | Washington / Construction & Engineering | Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2019)(3)(10)(11)(39) | $10,430 | $10,430 | $10,430 | 0.3% |
| | | Senior Secured Note (10.00% plus 8.50% PIK, due 6/23/2019)(39) | 24,199 | 24,199 | 20,101 | 0.6% |
| | | Common Stock (50,000 shares) | | 26,204 | — | —% |
| | | | | 60,833 | 30,531 | 0.9% |
| Wolf Energy, LLC | Kansas / Oil & Gas Production | Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018) | 38,257 | — | — | —% |
| | | Membership Interest (100%) | | — | — | —% |
| | | Net Profits Interest (8% of Equity Distributions)(4) | | — | 16 | —% |
| | | | | — | 16 | —% |
| | | | | $1,870,228 | $1,867,823 | 54.3% |

Affiliate Investments (5.00% to 24.99% voting control)(41)

| Portfolio Company | Locale / Industry | Investments(1) | Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| Targus International, LLC(28) | California / Durable Consumer Products | Senior Secured Term Loan A (15.00% PIK, in non-accrual status effective 10/1/15, due 12/31/2019)(8) | $1,371 | $1,263 | $1,371 | —% |
| | | Senior Secured Term Loan B (15.00% PIK , in non-accrual status effective 10/1/15, due 12/31/2019)(8) | 4,113 | 3,788 | 4,113 | 0.2% |
| | | Common Stock (1,262,737 shares) | | 3,479 | 1,482 | —% |
| | | | | 8,530 | 6,966 | 0.2% |
| | | | | $8,530 | $6,966 | 0.2% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| | | | September 30, 2016 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| Portfolio Company | Locale / Industry | Investments(1) | Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| AFI Shareholder, LLC (f/k/a Aircraft Fasteners International, LLC) | California / Machinery | Class A Units (32,500 units) | | $ 309 | $ 617 | —% |
| | | | | 309 | 617 | —% |
| ALG USA Holdings, LLC | Pennsylvania / Hotels, Restaurants & Leisure | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(8)(10)(11) | 11,770 | 11,640 | 11,771 | 0.3% |
| | | | | 11,640 | 11,771 | 0.3% |
| American Gilsonite Company(29) | Utah / Metal Services & Minerals | Membership Interest (1.93%) | | — | — | —% |
| | | | | — | — | —% |
| Apidos CLO IX | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.72%, due 7/15/2023)(5)(13) | 23,525 | 19,651 | 18,919 | 0.6% |
| | | | | 19,651 | 18,919 | 0.6% |
| Apidos CLO XI | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 11.36%, due 1/17/2023)(5)(13) | 38,340 | 29,137 | 25,439 | 0.7% |
| | | | | 29,137 | 25,439 | 0.7% |
| Apidos CLO XII | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 13.25%, due 4/15/2025)(5)(13) | 44,063 | 33,470 | 29,888 | 0.9% |
| | | | | 33,470 | 29,888 | 0.9% |
| Apidos CLO XV | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.22%, due 10/20/2025)(5)(13) | 36,515 | 30,624 | 24,264 | 0.7% |
| | | | | 30,624 | 24,264 | 0.7% |
| Apidos CLO XXII | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.19%, due 10/20/2027)(5)(6)(13) | 31,350 | 26,735 | 24,751 | 0.7% |
| | | | | 26,735 | 24,751 | 0.7% |
| Arctic Glacier U.S.A., Inc. | Minnesota / Food Products | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(10)(11) | 150,000 | 150,000 | 149,324 | 4.3% |
| | | | | 150,000 | 149,324 | 4.3% |
| | | | [illegible] | [illegible] | $ 9,568 | 0.3% |

| | | | | | |
|---|---|---|---|---|---|
| Ark-La-Tex Wireline Services, LLC | Louisiana / Oil & Gas Services | Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(10)(12) | | | |
| | | Senior Secured Term Loan B (12.50% (LIBOR + 11.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(10)(12) | 24,259 / 23,735 | — | —% |
| | | | 43,945 | 9,568 | 0.3% |
| Armor Holding II LLC | New York / Diversified Financial Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(10)(11) | 7,000 / 6,912 | 6,912 | 0.2% |
| | | | 6,912 | 6,912 | 0.2% |
| Atlantis Health Care Group (Puerto Rico), Inc. | Puerto Rico / Healthcare | Revolving Line of Credit – $7,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 8/21/2017)(10)(11)(14) | 2,350 | 2,350 | 0.1% |
| | | Senior Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 2/21/2018)(3)(10)(11) | 38,067 | 38,067 | 1.1% |
| | | | 40,417 | 40,417 | 1.2% |
| Babson CLO Ltd. 2014-III | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 13.09%, due 1/15/2026)(5)(6)(13) | 52,250 / 42,771 | 40,630 | 1.2% |
| | | | 42,771 | 40,630 | 1.2% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| | | | September 30, 2016 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| Portfolio Company | Locale / Industry | Investments(1) | Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| BNN Holdings, Corp. | Michigan / Healthcare | Escrow Receivable | | $ — | $486 | —% |
| | | | | — | 486 | —% |
| Broder Bros., Co. | Pennsylvania / Textiles, Apparel & Luxury Goods | Senior Secured Term Loan A (7.00% (LIBOR + 5.75% with 1.25% LIBOR floor), due 6/03/2021)(3)(10)(12) | $119,999 | 119,999 | $119,999 | 3.5% |
| | | Senior Secured Term Loan B (13.50% (LIBOR + 12.25% with 1.25% LIBOR floor), due 6/03/2021)(10)(12) | 120,983 | 120,983 | 120,983 | 3.5% |
| | | | | 240,982 | 240,982 | 7.0% |
| Brookside Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.67%, due 4/17/2025)(5)(13) | 26,000 | 19,432 | 18,083 | 0.5% |
| | | | | 19,432 | 18,083 | 0.5% |
| California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.) | Cayman Islands / Structured Finance | Preference Shares (Residual Interest, current yield 15.77%, due 4/16/2022)(5)(13) | 57,000 | 37,813 | 34,132 | 1.0% |
| | | | | 37,813 | 34,132 | 1.0% |
| Capstone Logistics Acquisition, Inc. | Georgia / Business Services | Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(8)(10)(12) | 101,828 | 101,319 | 101,033 | 2.9% |
| | | | | 101,319 | 101,033 | 2.9% |
| Carlyle Carlyle Global Market Strategies CLO 2016-3, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.69%, due 10/20/2029)(5)(6)(13) | 32,200 | 29,854 | 29,717 | 0.9% |
| | | | | 29,854 | 29,717 | 0.9% |
| Cent CLO 17 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.17%, due 1/30/2025)(5)(13) | 24,870 | 18,616 | 16,504 | 0.5% |
| | | | | 18,616 | 16,504 | 0.5% |
| Cent CLO 20 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.27%, due 1/25/2026)(5)(13) | 40,275 | 32,288 | 25,591 | 0.7% |
| | | | | 32,288 | 25,591 | 0.7% |
| Cent CLO 21 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 8.66%, due 7/27/2026)(5)(6)(13) | 48,528 | 37,278 | 28,947 | 0.8% |
| | | | | 37,278 | 28,947 | 0.8% |

| | | | | | | |
|---|---|---|---|---|---|---|
| CIFC Funding 2013-III, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.62%, due 10/24/2025)(5)(13) | 44,100 | 31,703 | 28,775 | 0.8% |
| | | | | 31,703 | 28,775 | 0.8% |
| CIFC Funding 2013-IV, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.24%, due 11/27/2024)(5)(13) | 45,500 | 33,065 | 32,209 | 0.9% |
| | | | | 33,065 | 32,209 | 0.9% |
| CIFC Funding 2014-IV Investor, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 13.72%, due 10/17/2026)(5)(6)(13) | 40,500 | 30,980 | 29,141 | 0.8% |
| | | | | 30,980 | 29,141 | 0.8% |
| Cinedigm DC Holdings, LLC | New York / Software & Computer Services | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(10)(11)(39) | 65,640 | 65,590 | 65,640 | 1.9% |
| | | | | 65,590 | 65,640 | 1.9% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Coverall North America, Inc. | Florida / Commercial Services | Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(10)(11) | $24,000 | $ 24,000 | $24,000 | 0.7% |
| | | Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(10)(11) | 25,000 | 25,000 | 25,000 | 0.7% |
| | | | | 49,000 | 49,000 | 1.4% |
| Crosman Corporation | New York / Manufacturing | Senior Secured Term Loan A (9.22% (LIBOR + 8.70% with .30% LIBOR floor) plus 4.00% PIK, due 8/5/2020)(3)(10)(12)(39) | 54,673 | 54,673 | 54,673 | 1.6% |
| | | Senior Secured Term Loan B (16.22% (LIBOR + 15.70% with .30% LIBOR floor) plus 4.00% PIK, due 8/5/2020)(10)(12)(39) | 41,656 | 41,656 | 41,656 | 1.2% |
| | | | | 96,329 | 96,329 | 2.8% |
| CURO Group Holdings Corp. (f/k/a Speedy Cash Holdings Corp.) | Canada / Consumer Finance | Senior Unsecured Notes (12.00%, due 11/15/2017)(8)(13) | 15,000 | 15,000 | 7,076 | 0.2% |
| | | | | 15,000 | 7,076 | 0.2% |
| Easy Gardener Products, Inc. | Texas / Durable Consumer Products | Senior Secured Term Loan (10.84% (LIBOR + 10.00% with .25% LIBOR floor), due 09/30/2020)(3)(10)(11) | 17,325 | 17,325 | 17,325 | 0.5% |
| | | | | 17,325 | 17,325 | 0.5% |
| Empire Today, LLC | Illinois / Durable Consumer Products | Senior Secured Note (11.375%, due 2/1/2017)(8) | 50,426 | 50,189 | 50,426 | 1.5% |
| | | | | 50,189 | 50,426 | 1.5% |
| Fleetwash, Inc. | New Jersey / Business Services | Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)(3)(10)(11) | 23,402 | 23,402 | 23,402 | 0.7% |
| | | Delayed Draw Term Loan – $15,000 Commitment (expires 4/30/2019)(10)(14) | — | — | — | —% |
| | | | | 23,402 | 23,402 | 0.7% |
| Focus Brands, Inc. | Georgia / Consumer | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR | 18,000 | 17,891 | 18,000 | 0.5% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Services | floor), due 8/21/2018)(8)(10)(12) | | | | |
| | | | | 17,891 | 18,000 | 0.5% |
| Galaxy XV CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.76%, due 4/15/2025)(5)(13) | 39,275 | 28,658 | 29,503 | 0.9% |
| | | | | 28,658 | 29,503 | 0.9% |
| Galaxy XVI CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.53%, due 11/16/2025)(5)(13) | 24,575 | 18,900 | 18,168 | 0.5% |
| | | | | 18,900 | 18,168 | 0.5% |
| Galaxy XVII CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.47%, due 7/15/2026)(5)(6)(13) | 39,905 | 30,527 | 28,779 | 0.8% |
| | | | | 30,527 | 28,779 | 0.8% |
| Generation Brands Holdings, Inc. | Illinois / Durable Consumer Products | Subordinated Secured Term Loan (11.00% (LIBOR + 10.00% with 1.00% LIBOR floor), due 12/10/2022)(8)(10)(11) | 19,000 | 18,459 | 19,000 | 0.6% |
| | | | | 18,459 | 19,000 | 0.6% |
| Global Employment Solutions, Inc. | Colorado / Business Services | Senior Secured Term Loan (10.25% (LIBOR + 9.25% with 1.00% LIBOR floor), due 6/26/2020)(3)(10)(12) | 49,250 | 49,250 | 49,250 | 1.4% |
| | | | | 49,250 | 49,250 | 1.4% |

See notes to consolidated financial statements.

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

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Halcyon Loan Advisors Funding 2012-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.13%, due 8/15/2023)(5)(13) | $23,188 | $ 17,575 | $ 16,637 | 0.5% |
| | | | | 17,575 | 16,637 | 0.5% |
| Halcyon Loan Advisors Funding 2013-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.26%, due 4/15/2025)(5)(13) | 40,400 | 30,747 | 26,838 | 0.8% |
| | | | | 30,747 | 26,838 | 0.8% |
| Halcyon Loan Advisors Funding 2014-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 8.12%, due 4/18/2026)(5)(13) | 24,500 | 17,613 | 14,751 | 0.4% |
| | | | | 17,613 | 14,751 | 0.4% |
| Halcyon Loan Advisors Funding 2014-2 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 8.84%, due 4/28/2025)(5)(6)(13) | 41,164 | 29,585 | 25,007 | 0.7% |
| | | | | 29,585 | 25,007 | 0.7% |
| Halcyon Loan Advisors Funding 2015-3 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.37%, due 10/18/2027)(5)(6)(13) | 39,598 | 35,736 | 31,619 | 0.9% |
| | | | | 35,736 | 31,619 | 0.9% |
| Harbortouch Payments, LLC | Pennsylvania / Business Services | Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor) plus 3.00% PIK, due 5/31/2023)(3)(10)(11)(39) | 27,711 | 27,711 | 28,404 | 0.9% |
| | | Escrow Receivable | | — | 1,629 | —% |
| | | | | 27,711 | 30,033 | 0.9% |
| HarbourView CLO VII, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.22%, due 11/18/2026)(5)(6)(13) | 19,025 | 14,432 | 12,806 | 0.4% |
| | | | | 14,432 | 12,806 | 0.4% |
| Harley Marine Services, Inc. | Washington / Transportation | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(8)(10)(11) | 9,000 | 8,894 | 8,352 | 0.2% |
| | | | | 8,894 | 8,352 | 0.2% |
| Hollander Sleep Products, LLC | Florida / Durable Consumer Products | Senior Secured Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 10/21/2020)(3)(10)(12) | 21,860 | 21,860 | 20,293 | 0.6% |
| | | | | 21,860 | 20,293 | 0.6% |
| | | | 16,830 | 16,830 | 16,830 | 0.5% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Inpatient Care Management Company LLC | Florida / Healthcare | Senior Secured Term Loan (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 6/8/2021(10)(12) | | 16,830 | 16,830 | 0.5% |
| | | Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(10)(11) | 122,444 | 122,444 | 122,444 | 3.6% |
| | | Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(10)(11) | 158,100 | 158,100 | 158,100 | 4.6% |
| Instant Web, LLC | Minnesota / Media | Senior Secured Term Loan C-1 (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(10)(11) | 27,000 | 27,000 | 27,000 | 0.8% |
| | | Senior Secured Term Loan C-2 (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor), due 3/28/2019)(10)(11) | 25,000 | 25,000 | 25,000 | 0.7% |
| | | | | 332,544 | 332,544 | 9.7% |

See notes to consolidated financial statements.

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

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| InterDent, Inc. | California / Healthcare | Senior Secured Term Loan A (6.25% (LIBOR + 5.50% with 0.75% LIBOR floor), due 8/3/2017)(10)(12) | $79,317 | $ 79,317 | $79,317 | 2.3% |
| | | Senior Secured Term Loan B (11.25% (LIBOR + 10.50% with 0.75% LIBOR floor), due 8/3/2017)(3)(10)(12) | 131,125 | 131,125 | 131,125 | 3.8% |
| | | | | 210,442 | 210,442 | 6.1% |
| JAC Holding Corporation | Michigan / Transportation | Senior Secured Note (11.50%, due 10/1/2019)(8) | 2,868 | 2,868 | 2,868 | 0.1% |
| | | | | 2,868 | 2,868 | 0.1% |
| JD Power and Associates | California / Consumer Services | Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(8)(10)(11) | 15,000 | 14,777 | 15,000 | 0.4% |
| | | | | 14,777 | 15,000 | 0.4% |
| Jefferson Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.47%, due 7/20/2027)(5)(6)(13) | 19,500 | 16,821 | 13,174 | 0.4% |
| | | | | 16,821 | 13,174 | 0.4% |
| LaserShip, Inc. | Virginia / Transportation | Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 1.00% PIK, due 3/18/2019)(3)(10)(12)(39) | 34,424 | 34,424 | 33,667 | 1.0% |
| | | Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 1.00% PIK, due 3/18/2019)(3)(10)(12)(39) | 21,129 | 21,129 | 20,664 | 0.6% |
| | | | | 55,553 | 54,331 | 1.6% |
| LCM XIV Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 16.10%, due 7/15/2025)(5)(13) | 30,500 | 22,359 | 21,872 | 0.6% |
| | | | | 22,359 | 21,872 | 0.6% |
| Madison Park Funding IX, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 21.72%, due 8/15/2022)(5)(13) | 43,110 | 29,343 | 28,543 | 0.8% |
| | | | | 29,343 | 28,543 | 0.8% |
| Matrixx Initiatives, Inc. | New Jersey / Pharmaceuticals | Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(10)(11) | 34,490 | 34,490 | 34,490 | 1.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(10)(11) | 45,562 | 45,562 | 45,562 | 1.3% |
| | | | | 80,052 | 80,052 | 2.3% |
| Maverick Healthcare Equity, LLC | Arizona / Healthcare | Preferred Units (1,250,000 units) | | 1,252 | 1,990 | 0.1% |
| | | Class A Common Units (1,250,000 units) | | — | 204 | —% |
| | | | | 1,252 | 2,194 | 0.1% |
| Mineral Fusion Natural Brands(30) | Colorado / Personal & Nondurable Consumer Products | Membership Interest (1.43%) | | — | 197 | —% |
| | | | | — | 197 | —% |
| Mountain View CLO 2013-I Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.27%m due 4/12/2024)(5)(13) | 43,650 | 32,078 | 29,996 | 0.9% |
| | | | | 32,078 | 29,996 | 0.9% |
| Mountain View CLO IX Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.52%, due 7/15/2027)(5)(6)(13) | 47,830 | 42,415 | 38,431 | 1.1% |
| | | | | 42,415 | 38,431 | 1.1% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| NCP Finance Limited Partnership(31) | Ohio / Consumer Finance | Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(8)(10)(12)(13) | $27,119 | $ 26,502 | $ 25,763 | 0.7% |
| | | | | 26,502 | 25,763 | 0.7% |
| Nixon, Inc. | California / Durable Consumer Products | Senior Secured Term Loan (9.50% plus 3.00% PIK, in non-accrual status effective 7/1/2016, due 4/16/2018)(3)(8)(39) | 14,421 | 14,197 | 10,877 | 0.3% |
| | | | | 14,197 | 10,877 | 0.3% |
| Octagon Investment Partners XV, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 13.99%, due 1/19/2025)(5)(13) | 32,921 | 25,527 | 22,633 | 0.7% |
| | | | | 25,527 | 22,633 | 0.7% |
| Octagon Investment Partners XVIII, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 16.76%, due 12/16/2024)(5)(6)(13) | 28,200 | 19,391 | 17,805 | 0.5% |
| | | | | 19,391 | 17,805 | 0.5% |
| Onyx Payments(32) | Texas / Diversified Financial Services | Revolving Line of Credit – $3,000 Commitment (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 12/31/2016)(10)(11)(14) | — | — | — | —% |
| | | Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 9/10/2019)(3)(10)(11) | 45,130 | 45,130 | 45,130 | 1.3% |
| | | Senior Secured Term Loan A (6.00% (LIBOR + 5.00% with 1.00% LIBOR floor), due 9/10/2019)(10)(11) | 25,000 | 25,000 | 25,000 | 0.7% |
| | | Senior Secured Term Loan B (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor), due 9/10/2019)(3)(10)(11) | 56,889 | 56,889 | 56,889 | 1.7% |
| | | Senior Secured Term Loan B (13.00% (LIBOR + 12.00% with 1.00% LIBOR floor), due 9/10/2019)(10)(11) | 25,000 | 25,000 | 25,000 | 0.7% |
| | | | | 152,019 | 152,019 | 4.4% |
| Pacific World Corporation | California / Personal & Nondurable Consumer | Revolving Line of Credit – $15,000 Commitment (8.00% (LIBOR + 7.00% with 1.00% LIBOR floor), due 9/26/2020)(10)(12)(14) | 5,500 | 5,500 | 5,500 | 0.2% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Products | Senior Secured Term Loan A (6.00% (LIBOR + 5.00% with 1.00% LIBOR floor), due 9/26/2020)(10)(12) | 97,994 | 97,994 | 94,364 | 2.7% |
| | | Senior Secured Term Loan B (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/26/2020)(3)(10)(12) | 97,994 | 97,994 | 83,137 | 2.4% |
| | | | | 201,488 | 183,001 | 5.3% |
| Pelican Products, Inc. | California / Durable Consumer Products | Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(3)(8)(10)(12) | 17,500 | 17,487 | 16,383 | 0.5% |
| | | | | 17,487 | 16,383 | 0.5% |
| PeopleConnect Intermediate, LLC (f/k/a Intelius, Inc.) | Washington / Software & Computer Services | Revolving Line of Credit – $1,000 Commitment (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 8/11/17)(10)(11)(14) | — | — | — | —% |
| | | Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(10)(11) | 20,199 | 20,199 | 19,764 | 0.6% |
| | | Senior Secured Term Loan B (12.50% (LIBOR + 11.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(10)(11) | 20,849 | 20,849 | 20,154 | 0.6% |
| | | | | 41,048 | 39,918 | 1.2% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| PGX Holdings, Inc.(33) | Utah / Consumer Services | Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(3)(10)(12) | $135,000 | $135,000 | $135,000 | 3.9% |
| | | | | 135,000 | 135,000 | 3.9% |
| Photonis Technologies SAS | France / Aerospace & Defense | First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(8)(10)(12)(13) | 9,927 | 9,770 | 9,127 | 0.3% |
| | | | | 9,770 | 9,127 | 0.3% |
| Pinnacle (US) Acquisition Co. Limited | Texas / Software & Computer Services | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(8)(10)(11) | 7,037 | 6,925 | 5,188 | 0.2% |
| | | | | 6,925 | 5,188 | 0.2% |
| PlayPower, Inc. | North Carolina / Durable Consumer Products | Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 6/23/2022)(3)(8)(10)(11) | 11,000 | 10,862 | 10,924 | 0.3% |
| | | | | 10,862 | 10,924 | 0.3% |
| Prime Security Services Borrower, LLC | Illinois / Consumer Services | Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 7/1/2022)(8)(10)(12) | 5,192 | 5,067 | 5,192 | 0.2% |
| | | | | 5,067 | 5,192 | 0.2% |
| PrimeSport, Inc. | Georgia / Hotels, Restaurants & Leisure | Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(10)(11) | 53,546 | 53,546 | 53,546 | 1.6% |
| | | Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(10)(11) | 74,500 | 74,500 | 72,741 | 2.1% |
| | | | | 128,046 | 126,287 | 3.7% |
| Prince Mineral Holding Corp. | New York / Metal Services & Minerals | Senior Secured Term Loan (11.50%, due 12/15/2019)(8) | 10,000 | 9,939 | 9,004 | 0.3% |
| | | | | 9,939 | 9,004 | 0.3% |
| Royal Holdings, Inc. | Indiana / Chemicals | Second Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 6/19/2023)(8)(10)(11) | 5,000 | 4,968 | 4,915 | 0.1% |
| | | | | 4,968 | 4,915 | 0.1% |
| SCS Merger Sub, Inc. | | | 20,000 | 19,475 | 19,894 | 0.6% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Texas / Software & Computer Services | Second Lien Term Loan (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/30/2023)(3)(8)(10)(12) | | | | |
| | | | | 19,475 | 19,894 | 0.6% |
| Security Alarm Financing Enterprises, L.P.(34) | California / Consumer Services | Subordinated Unsecured Notes (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 12/19/2020)(10)(12) | 25,000 | 25,000 | 25,000 | 0.7% |
| | | | | 25,000 | 25,000 | 0.7% |
| SESAC Holdco II LLC | Tennessee / Media | Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 4/22/2021)(3)(8)(10)(11) | 10,000 | 9,885 | 9,885 | 0.3% |
| | | | | 9,885 | 9,885 | 0.3% |
| SITEL Worldwide Corporation | Tennessee / Business Services | Second Lien Term Loan (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 9/18/2022)(3)(8)(10)(11) | 16,000 | 15,726 | 15,726 | 0.5% |
| | | | | 15,726 | 15,726 | 0.5% |
| Small Business Whole Loan Portfolio(36) | New York / Online Lending | 1,012 Small Business Loans purchased from On Deck Capital, Inc. | 15,810 | 15,810 | 15,206 | 0.4% |
| | | | | 15,810 | 15,206 | 0.4% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Spartan Energy Services, Inc. | Louisiana / Oil & Gas Services | Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 12/28/2017)(10)(12) | $13,156 | $ 12,657 | $ 11,054 | 0.3% |
| | | Senior Secured Term Loan B (13.00% (LIBOR + 12.00% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 12/28/2017)(10)(12) | 14,597 | 13,669 | — | —% |
| | | | | 26,326 | 11,054 | 0.3% |
| Stryker Energy, LLC | Ohio / Oil & Gas Production | Overriding Royalty Interests(9) | — | — | — | —% |
| | | | | — | — | —% |
| Sudbury Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.88%, due 1/17/2026)(5)(13) | 28,200 | 20,336 | 15,978 | 0.5% |
| | | | | 20,336 | 15,978 | 0.5% |
| Symphony CLO XIV Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 11.47%, due 7/14/2026)(5)(6)(13) | 49,250 | 38,489 | 33,771 | 1.0% |
| | | | | 38,489 | 33,771 | 1.0% |
| Symphony CLO XV, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.12%, due 10/17/2026)(5)(13) | 50,250 | 42,821 | 37,311 | 1.1% |
| | | | | 42,821 | 37,311 | 1.1% |
| System One Holdings, LLC | Pennsylvania / Business Services | Senior Secured Term Loan (11.25% (LIBOR + 10.50% with 0.75% LIBOR floor), due 11/17/2020)(3)(10)(12) | 104,553 | 104,553 | 104,553 | 3.0% |
| | | | | 104,553 | 104,553 | 3.0% |
| TouchTunes Interactive Networks, Inc. | New York / Media | Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(8)(10)(11) | 5,000 | 4,938 | 4,938 | 0.1% |
| | | | | 4,938 | 4,938 | 0.1% |
| Traeger Pellet Grills LLC | Oregon / Durable Consumer Products | Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due | 34,238 | 34,238 | 34,238 | 1.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | 6/18/2018)(3)(10)(11) | | | | |
| | | Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(10)(11) | 36,412 | 36,412 | 36,412 | 1.1% |
| | | | | 70,650 | 70,650 | 2.1% |
| Transaction Network Services, Inc. | Virginia / Telecommunication Services | Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(8)(10)(11) | 4,410 | 4,393 | 4,393 | 0.1% |
| | | | | 4,393 | 4,393 | 0.1% |
| Trinity Services Group, Inc.(37) | Florida / Food Products | Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 8/13/2019)(10)(11) | 9,576 | 9,576 | 9,576 | 0.3% |
| | | Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 8/13/2019)(3)(10)(11) | 125,000 | 125,000 | 126,250 | 3.8% |
| | | | | 134,576 | 135,826 | 4.1% |
| United Sporting Companies, Inc.(38) | South Carolina / Durable Consumer Products | Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(3)(10)(12) | 140,847 | 140,847 | 138,758 | 4.0% |
| | | | | 140,847 | 138,758 | 4.0% |
| Universal Fiber Systems, LLC | Virginia / Textiles, Apparel & Luxury Goods | Second Lien Term Loan (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/02/2022)(3)(8)(10)(12) | 37,000 | 36,368 | 37,000 | 1.1% |
| | | | | 36,368 | 37,000 | 1.1% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | September 30, 2016 (Unaudited) Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| USG Intermediate, LLC | Texas / Durable Consumer Products | Revolving Line of Credit – $2,500 Commitment (10.75% (LIBOR + 9.75% with 1.00% LIBOR floor), due 4/15/2017)(10)(12)(14) | $1,000 | $1,000 | $1,000 | —% |
| | | Senior Secured Term Loan A (8.25% (LIBOR + 7.25% with 1.00% LIBOR floor), due 4/15/2020)(3)(10)(12) | 16,616 | 16,616 | 16,616 | 0.5% |
| | | Senior Secured Term Loan B (13.25% (LIBOR + 12.25% with 1.00% LIBOR floor), due 4/15/2020)(3)(10)(12) | 19,906 | 19,906 | 19,906 | 0.6% |
| | | Equity | | 1 | — | —% |
| | | | | 37,523 | 37,522 | 1.1% |
| Universal Turbine Parts, LLC | Alabama / Business Services | Senior Secured Term Loan A (6.75% (LIBOR + 5.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(10)(11) | 32,500 | 32,500 | 32,500 | 0.9% |
| | | Senior Secured Term Loan B (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(10)(11) | 32,500 | 32,500 | 32,500 | 1.0% |
| | | | | 65,000 | 65,000 | 1.9% |
| Venio LLC | Pennsylvania / Business Services | Second Lien Term Loan (12.00% (LIBOR + 9.50% with 2.50% LIBOR floor) plus 2.00% default interest, in non-accrual status effective 12/31/15, due 2/19/2020)(10)(11) | 17,000 | 16,484 | 12,372 | 0.4% |
| | | | | 16,484 | 12,372 | 0.4% |
| Voya CLO 2012-2, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 17.13%, due 10/15/2022)(5)(13) | 38,070 | 27,651 | 27,932 | 0.8% |
| | | | | 27,651 | 27,932 | 0.8% |
| Voya CLO 2012-3, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 16.67%, due 10/15/2022)(5)(13) | 46,632 | 34,101 | 33,025 | 1.0% |
| | | | | 34,101 | 33,025 | 1.0% |
| Voya CLO 2012-4, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 20.55%, due 10/15/2023)(5)(13) | 40,613 | 30,276 | 33,704 | 1.0% |
| | | | | 30,276 | 33,704 | 1.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Voya CLO 2014-1, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 17.62%, due 4/18/2026)(5)(6)(13) | $32,383 | $25,438 | $25,394 | 0.8% |
| | | | | 25,438 | 25,394 | 0.8% |
| Voya CLO 2016-3, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 0.00%, due 10/18/2027)(5)(6)(13) | 28,100 | 26,414 | 26,414 | 0.8% |
| | | | | 26,414 | 26,414 | 0.8% |
| Washington Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 7.60%, due 4/20/2026)(5)(6)(13) | 22,600 | 17,880 | 14,041 | 0.4% |
| | | | | 17,880 | 14,041 | 0.4% |
| Water Pik, Inc. | Colorado / Personal & Nondurable Consumer Products | Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(3)(8)(10)(11) | 15,156 | 14,832 | 15,156 | 0.5% |
| | | | | 14,832 | 15,156 | 0.5% |
| Wheel Pros, LLC | Colorado / Durable Consumer Products | Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(10)(11) | 12,000 | 12,000 | 12,000 | 0.3% |
| | | Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(10)(11) | 5,460 | 5,460 | 5,460 | 0.2% |
| | | | | 17,460 | 17,460 | 0.5% |
| Total Non-Control/Non-Affiliate Investments (Level 3) | | | | $4,422,436 | $4,234,807 | 123.3% |
| Total Portfolio Investments | | | | $6,301,194 | $6,109,596 | 177.8% |

See notes to consolidated financial statements.

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

| Portfolio Company | Locale / Industry | Investments(1) | June 30, 2016<br>Principal Value / Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | |
| Control Investments (greater than 25.00% voting control)(42) | | | | | |
| Arctic Energy Services, LLC(15) | Wyoming / Oil & Gas Services | Class D Units (32,915 units) | $ 31,640 | $ 35,815 | 1.0% |
| | | Class E Units (21,080 units) | 20,230 | 2,525 | 0.1% |
| | | Class A Units (700 units) | 9,006 | — | —% |
| | | Class C Units (10 units) | — | — | —% |
| | | | 60,876 | 38,340 | 1.1% |
| CCPI Inc.(16) | Ohio / Manufacturing | Senior Secured Term Loan A (10.00%, due 12/31/2017)(3) | 12,313 | 12,313 | 0.4% |
| | | Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)(39) | 9,320 | 9,320 | 0.3% |
| | | Common Stock (14,857 shares) | 6,635 | 19,723 | 0.5% |
| | | | 28,268 | 41,356 | 1.2% |
| CP Energy Services Inc.(17) | Oklahoma / Oil & Gas Services | Series B Convertible Preferred Stock (1,043 shares) | 98,273 | 76,002 | 2.2% |
| | | Common Stock (2,924 shares) | 15,227 | — | —% |
| | | | 113,500 | 76,002 | 2.2% |
| Credit Central Loan Company, LLC(18) | South Carolina / Consumer Finance | Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(13)(39) | 36,931 | 36,931 | 1.1% |
| | | Class A Shares (7,500,000 shares)(13) | 11,633 | 11,707 | 0.3% |
| | | Net Revenues Interest (25% of Net Revenues)(13) | — | 3,616 | 0.1% |
| | | | 48,564 | 52,254 | 1.5% |
| Echelon Aviation LLC | New York / Aerospace & Defense | Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(10)(12)(39) | 37,855 | 37,855 | 1.1% |
| | | Membership Interest (99%) | 19,907 | 22,966 | 0.7% |
| | | | 57,762 | 60,821 | 1.8% |
| Edmentum Ultimate Holdings, LLC(19) | Minnesota / Consumer Services | Second Lien Revolving Credit Facility to Edmentum, Inc. – $7,834 Commitment (5.00%, due 6/9/2020)(14) | 6,424 | 6,424 | 0.2% |
| | | Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)(39) | 6,341 | 6,341 | 0.2% |
| | | Unsecured Junior PIK Note (10.00% PIK, due 6/9/2020)(39) | 28,834 / 22,337 | 25,569 | 0.7% |
| | | Class A Common Units (370,964 units) | 6,576 | 6,012 | 0.2% |
| | | | 41,678 | 44,346 | 1.3% |
| First Tower Finance Company LLC(20) | Mississippi / Consumer Finance | Subordinated Term Loan to First Tower, LLC (10.00% plus 12.00% PIK, due 6/24/2019)(13)(39) | 255,762 | 255,762 | 7.4% |
| | | Class A Shares (86,711,625 shares)(13) | 70,476 | 96,904 | 2.8% |

| | | | | | |
|---|---|---|---|---|---|
| | | | 326,238 | 352,666 | 10.2% |
| Freedom Marine Solutions, LLC(21) | Louisiana / Oil & Gas Services | Membership Interest (100%) | 40,810 | 26,618 | 0.8% |
| | | | 40,810 | 26,618 | 0.8% |
| Gulf Coast Machine & Supply Company | Texas / Manufacturing | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), in non-accrual status effective 1/1/2015, due 10/12/2017)(10)(11) | 34,425 | 7,312 | 0.2% |
| | | Series A Convertible Preferred Stock (99,900 shares) | 25,950 | — | —% |
| | | | 60,375 | 7,312 | 0.2% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | June 30, 2016 Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(42) | | | | | | |
| MITY, Inc.(22) | Utah / Durable Consumer Products | Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(10)(11) | $18,250 | $ 18,250 | $ 18,250 | 0.5% |
| | | Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(3)(10)(11)(39) | 16,442 | 16,442 | 16,442 | 0.5% |
| | | Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(13) | 7,200 | 7,200 | 5,667 | 0.2% |
| | | Common Stock (42,053 shares) | | 6,848 | 13,690 | 0.4% |
| | | | | 48,740 | 54,049 | 1.6% |
| National Property REIT Corp.(23) | Various / Real Estate | Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(10)(11)(39) | 248,677 | 248,677 | 248,677 | 7.2% |
| | | Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(11)(39) | 212,819 | 212,819 | 212,819 | 6.2% |
| | | Senior Secured Term Loan C to ACL Loan Holdings, Inc. (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(11)(13)(39) | 99,972 | 99,972 | 99,972 | 2.9% |
| | | Common Stock (1,533,899 shares) | | 165,908 | 215,491 | 6.3% |
| | | Net Operating Income Interest (5% of Net Operating Income) | | — | 66,974 | 2.0% |
| | | | | 727,376 | 843,933 | 24.6% |
| Nationwide Loan Company LLC(24) | Illinois / Consumer Finance | Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(13)(39) | 16,696 | 16,696 | 16,696 | 0.5% |
| | | Class A Shares (29,343,795 shares)(13) | | 16,201 | 19,117 | 0.5% |
| | | | | 32,897 | 35,813 | 1.0% |
| NMMB, Inc.(25) | New York / Media | Senior Secured Note (14.00%, due 5/6/2021) | 3,714 | 3,714 | 3,442 | 0.1% |
| | | Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021) | 7,000 | 7,000 | 6,487 | 0.2% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Series A Preferred Stock (7,200 shares) | | 7,200 | 44 | —% |
| | | Series B Preferred Stock (5,669 shares) | | 5,669 | 34 | —% |
| | | | | 23,583 | 10,007 | 0.3% |
| R-V Industries, Inc. | Pennsylvania / Manufacturing | Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(10)(11) | 28,622 | 28,622 | 28,622 | 0.8% |
| | | Common Stock (545,107 shares) | | 5,087 | 6,039 | 0.2% |
| | | Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017) | | 1,682 | 2,216 | 0.1% |
| | | | | 35,391 | 36,877 | 1.1% |
| USES Corp. (26) | Texas / Commercial Services | Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor) plus 2.00% default interest, in non-accrual status effective 4/1/2016, due 3/31/2019)(10)(11) | 26,300 | 26,158 | 26,300 | 0.8% |
| | | Senior Secured Term Loan B (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor) plus 2.00% default interest, in non-accrual status effective 4/1/2016, due 3/31/2019)(10)(11) | 36,000 | 35,568 | 13,986 | 0.4% |
| | | Common Stock (268,962 shares) | | — | — | —% |
| | | | | 61,726 | 40,286 | 1.2% |

See notes to consolidated financial statements.

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

| Portfolio Company | Locale / Industry | Investments(1) | June 30, 2016 Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(42) | | | | | | |
| Valley Electric Company, Inc.(27) | Washington / Construction & Engineering | Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2019)(3)(10)(11)(39) | $10,430 | $10,430 | $10,430 | 0.3% |
| | | Senior Secured Note (10.00% plus 8.50% PIK, due 6/23/2019)(39) | 23,802 | 23,802 | 20,661 | 0.6% |
| | | Common Stock (50,000 shares) | | 26,204 | — | —% |
| | | | | 60,436 | 31,091 | 0.9% |
| Wolf Energy, LLC | Kansas / Oil & Gas Production | Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018) | 38,257 | — | 659 | —% |
| | | Membership Interest (100%) | | — | — | —% |
| | | Net Profits Interest (8% of Equity Distributions)(4) | | — | 19 | —% |
| | | | | — | 678 | —% |
| | | | | $1,768,220 | $1,752,449 | 51.0% |
| Affiliate Investments (5.00% to 24.99% voting control)(43) | | | | | | |
| BNN Holdings Corp. | Michigan / Healthcare | Series A Preferred Stock (9,925.455 shares)(7) | | $1,780 | $2,270 | 0.1% |
| | | Series B Preferred Stock (1,753.636 shares)(7) | | 448 | 572 | —% |
| | | | | 2,228 | 2,842 | 0.1% |
| Targus International, LLC(28) | California / Durable Consumer Products | Senior Secured Term Loan A (15.00% PIK, in non-accrual status effective 10/1/15, due 12/31/2019)(8) | 1,319 | 1,263 | 1,319 | —% |
| | | Senior Secured Term Loan B (15.00% PIK , in non-accrual status effective 10/1/15, due 12/31/2019)(8) | 3,957 | 3,788 | 3,957 | 0.1% |
| | | Common Stock (1,262,737 shares) | | 3,479 | 3,202 | 0.1% |
| | | | | 8,530 | 8,478 | 0.2% |
| | | | | $10,758 | $11,320 | 0.3% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | June 30, 2016 Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| AFI Shareholder, LLC (f/k/a Aircraft Fasteners International, LLC) | California / Machinery | Class A Units (32,500 units) | | $ 330 | $ 511 | —% |
| | | | | 330 | 511 | —% |
| Airmall Inc. | Pennsylvania / Property Management | Escrow Receivable | | 3,916 | 3,900 | 0.1% |
| | | | | 3,916 | 3,900 | 0.1% |
| Ajax Rolled Ring & Machine, LLC(35) | South Carolina / Manufacturing | Escrow Receivable | | — | 608 | —% |
| | | | | — | 608 | —% |
| ALG USA Holdings, LLC | Pennsylvania / Hotels, Restaurants & Leisure | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(8)(10)(11) | 11,770 | 11,630 | 11,771 | 0.3% |
| | | | | 11,630 | 11,771 | 0.3% |
| American Gilsonite Company(29) | Utah / Metal Services & Minerals | Membership Interest (1.93%) | | — | — | —% |
| | | | | — | — | —% |
| Apidos CLO IX | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.98%, due 7/15/2023)(5)(13) | 23,525 | 19,997 | 19,966 | 0.6% |
| | | | | 19,997 | 19,966 | 0.6% |
| Apidos CLO XI | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 11.95%, due 1/17/2023)(5)(13) | 38,340 | 29,763 | 26,057 | 0.8% |
| | | | | 29,763 | 26,057 | 0.8% |
| Apidos CLO XII | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 13.39%, due 4/15/2025)(5)(13) | 44,063 | 34,598 | 30,638 | 0.9% |
| | | | | 34,598 | 30,638 | 0.9% |
| Apidos CLO XV | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.72%, due 10/20/2025)(5)(13) | 36,515 | 31,479 | 25,335 | 0.7% |
| | | | | 31,479 | 25,335 | 0.7% |
| Apidos CLO XXII | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 17.29%, due 10/20/2027)(5)(6)(13) | 31,350 | 26,948 | 25,369 | 0.7% |
| | | | | 26,948 | 25,369 | 0.7% |
| Arctic Glacier U.S.A., Inc. | Minnesota / Food Products | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(10)(11) | 150,000 | 150,000 | 145,546 | 4.2% |
| | | | | 150,000 | 145,546 | 4.2% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ark-La-Tex Wireline Services, LLC | Louisiana / Oil & Gas Services | Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(10)(12) | 21,322 | 21,088 | 11,779 | 0.3% |
| | | Senior Secured Term Loan B (12.50% (LIBOR + 11.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(10)(12) | 23,981 | 23,239 | — | —% |
| | | | | 44,327 | 11,779 | 0.3% |
| Armor Holding II LLC | New York / Diversified Financial Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(10)(11) | 7,000 | 6,907 | 6,907 | 0.2% |
| | | | | 6,907 | 6,907 | 0.2% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | June 30, 2016 Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Atlantis Health Care Group (Puerto Rico), Inc. | Puerto Rico / Healthcare | Revolving Line of Credit – $7,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 8/21/2017)(10)(11)(14) | $2,350 | $ 2,350 | $ 2,350 | 0.1% |
| | | Senior Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 2/21/2018)(3)(10)(11) | 38,166 | 38,166 | 38,166 | 1.1% |
| | | | | 40,516 | 40,516 | 1.2% |
| Babson CLO Ltd. 2014-III | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.25%, due 1/15/2026)(5)(6)(13) | 52,250 | 44,075 | 40,312 | 1.2% |
| | | | | 44,075 | 40,312 | 1.2% |
| Broder Bros., Co. | Pennsylvania / Textiles, Apparel & Luxury Goods | Senior Secured Term Loan A (7.00% (LIBOR + 5.75% with 1.25% LIBOR floor), due 6/03/2021)(3)(10)(12) | 120,737 | 120,737 | 120,737 | 3.5% |
| | | Senior Secured Term Loan B (13.50% (LIBOR + 12.25% with 1.25% LIBOR floor), due 6/03/2021)(10)(12) | 121,475 | 121,475 | 121,475 | 3.5% |
| | | | | 242,212 | 242,212 | 7.0% |
| Brookside Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.44%, due 4/17/2025)(5)(13) | 26,000 | 19,875 | 18,990 | 0.6% |
| | | | | 19,875 | 18,990 | 0.6% |
| California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.) | Cayman Islands / Structured Finance | Preference Shares (Residual Interest, current yield 14.11%, due 4/16/2022)(5)(13) | 45,500 | 32,629 | 29,267 | 0.9% |
| | | | | 32,629 | 29,267 | 0.9% |
| Capstone Logistics Acquisition, Inc. | Georgia / Business Services | Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(8)(10)(12) | 101,828 | 101,298 | 97,752 | 2.8% |
| | | | | 101,298 | 97,752 | 2.8% |
| Cent CLO 17 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.64%, due 1/30/2025)(5)(13) | 24,870 | 18,839 | 16,695 | 0.5% |
| | | | | 18,839 | 16,695 | 0.5% |
| Cent CLO 20 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.19%, due 1/25/2026)(5)(13) | 40,275 | 32,835 | 26,501 | 0.8% |
| | | | | 32,835 | 26,501 | 0.8% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cent CLO 21 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 11.64%, due 7/27/2026)(5)(6)(13) | 48,528 | 38,125 | 31,467 | 0.9% |
| | | | | 38,125 | 31,467 | 0.9% |
| CIFC Funding 2013-III, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.72%, due 10/24/2025)(5)(13) | 44,100 | 32,338 | 29,634 | 0.9% |
| | | | | 32,338 | 29,634 | 0.9% |
| CIFC Funding 2013-IV, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.13%, due 11/27/2024)(5)(13) | 45,500 | 33,414 | 32,752 | 0.9% |
| | | | | 33,414 | 32,752 | 0.9% |
| CIFC Funding 2014-IV Investor, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 15.05%, due 10/17/2026)(5)(6)(13) | 41,500 | 31,729 | 30,378 | 0.9% |
| | | | | 31,729 | 30,378 | 0.9% |
| Cinedigm DC Holdings, LLC | New York / Software & Computer Services | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(10)(11)(39) | 65,990 | 65,940 | 65,990 | 1.9% |
| | | | | 65,940 | 65,990 | 1.9% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1) | June 30, 2016 Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Coverall North America, Inc. | Florida / Commercial Services | Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(10)(11) | $24,250 | $ 24,250 | $24,250 | 0.7% |
| | | Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(10)(11) | 25,000 | 25,000 | 25,000 | 0.7% |
| | | | | 49,250 | 49,250 | 1.4% |
| Crosman Corporation | New York / Manufacturing | Senior Secured Term Loan A (9.16% (LIBOR + 8.70% with .30% LIBOR floor) plus 4.00% PIK, due 8/5/2020)(3)(10)(12)(39) | 54,185 | 54,185 | 53,935 | 1.6% |
| | | Senior Secured Term Loan B (16.16% (LIBOR + 15.70% with .30% LIBOR floor) plus 4.00% PIK, due 8/5/2020)(10)(12)(39) | 41,284 | 41,284 | 40,458 | 1.1% |
| | | | | 95,469 | 94,393 | 2.7% |
| CURO Group Holdings Corp. (f/k/a Speedy Cash Holdings Corp.) | Canada / Consumer Finance | Senior Unsecured Notes (12.00%, due 11/15/2017)(8)(13) | 15,000 | 15,000 | 8,081 | 0.2% |
| | | | | 15,000 | 8,081 | 0.2% |
| Easy Gardener Products, Inc. | Texas / Durable Consumer Products | Senior Secured Term Loan (10.63% (LIBOR + 10.00% with .25% LIBOR floor), due 09/30/2020)(3)(10)(11) | 17,369 | 17,369 | 17,369 | 0.5% |
| | | | | 17,369 | 17,369 | 0.5% |
| Empire Today, LLC | Illinois / Durable Consumer Products | Senior Secured Note (11.375%, due 2/1/2017)(8) | 50,426 | 49,988 | 49,938 | 1.4% |
| | | | | 49,988 | 49,938 | 1.4% |
| Fleetwash, Inc. | New Jersey / Business Services | Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)(3)(10)(11) | 23,402 | 23,402 | 23,402 | 0.7% |
| | | Delayed Draw Term Loan – $15,000 Commitment (expires 4/30/2019)(10)(14) | — | — | — | —% |
| | | | | 23,402 | 23,402 | 0.7% |
| Focus Brands, Inc. | Georgia / Consumer | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR | 18,000 | 17,876 | 18,000 | 0.5% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Services | floor), due 8/21/2018)(8)(10)(12) | | | | |
| | | | | 17,876 | 18,000 | 0.5% |
| Galaxy XV CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 18.19%, due 4/15/2025)(5)(13) | 39,275 | 29,037 | 30,452 | 0.9% |
| | | | | 29,037 | 30,452 | 0.9% |
| Galaxy XVI CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.22%, due 11/16/2025)(5)(13) | 24,575 | 19,195 | 18,925 | 0.5% |
| | | | | 19,195 | 18,925 | 0.5% |
| Galaxy XVII CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.77%, due 7/15/2026)(5)(6)(13) | 39,905 | 31,077 | 29,820 | 0.9% |
| | | | | 31,077 | 29,820 | 0.9% |
| Generation Brands Holdings, Inc. | Illinois / Durable Consumer Products | Subordinated Secured Term Loan (11.00% (LIBOR + 10.00% with 1.00% LIBOR floor), due 12/10/2022)(8)(10)(11) | 19,000 | 18,437 | 19,000 | 0.6% |
| | | | | 18,437 | 19,000 | 0.6% |
| Global Employment Solutions, Inc. | Colorado / Business Services | Senior Secured Term Loan (10.25% (LIBOR + 9.25% with 1.00% LIBOR floor), due 6/26/2020)(3)(10)(12) | 49,312 | 49,312 | 49,312 | 1.4% |
| | | | | 49,312 | 49,312 | 1.4% |

See notes to consolidated financial statements.

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

| Portfolio Company | Locale / Industry | Investments(1) | June 30, 2016 Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Halcyon Loan Advisors Funding 2012-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 17.90%, due 8/15/2023)(5)(13) | $23,188 | $ 18,245 | $ 18,140 | 0.5% |
| | | | | 18,245 | 18,140 | 0.5% |
| Halcyon Loan Advisors Funding 2013-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 18.01%, due 4/15/2025)(5)(13) | 40,400 | 31,897 | 32,212 | 0.9% |
| | | | | 31,897 | 32,212 | 0.9% |
| Halcyon Loan Advisors Funding 2014-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 13.66%, due 4/18/2026)(5)(13) | 24,500 | 18,255 | 17,076 | 0.5% |
| | | | | 18,255 | 17,076 | 0.5% |
| Halcyon Loan Advisors Funding 2014-2 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.91%, due 4/28/2025)(5)(6)(13) | 41,164 | 30,795 | 30,532 | 0.9% |
| | | | | 30,795 | 30,532 | 0.9% |
| Halcyon Loan Advisors Funding 2015-3 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.86%, due 10/18/2027)(5)(6)(13) | 39,598 | 36,746 | 35,202 | 1.0% |
| | | | | 36,746 | 35,202 | 1.0% |
| Harbortouch Payments, LLC | Pennsylvania / Business Services | Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor) plus 3.00% PIK, due 5/31/2023)(10)(11)(39) | 27,500 | 27,500 | 27,500 | 0.8% |
| | | Escrow Receivable | | — | 1,602 | —% |
| | | | | 27,500 | 29,102 | 0.8% |
| HarbourView CLO VII, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 17.35%, due 11/18/2026)(5)(6)(13) | 19,025 | 14,454 | 13,005 | 0.4% |
| | | | | 14,454 | 13,005 | 0.4% |
| Harley Marine Services, Inc. | Washington / Transportation | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(8)(10)(11) | 9,000 | 8,886 | 8,886 | 0.3% |
| | | | | 8,886 | 8,886 | 0.3% |
| Hollander Sleep Products, LLC | Florida / Durable Consumer Products | Senior Secured Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 10/21/2020)(3)(10)(12) | 21,860 | 21,860 | 21,098 | 0.6% |
| | | | | 21,860 | 21,098 | 0.6% |
| | | Escrow Receivable | | — | 6 | —% |

| | | | | | | |
|---|---|---|---|---|---|---|
| ICV-CAS Holdings, LLC | New York / Transportation | | | | | |
| | | | | — | 6 | —% |
| Inpatient Care Management Company LLC | Florida / Healthcare | Senior Secured Term Loan (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 6/8/2021(10)(12) | 17,000 | 17,000 | 17,000 | 0.5% |
| | | | | 17,000 | 17,000 | 0.5% |
| Instant Web, LLC | Minnesota / Media | Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(10)(11) | 122,943 | 122,943 | 122,943 | 3.6% |
| | | Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(10)(11) | 158,100 | 158,100 | 158,100 | 4.6% |
| | | Senior Secured Term Loan C-1 (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(10)(11) | 27,000 | 27,000 | 27,000 | 0.8% |
| | | Senior Secured Term Loan C-2 (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor), due 3/28/2019)(10)(11) | 25,000 | 25,000 | 25,000 | 0.7% |
| | | | | 333,043 | 333,043 | 9.7% |

See notes to consolidated financial statements.

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

| Portfolio Company | Locale / Industry | Investments(1) | June 30, 2016 Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
|---|---|---|---|---|---|---|
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| InterDent, Inc. | California / Healthcare | Senior Secured Term Loan A (6.25% (LIBOR + 5.50% with 0.75% LIBOR floor), due 8/3/2017)(10)(12) | $79,538 | $ 79,538 | $79,538 | 2.3% |
| | | Senior Secured Term Loan B (11.25% (LIBOR + 10.50% with 0.75% LIBOR floor), due 8/3/2017)(3)(10)(12) | 131,125 | 131,125 | 130,582 | 3.8% |
| | | | | 210,663 | 210,120 | 6.1% |
| JAC Holding Corporation | Michigan / Transportation | Senior Secured Note (11.50%, due 10/1/2019)(8) | 2,868 | 2,868 | 2,868 | 0.1% |
| | | | | 2,868 | 2,868 | 0.1% |
| Jefferson Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.75%, due 7/20/2027)(5)(6)(13) | 19,500 | 16,915 | 13,072 | 0.4% |
| | | | | 16,915 | 13,072 | 0.4% |
| JHH Holdings, Inc. | Texas / Healthcare | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor) plus 0.50% PIK, due 3/30/2019)(3)(10)(11)(39) | 35,477 | 35,477 | 35,477 | 1.0% |
| | | | | 35,477 | 35,477 | 1.0% |
| LaserShip, Inc. | Virginia / Transportation | Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 2.00% PIK, due 3/18/2019)(3)(10)(12)(39) | 34,570 | 34,570 | 32,113 | 0.9% |
| | | Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 2.00% PIK, due 3/18/2019)(3)(10)(12)(39) | 21,214 | 21,214 | 19,705 | 0.6% |
| | | | | 55,784 | 51,818 | 1.5% |
| LCM XIV Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 18.80%, due 7/15/2025)(5)(13) | 30,500 | 22,890 | 23,376 | 0.7% |
| | | | | 22,890 | 23,376 | 0.7% |
| Madison Park Funding IX, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 21.15%, due 8/15/2022)(5)(13) | 31,110 | 22,259 | 21,174 | 0.6% |
| | | | | 22,259 | 21,174 | 0.6% |
| Matrixx Initiatives, Inc. | New Jersey / Pharmaceuticals | Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR | 30,177 | 30,177 | 30,177 | 0.9% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | floor), due 8/9/2018)(3)(10)(11) | | | | |
| | | Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(10)(11) | 40,562 | 40,562 | 40,562 | 1.2% |
| | | | | 70,739 | 70,739 | 2.1% |
| Maverick Healthcare Equity, LLC | Arizona / Healthcare | Preferred Units (1,250,000 units) | | 1,252 | 2,037 | 0.1% |
| | | Class A Common Units (1,250,000 units) | | — | 353 | —% |
| | | | | 1,252 | 2,390 | 0.1% |
| Mineral Fusion Natural Brands(30) | Colorado / Personal & Nondurable Consumer Products | Membership Interest (1.43%) | | — | 266 | —% |
| | | | | — | 266 | —% |
| Mountain View CLO 2013-I Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.72%, due 4/12/2024)(5)(13) | 43,650 | 33,156 | 30,928 | 0.9% |
| | | | | 33,156 | 30,928 | 0.9% |
| Mountain View CLO IX Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.23%, due 7/15/2027)(5)(6)(13) | 47,830 | 43,088 | 40,218 | 1.2% |
| | | | | 43,088 | 40,218 | 1.2% |

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| | | | June 30, 2016 | | | |
|---|---|---|---|---|---|---|
| Portfolio Company | Locale / Industry | Investments(1) | Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Nathan's Famous, Inc. | New York / Food Products | Senior Secured Notes (10.00%, due 3/15/2020)(8) | $3,000 | $ 3,000 | $ 3,000 | 0.1% |
| | | | | 3,000 | 3,000 | 0.1% |
| NCP Finance Limited Partnership(31) | Ohio / Consumer Finance | Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(8)(10)(12)(13) | 27,199 | 26,504 | 25,838 | 0.7% |
| | | | | 26,504 | 25,838 | 0.7% |
| Nixon, Inc. | California / Durable Consumer Products | Senior Secured Term Loan (9.50% plus 3.00% PIK, due 4/16/2018)(3)(8)(39) | 14,311 | 14,197 | 11,776 | 0.3% |
| | | | | 14,197 | 11,776 | 0.3% |
| Octagon Investment Partners XV, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 16.54%, due 1/19/2025)(5)(13) | 32,921 | 26,213 | 24,027 | 0.7% |
| | | | | 26,213 | 24,027 | 0.7% |
| Octagon Investment Partners XVIII, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 20.29%, due 12/16/2024)(5)(6)(13) | 28,200 | 20,046 | 19,701 | 0.6% |
| | | | | 20,046 | 19,701 | 0.6% |
| Onyx Payments(32) | Texas / Diversified Financial Services | Revolving Line of Credit – $5,000 Commitment (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 9/10/2016)(10)(11)(14) | 1,000 | 1,000 | 1,000 | —% |
| | | Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 9/10/2019)(3)(10)(11) | 48,352 | 48,352 | 48,352 | 1.4% |
| | | Senior Secured Term Loan B (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor), due 9/10/2019)(3)(10)(11) | 59,389 | 59,389 | 59,389 | 1.8% |
| | | | | 108,741 | 108,741 | |