January 11, 2016

Equity Research

Prospect Capital Corporation

PSEC: Don't Look Under The Hood! Downgrading To Underperform

Underperform

Sector: BDC
Overweight

Rating Change

- **Downgrading PSEC over concern with relative valuations and significant exposure to NAV losses.** We are downgrading PSEC to Underperform from Market Perform based on (1) *a lack of management / board credibility in our view tied to overvaluation of assets such as CLOs and control equity stakes*, (2) *a 15-20% expected NAV decline if the "independent" board decides to mark these assets correctly*, (3) *a potential loss of PSEC's investment grade credit rating*, and (4) *potential dilution to PSEC shareholders if management commences with a dilutive rights offering.* To be clear, it's entirely possible that the deep valuation discount present in PSEC shares (0.68x NAV, 14.5% yield) may mitigate some absolute downside risk to PSEC shareholders. That said, among other significantly discounted BDCs, those in which the market lacks confidence relative to others, we see more visible asset valuation and even proactive shareholder-friendly measures to bridge the valuation gap. In our view, PSEC may be doing just the opposite, with what we see as potentially delaying asset write-downs, moving out on the risk spectrum, and pushing to retain the right to issue shares below NAV – *which we believe it has abused in the past* – when it should be buying back shares (the BDC, that is). We lower the valuation range to $5.00-5.50 from $6.75-7.25.
- **CLO Mark to Market Potential Downside is 7+%.** PSEC has one of the largest CLO portfolios in the BDC space at $1.2 Bn (33% of NAV) and with the current CLO market decline, we believe that PSEC could see a meaningful markdown of their portfolio as a whole. That said, while the market decline has exacerbated since the 9/30 period, in which PSEC did not write down its book materially, there is no guarantee that management will mark to market.
- **Control Portfolio Potential Downside is 10+%.** PSEC's exposure to control investments is now over $2.0 Bn (55% of NAV), wherein we see outsized risks due to the portfolio's (1) sector exposure including oil & gas and consumer finance, and (2) aggressive loan structures with embed equity-like risk throughout the portfolio, potentially exposing the BDC to outsized risks in the even that these companies face volatility. Of course, these are Level 3 assets where management has significant discretion, yet we believe that with potential peer/comparable companies, write-downs are highly likely.
- **Potential Concerns for a Dilutive Rights Offering.** For a small group of BDCs, the dilutive rights offering was the soup du jour of 2015, and while management maintains publicly that they intend to conduct a rights offering at NAV, recent actions and language in Prospect's request for exemptive relief highlight the possibility of a dilutive offering and for this we see a potential 'grey swan' event that offers additional potential downside via a major equity offering potentially at today's 32% discount or more.

Valuation Range: $5.00 to $5.50 **from $6.75 to $7.25**
We believe PSEC should trade between 0.50x and 0.55x NAV based on a higher risk portfolio composition and market skepticism of the Board's portfolio valuations. Risks to our valuation range include a significant deterioration in credit quality, dilutive equity issuance, or an extended period of capital markets illiquidity.

Investment Thesis:
We rate PSEC Underperform. We believe that there are significant credit risks not currently accounted for in share prices.

	2015A	2016E		2017E	
CASH EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Sep.)	$0.28	$0.26 A	NC	$0.23	NC
Q2 (Dec.)	0.26	0.23	NC	0.24	NC
Q3 (Mar.)	0.24	0.23	NC	0.24	NC
Q4 (June)	0.25	0.23	NC	0.24	NC
FY	$1.03	$0.95	NC	$0.95	NC
CY	$1.10	NE		NE	
FY P/E	6.7x	7.3x		7.3x	
Rev.(MM)	$791	$759		$757	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ♞ = Company is on the Priority Stock List

Cash EPS is net operating income which excludes realized and unrealized gains and losses.

Ticker	PSEC
Price (01/08/2016)	$6.90
52-Week Range:	$5-9
Shares Outstanding: (MM)	341.2
Market Cap.: (MM)	$2,354.3
S&P 500:	1,922.03
Avg. Daily Vol.:	4,683,300
Dividend/Yield:	$1.32/19.1%
LT Debt: (MM)	$2,819.3
LT Debt/Total Cap.:	43.8%
ROE:	10.0%
3-5 Yr. Est. Growth Rate:	0.0%
CY 2016 Est. P/C. EPS-to-Growth:	NM
Last Reporting Date:	11/04/2015 After Close

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Please see page 18 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 01/11/16 unless otherwise stated.

Downgrading to Underperform on relative Price / NAV and likely mark-downs. Looking at PSEC from a broad perspective we see two reasons why we believe investors should not own the stock: (1) we believe that NAV will come down in the near future as many assets are linked to recent volatility; and (2) our view that there are other more attractive BDCs trading at a similar discount to NAV. Judging a BDC's valuation of their assets can often be difficult as they are illiquid by nature and do not always have readily available valuation comparables. Despite this, we believe that many of PSEC's investments are overvalued at their current levels. **While it is difficult to determine the actual value of their assets with the information available to the public, we are able to identify pockets of the BDC's investment composition that are highly likely to face markdowns given broader market movements**. We focused on the valuations of PSEC's control holdings (55% of NAV) as well as their CLO structures (33% of NAV) and determined that we are likely to see losses based on the 9/30 NAV. In our view, losses – while difficult to determine insofar as information is limited and management holds discretion as to the timing of incurring such losses – will likely make PSEC an underperformer in 2016, bar an equally offsetting valuation multiple.

In light of the persisting NAV overhang, we believe that there are other BDCs trading at a similar discount which are more transparent, leading us to believe that PSEC shares are relatively overvalued—hence our Underperform rating. For example, one BDC trading at a similar discount where we see a more attractive opportunity is MCC; we recently upgraded MCC ($7.18) to Outperform as the shares offer a substantial discount to NAV while making proactive, shareholder-friendly changes to the fee structure. Furthermore, we see activist investors influencing other BDCs trading at this level. FSC and ACAS both have activist investors which could create positive changes in the name creating value. See **Figure 1.** Further, we can see this assessment is supported by the market in that PSEC is one of the only major heavily discounted / Quartile 4 BDCs that has yet to receive public activist inquiry.

Figure 1. PSEC vs. ECC CLO Portfolio Comparison (as of 1/8/16)

ACAS recently repurchases 20.7MM shares of stock and is in the process of conducting a strategic review to maximize shareholder value

FSC is trading at a similar discount but currently has an activist investor involved which could prompt positive changes within the name

January-2016 BDC Scorecard				Total Return		
	Price	Price/NAV	Div. Yield	1 Week	1 Month	1-year
ACSF	$9.64	0.71x	12.1%	-2.4%	-5.2%	-14.9%
ACAS	$14.26	0.68x	0.0%	1.3%	-3.1%	-2.9%
AINV	$5.17	0.67x	15.4%	-0.2%	-8.4%	-17.3%
MCC	$7.18	0.66x	16.6%	-3.9%	-6.5%	-8.6%
FSC	$6.06	0.69x	11.7%	-3.3%	-2.9%	-15.3%
PNNT	$6.16	0.63x	18.2%	-0.3%	-7.5%	-22.9%
PSEC	$6.90	0.68x	14.5%	-1.3%	-2.3%	-6.5%
S&P 500				-4.9%	-7.5%	-5.1%
S&P 600 Financials				-4.4%	-8.8%	-6.6%
High Yield Corp ETF (HYG)				-1.1%	-2.6%	-5.3%

We recently upgraded MCC as they are trading at a substantial discount and recently adjusted their fee structure to be more attractive to shareholders.

Source: Company Reports and Wells Fargo Securities, LLC

What might delay the mark-down in valuations that we are predicting? Recall, the vast majority of PSEC's assets are classified as Level 3 under ASC 820, where management is able to apply significant discretionary input in marking the assets. We see incentives for PSEC to be aggressive in the valuations keeping NAV higher than we believe it should be; For example, should Prospect Capital Management (the adviser / administrator) the fair value marks where they could likely sell investments, it could place their investment grade rating in danger as they would likely breech the 220% level as outlined by S&P. S&P stated that an asset coverage ratio below 220% could cause them to downgrade PSEC further. A downgrade could limit PSEC's ability to issue their InterNotes at an attractive level increasing cost of borrowing while limiting PSEC's flexibility in managing their leverage potential. What's more, base management fees to the advisor would be reduced, potentially impairing the profitability of Prospect Capital Management.

A key defense that PSEC management may use to justify still owning PSEC shares would be this… "ok, ok…let's say Wells Fargo Research is right and our book is worth 17% less today…that still doesn't come anywhere close to where our stock price is trading at a 32% discount to NAV!" That's an interesting defense, but it rings hollow. In short, if investors believe that management is willingly overstating NAV in several areas (CLOs, control equity, etc), then the market is MORE likely to hold the shares at a substantial discount. I remember my very old boss in St. Louis said it this way… "an airline doesn't delay you just once", essentially saying that "where you find one problem, you'll likely encounter another." In the case of PSEC, we have identified several valuation inconsistencies the market is likely to take issue with and, as a result, we believe the market is likely to continue to apply a strong valuation discount against the shares…because it may require a margin of safety for other assets that are potentially over-marked—but the market does not yet know about.

<u>A key defense by PSEC mgmt. "wait...our CEO just purchased $50MM in stock recently...that's good-right?".</u> We believe the market appreciates stock purchases *though the stock is still at the same level from when the CEO started buying.* Of course, the market does find it odd that the CEO's purchases increased heavily at a point when BDC activists are forcing change at other BDCs. What's more, the market may also be interested in the size of purchase relative to the net worth of the individual. Recall, the CEO of PSEC owns nearly all of the BDC's external manager and the market could make a very reasonable argument that owning 100% of an estimated $100MM/year annuity is way more valuable than purchasing $50MM worth of PSEC stock. Bottom line, the market may appreciate insider ownership...but less so than lower fees and stock repurchases more (as this actually lifts NAV)...

In light of near-term volatility in the CLO market, we see potential for a meaningful reduction in PSEC's CLO portfolio (which drives PSEC's NAV 7+% lower). Per regulations, each BDC is required to provide investors a fair value mark on each position in their portfolio. In short, the portfolio should reflect the price at which PSEC would be able to sell their CLO equity at that moment in time. Now, whenever we deal with BDC management teams they often like to hide behind the comment that "*one needs to assume an orderly market in order to FV correctly---and today, the CLO market seems less than orderly*." That's certainly a fair point, but it's easily refuted when we start to look at comparisons of PSEC's CLO equity vs. another world class CLO equity investor (Eagle Point) who also happens to run a public closed end fund and is subjected to the same valuation constraints as PSEC. In **Figure 2**, we look at CLO marks of PSEC and ECC (as a %) of par starting as of 12/31/14 and compare them to today. **Notably, since 12/31/14, ECC has lowered its valuation of CLO equity by 17 pts compared to PSEC's decision to lower the value on their CLOs by just 7pts.** What's more, we believe the CLO equity market has weakened meaningfully since 9/30/15, thus it is likely going to be harder for PSEC to justify such a valuation disparity on what is likely a very similar asset pool. See **Figure 2**.

Figure 2. PSEC vs. ECC CLO Portfolio Comparison (as of 9/30/15)

ECC CLO Portfolio

CLO Position	12/31/2014 FV as % of Par	9/30/2015 FV as % of Par
Apidos CLO XIV	89.8%	67.1%
Avery Point V CLO	81.8%	43.9%
Babson CLO 2013-II	85.6%	65.4%
BlueMountain CLO 2013-2	88.7%	70.1%
Battalion CLO IX	NA	86.8%
CIFC Funding 2013-I	87.8%	68.6%
CIFC Funding 2013-II	91.5%	64.9%
CIFC Funding 2014	81.8%	61.4%
CIFC Funding 2014	76.0%	58.5%
CIFC Funding 2014-III	NA	66.2%
CIFC Funding 2014-IV	84.1%	57.5%
CIFC Funding 2015-III	NA	85.1%
Cutw ater 2015-I	NA	83.7%
Flagship CLO VIII	85.4%	56.3%
Flagship CLO VIII	79.5%	50.7%
Galaxy XVIII CLO	70.7%	49.1%
GoldenTree Loan Opportunities VIII	NA	69.3%
Halcyon Loan Advisors Funding 2014-3	89.8%	47.9%
Marathon CLO VI	100.8%	78.6%
Marathon CLO VII	92.0%	72.0%
Marathon CLO VIII	NA	87.8%
Octagon Investment Partners XIV	73.6%	51.8%
Octagon Investment Partners XIV	72.1%	50.1%
Octagon Investment Partners XIX	83.8%	55.6%
Octagon Investment Partners XVII	88.0%	55.9%
Octagon Investment Partners XX	89.4%	65.6%
OHA Credit Partners IX	82.3%	59.6%
Regatta III Funding	78.4%	44.4%
Sheridan Square CLO	83.6%	82.1%
Symphony CLO XII	88.2%	NA
THL Credit Wind River 2013-2 CLO	80.2%	33.6%
THL Credit Wind River 2013-2 CLO	37.8%	59.8%
THL Credit Wind River 2014-3 CLO	89.8%	75.2%
Voya CLO 2014-4	87.9%	68.2%
Zais CLO 3	NA	67.8%
Total CLO Portfolio	84.7%	67.6%

Notably, from 12/31/14 to 9/30/15...ECC decided to lower its valuation on its CLO equity investments from 84.7% of par to 67.6% of par--a decline of 17%. In contrast, PSEC lowered their value of their CLO equity portfolio from 93.2% to just 85.4% of par...a decline of just 7.8%

PSEC CLO Portfolio

CLO Position	12/31/2014 FV as % of Par	9/30/2015 FV as % of Par
Apidos CLO IX	92.4%	97.5%
Apidos CLO XI	89.4%	79.0%
Apidos CLO XII	92.6%	85.0%
Apidos CLO XV	96.4%	80.9%
Apidos CLO XXII	NA	85.5%
Babson CLO Ltd. 2014-III	96.3%	87.2%
Brookside Mill CLO Ltd.	94.1%	88.2%
Cent CLO 17 Limited	93.1%	81.1%
Cent CLO 20 Limited	94.5%	79.7%
Cent CLO 21 Limited	92.1%	83.2%
CIFC Funding 2011-I, Ltd.	95.5%	97.1%
CIFC Funding 2011-I, Ltd.	99.0%	93.1%
CIFC Funding 2013-III, Ltd.	94.4%	76.7%
CIFC Funding 2013-IV, Ltd.	87.4%	80.8%
CIFC Funding 2014-IV Investor, Ltd.	91.3%	85.2%
Galaxy XV CLO, Ltd.	87.4%	81.2%
Galaxy XVI CLO, Ltd.	88.0%	81.0%
Galaxy XVII CLO, Ltd.	87.2%	80.6%
Halcyon Loan Advisors Funding 2012-1 Ltd.	98.6%	100.3%
Halcyon Loan Advisors Funding 2013-1 Ltd.	100.1%	94.4%
Halcyon Loan Advisors Funding 2014-1 Ltd.	93.6%	88.6%
Halcyon Loan Advisors Funding 2014-2 Ltd.	95.6%	89.2%
Halcyon Loan Advisors Funding 2015-3 Ltd.	NA	95.1%
HarbourView CLO VII, Ltd.	NA	73.1%
Jefferson Mill CLO Ltd.	NA	86.0%
LCM XIV Ltd.	90.7%	84.2%
Madison Park Funding IX, Ltd.	84.5%	83.2%
Mountain View CLO 2013-I Ltd.	96.9%	89.3%
Mountain View CLO IX Ltd.	NA	94.6%
Octagon Investment Partners XV, Ltd.	96.1%	86.9%
Octagon Investment Partners XVIII, Ltd.	NA	82.2%
Sudbury Mill CLO Ltd.	89.6%	79.7%
Symphony CLO IX Ltd.	93.5%	83.8%
Symphony CLO XIV Ltd.	96.1%	86.6%
Symphony CLO XV, Ltd.	97.1%	89.5%
Voya CLO 2012-2, Ltd.	89.6%	82.9%
Voya CLO 2012-3, Ltd.	89.6%	79.6%
Voya CLO 2012-4, Ltd.	94.1%	83.1%
Voya CLO 2014-1, Ltd.	98.3%	86.2%
Washington Mill CLO Ltd.	95.0%	86.0%
Total CLO Portfolio	93.2%	85.4%

Source: Company Reports and Wells Fargo Securities, LLC

What's more...if we step away and look at a situation where PSEC and ECC share a CLO security (**Figure 3**), it is also clear that PSEC decides to hold the same CLO at a 27 pt premium. Now look...we understand management will likely try to argue that they should hold their control stakes at premiums (and we address this later), but the market would probably argue... "ok, I get it...hold it at a slight premium...but is it really worth 27pts?" We believe the market would say, "not really..."

Figure 3. The Same CLO Asset, Two VERY different prices (as of 9/30/15) ($ in Millions)

Portfolio Company	Investment	Par	Cost	Fair Value	% of Par
CIFC Funding 2014-IV Investor, Ltd.	Income Notes	41.5	33.1	35.4	85.2%
CIFC Funding 2014-IV, Ltd.	CLO Income Notes	7.0	5.5	4.0	57.5%
				Difference in Valuation	-27.7%

Source: Company Reports, Wells Fargo Securities, LLC

Now, it is entirely possible that when confronted with true facts, PSEC management and the board will be forced to defend their overpriced CLO equity valuations by making the following statements: (1) "we are the control equity investor--we control the call", (2) "we only invest in the best managers", and (3) "our portfolio is different (i.e. better) than ECCs". ***We'd like to refute each of these points one by one...***

Management defense #1 -- "we are the control equity investor and control the call"... Controlling the call in a CLO is valuable in our view as it allows you to reprice your liabilities lower at a point when spreads tighten and/or... That said, it's also hard to say that ECC does not take control stakes in their CLOs (they do)...so for PSEC to justify that their CLOs are somehow worth 18-20pts more than ECC's makes no sense.

A second refute...mart investors (and educated PSEC board members) should ask the question "*what is the value of the call really worth in today's environment*?" In our view, the value of a call premium is clearly not worth what it used to be... PARTICULARLY if the CLO has a negative NAV (*which means that the CLOs assets are worth LESS than the CLOs liabilities*). Taking a look at **Figure 4**, we can see that just over $450MM of PSEC's CLOs all have a negative NAV, which means the value of the loans in the 10x levered CLO structure is now worth LESS than the value of the liabilities and PSEC's equity in the CLO deal is a negative number. It seems hard for PSEC to want to call a deal if they end up owing money, no? Yet, we can still see that PSEC chooses to value these securities at 80-90% of their par value and has taken a very small writedown to the value of the CLO equity since 12/31/14.

Figure 4. PSEC CLOs with a NEGATIVE NAV (as of 1/4/16) ($ in Thousands)

CLO Position	CLO NAV (as of 11/30/15)	PSEC CLOs FV (as a % of par) (as of 12/31/2014)	PSEC CLOs FV (as a % of par) (as of 9/30/15)	PSEC CLO FV (in $, as of 9/30/15)
Halcyon Loan Advisors Funding 2013-1 Ltd.	-20.7%	100.1%	94.4%	38,136
Halcyon Loan Advisors Funding 2014-1 Ltd.	-56.6%	93.6%	88.6%	21,719
Halcyon Loan Advisors Funding 2014-2 Ltd.	-30.6%	95.6%	89.2%	36,727
Babson CLO Ltd. 2014-III	-12.0%	96.3%	87.2%	45,565
Brookside Mill CLO Ltd.	-20.6%	94.1%	88.2%	22,927
Cent CLO 21 Limited	-18.3%	92.1%	83.2%	40,353
Mountain View CLO 2013-I Ltd.	-16.2%	96.9%	89.3%	38,974
Washington Mill CLO Ltd.	-37.2%	95.0%	86.0%	19,438
Voya CLO 2014-1, Ltd.	-10.5%	98.3%	86.2%	27,919
Sudbury Mill CLO Ltd.	-18.2%	89.6%	79.7%	22,484
HarbourView CLO VII, Ltd.	-11.5%	NA	73.1%	13,908
Halcyon Loan Advisors Funding 2012-1 Ltd.	-4.8%	98.6%	100.3%	23,249
Symphony CLO XIV Ltd.	-4.5%	96.1%	86.6%	42,649
Apidos CLO XII	-0.2%	92.6%	85.0%	37,440
Octagon Investment Partners XVIII, Ltd.	-3.1%	NA	82.2%	23,183
		95.3%	86.6%	454,671

With over $450MM of CLOs now trading at a negative NAV (CLO assets are less than CLO liabilities), it appear hard for PSEC to claim that the value of the call warrants a premium valuation realtive. Note that in over the last 4Q, PSEC's taken just a 8.7% mark on these assets.

Source: Company Reports, Wells Fargo Securities, LLC

So...getting back to our original question, what is the value of an option (i.e. the CLO call option) if exercising that option ended up yielding you a zero (or negative) number? Our answer is...probably not much, even if management tried to argue that these deals still had a little more life on their reinvestment rates. An option (by definition) typically has some form of positive value…BUT…its' likely worth much less today than it was in the past…which is why it is so odd to see PSEC continues to hold these deals where they did (and certainly relative to other comps like ECC). Let's be clear on the data for a second…it's important for investors to understand that CLO data can (and do) often offer an imprecise measure of CLO assets values at an exact moment in time (NAVs can be slightly off and they do change daily). That said, we believe this data to be DIRECTIONALLY accurate—so it's important for investors not to get lost in minutia and realize the bigger picture—CLO assets (and NAVs) are down in 4Q15.

Another point about being a control equity investor PSEC will likely point out is that they get a fee rebate on the deals they enter into as a result of being the control shareholder—which means they get a portion of the management fees of the CLO. This is clearly valuable…but investors also understand that folks like Eagle Point likely ALSO receive fee rebates on their deals. Thus, it seems hard for PSEC to justify a 17+pt premium valuation to Eagle Point's CLOs.

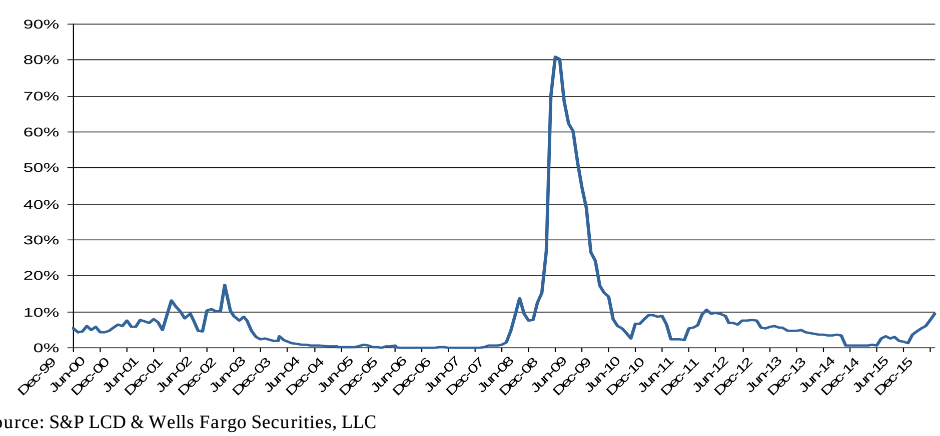
Management defense #2 -- "we only invest in the best CLO managers"… I'm sure they do, but this is an argument used by everyone and it often rings hollow with institutional clients. The fact of the matter is…even good managers can see valuations fall as a result of the market. What's more, if the CLO managers where PSEC parked capital decided to own volatile sectors such as oil & gas, it doesn't matter if PSEC thinks these managers are good or not. Perhaps the best way to determine good vs. challenged is to look at PSEC's CLOs on two metrics: (1) # of loans below 80 and (2) % oil and gas exposure.

A look at PSEC's CLOs (and which ones hold a lot of loans below 80% of par)…Recall, those CLOs who have a high degree of exposure to loans below 80 could be identified as those CLOs that will experience credit defaults and/or losses. Think about it this way…if you owed 10x levered CLO equity and the loan pool value fell from 100 to 98…then the CLO NAV would be down 20pts (as a result of 10x leverage on the 2pt loss). Now, even though the CLO NAV is down…this doesn't necessarily mean that the CLO equity holder should mark the CLO equity down 20pts because the marks that the CLO experiences are largely technical (2pts of decline) and should revert over time. In this scenario, the CLO equity owner may have a case to mute the negative valuation impact on the CLO equity

THAT SAID, let's say in another scenario that a $100MM CLO pool had $95MM of loans trading at par, BUT also had $5MM worth of loans now trading at 60% of par (as a result of stress in a particular industry). In this case the CLO Equity NAV is likely to be down 20pts because the $5MM of loans now trades at 60% on the dollar and the resulting $2MM loss is amplified by the 10x leverage. In this scenario…one could imagine that the CLO manager SHOULD be more willing to write down the value of their CLO equity because the resulting CLO NAV writedown is a result of true market stress (and eventual loss) as opposed to just market technicals.

To best ascertain the % of PSEC deals that may be suffering from real credit stress (i.e. most likely oil and gas loans), we decided to look at the % of PSEC deals that have a greater than average level of bad assets (i.e. loans marked at 80 or below). Note that currently the levered loan market has roughly 9% of outstanding loans trading below 80% of par. See **Figure 5**.

Figure 5. Levered Loan Distressed Ratio (% market below 80) (as of 1/6/16)



Source: S&P LCD & Wells Fargo Securities, LLC

Then, we decided to look at all of PSEC's deals that have a bad asset exposure greater than the market's 9.0% number. As outlined below, PSEC's has roughly $550MM of CLO equity who have a greater than average exposure to loans marked below 80 and the average FV of these CLO equity assets were 85.3% of par. See **Figure 6**. What's more...if we compared PSEC'S CLO's average bad asset bucket exposure to that of ECC's CLOs...we'll see that ECC actually had 100 basis points LESS of exposure to bad assets, yet (for some reason) PSEC's CLOs are worth a 17pt premium to ECCs.

Figure 6. PSEC and ECC CLOs with Above Average Exposure to <80 assets (as of 1/4/16) ($ in Thousands)

Prospect			
CLO Position	**9/30/2015 Fair Value % of Par**	**% Bad Assets (below 80)**	**Fair Value**
PSEC CLO Deals with Bad Asset Buckets above 9% of the CLO loan pool			
Brookside Mill CLO Ltd.	88.2%	16.0%	22,927
Cent CLO 17 Limited	81.1%	11.2%	20,167
Cent CLO 20 Limited	79.7%	10.9%	32,087
Cent CLO 21 Limited	83.2%	10.1%	40,353
Galaxy XVI CLO, Ltd.	81.0%	9.9%	19,910
Galaxy XVII CLO, Ltd.	80.6%	9.7%	32,168
Halcyon Loan Advisors Funding 2012-1 Ltd.	100.3%	10.7%	23,249
Halcyon Loan Advisors Funding 2013-1 Ltd.	94.4%	12.7%	38,136
Halcyon Loan Advisors Funding 2014-1 Ltd.	88.6%	17.6%	21,719
Halcyon Loan Advisors Funding 2014-2 Ltd.	89.2%	11.1%	36,727
Halcyon Loan Advisors Funding 2015-3 Ltd.	95.1%	10.0%	37,639
HarbourView CLO VII, Ltd.	73.1%	12.0%	13,908
Mountain View CLO 2013-I Ltd.	89.3%	14.7%	38,974
Sudbury Mill CLO Ltd.	79.7%	15.5%	22,484
Voya CLO 2012-2, Ltd.	82.9%	9.8%	31,558
Voya CLO 2012-3, Ltd.	79.6%	9.3%	37,106
Voya CLO 2012-4, Ltd.	83.1%	9.2%	33,748
Voya CLO 2014-1, Ltd.	86.2%	9.1%	27,919
Washington Mill CLO Ltd.	86.0%	13.4%	19,438
	85.3%		550,217

EaglePoint			
CLO Position	**9/30/2015 Fair Value % of Par**	**% Bad Assets (below 80)**	**Fair Value**
ECC CLO Deals with Bad Asset Buckets above 8.1% of the CLO loan pool			
Avery Point V CLO	43.9%	12.8%	4,773
Flagship CLO VIII	56.3%	9.7%	11,264
Flagship CLO VIII	56.3%	9.7%	11,264
Galaxy XVIII CLO	49.1%	10.4%	2,456
Halcyon Loan Advisors Funding 2014-3	47.9%	15.1%	2,753
Marathon CLO VI	78.6%	13.5%	2,338
Marathon CLO VII	72.0%	12.9%	7,574
Marathon CLO VIII	87.8%	10.3%	12,732
Regatta III Funding	44.4%	10.9%	1,110
Sheridan Square CLO	82.1%	9.1%	1,744
Zais CLO 3	67.8%	10.9%	7,962
	62.4%		65,970

PSEC's CLOs with above average exposure to bad assets are marked at an average of 85.3%, yet ECC has theirs marked at 62.4%.

Source: Company Reports, Wells Fargo Securities, LLC

A look at PSEC's CLOs and which have a high degree of oil & gas... In the same vein, it would make sense for investors to look at PSEC's CLO's exposure to oil and gas loans as these loans are the most likely to experience additional credit stress with the low price of oil. Now, we do understand that there is likely overlap in this analysis (as most loans below 80 are oil and gas loans), but we find it relevant because... *it just seems so hard to continue to justify a high premium to the market / other CLO comps when we all know oil & gas loans are likely to experience losses.* What's more, we also understand that there can be discrepancies in oil and gas exposure (as some managers may look to reclassify loans as non-energy that may not have direct exposure to the industry), yet if the loans have energy exposure and are trading below 80, we believe that real losses could occur.

Looking at PSEC's CLOs, we find that the average energy exposure across PSEC CLO loan pools is roughly 4.8%. In **Figure 7**, we outline PSEC's CLOs that have a greater than average exposure to energy, which total to roughly 1.1MM at FV and are currently being held at a FV mark of 86.4% of par. Again, we're not CLO experts, but we'd say there's clearly more downside to these CLO FV marks as a result of being over exposed to energy. Interestingly enough...the average PSEC CLO had MORE oil and gas exposure than ECC's CLOs...yet again, PSEC's CLOs are worth 17pts more.

Figure 7. PSEC and ECC CLOs with Above Average Exposure to Oil & Gas (as of 12/31/15) ($ in Thousands)

Prospect

CLO Position	9/30/2015 Fair Value % of Par	% Oil & Gas	Fair Value
PSEC CLO Deals with Energy Loans above 3.7% of the loan pool			
Babson CLO Ltd. 2014-III	87.2%	7.7%	45,565
Brookside Mill CLO Ltd.	88.2%	6.0%	22,927
CIFC Funding 2011-I, Ltd.	97.1%	4.1%	18,446
CIFC Funding 2011-I, Ltd.	97.1%	4.1%	18,446
CIFC Funding 2013-III, Ltd.	76.7%	4.7%	33,811
CIFC Funding 2013-IV, Ltd.	80.8%	5.3%	36,772
CIFC Funding 2014-IV Investor, Ltd.	85.2%	6.0%	35,354
Galaxy XV CLO, Ltd.	81.2%	4.3%	31,905
Galaxy XVI CLO, Ltd.	81.0%	3.9%	19,910
Galaxy XVII CLO, Ltd.	80.6%	4.9%	32,168
Halcyon Loan Advisors Funding 2012-1 Ltd.	100.3%	11.1%	23,249
Halcyon Loan Advisors Funding 2013-1 Ltd.	94.4%	11.9%	38,136
Halcyon Loan Advisors Funding 2014-1 Ltd.	88.6%	13.1%	21,719
Halcyon Loan Advisors Funding 2014-2 Ltd.	89.2%	9.8%	36,727
Halcyon Loan Advisors Funding 2015-3 Ltd.	95.1%	4.9%	37,639
HarbourView CLO VII, Ltd.	73.1%	6.6%	13,908
Madison Park Funding IX, Ltd.	83.2%	3.6%	25,868
Mountain View CLO 2013-I Ltd.	89.3%	8.5%	38,974
Mountain View CLO IX Ltd.	94.6%	5.2%	45,263
Octagon Investment Partners XV, Ltd.	86.9%	4.7%	28,601
Octagon Investment Partners XVIII, Ltd.	82.2%	3.6%	23,183
Sudbury Mill CLO Ltd.	79.7%	5.1%	22,484
Voya CLO 2012-2, Ltd.	82.9%	3.7%	31,558
Voya CLO 2012-4, Ltd.	83.1%	3.9%	33,748
Voya CLO 2014-1, Ltd.	86.2%	4.9%	27,919
Washington Mill CLO Ltd.	86.0%	6.1%	19,438
	86.5%		763,718

EaglePoint

CLO Position	9/30/2015 Fair Value % of Par	% Oil & Gas	Fair Value
ECC CLO Deals with Energy Loans above 3.7% of the loan pool			
Avery Point V CLO	43.9%	5.7%	4,773
Babson CLO 2013-II	65.4%	6.8%	8,465
CIFC Funding 2013-I	68.6%	4.6%	2,744
CIFC Funding 2013-II	64.9%	4.5%	8,003
CIFC Funding 2014	61.4%	4.7%	8,214
CIFC Funding 2014	61.4%	4.7%	8,214
CIFC Funding 2014-III	66.2%	5.1%	3,308
CIFC Funding 2014-IV	57.5%	6.0%	4,027
Flagship CLO VIII	56.3%	6.6%	11,264
Flagship CLO VIII	56.3%	6.6%	11,264
Galaxy XVIII CLO	49.1%	6.0%	2,456
Halcyon Loan Advisors Funding 2014-3	47.9%	12.6%	2,753
Marathon CLO VI	78.6%	4.2%	2,338
Marathon CLO VII	72.0%	3.9%	7,574
Marathon CLO VIII	87.8%	4.9%	12,732
Octagon Investment Partners XIV	51.8%	5.0%	6,381
Octagon Investment Partners XIV	51.8%	5.0%	6,381
Octagon Investment Partners XIX	55.6%	3.0%	1,667
Octagon Investment Partners XVII	55.9%	4.1%	6,710
Octagon Investment Partners XX	65.6%	4.2%	1,639
OHA Credit Partners IX	59.6%	4.1%	4,022
Regatta III Funding	44.4%	7.2%	1,110
Voya CLO 2014-4	68.2%	4.1%	6,818
Zais CLO 3	67.8%	4.8%	7,962
	60.7%		140,819

Looking at all CLOs which have above average (3.7%) energy exposure, we see that ECC's are marked substantially lower than PSEC. This woudl give evidence to the market's belief that PSEC's CLO equity is overvalued.

Source: Company Reports, Wells Fargo Securities, LLC

__Management defense #3 -- "our portfolio is just better than ECCs"...__ In our view, it would seem hard for PSEC to say that they are clearly better than ECC but for the simple fact that Eagle Point, and legendary CLO equity investor Tom Majewski, effectively helped create this market. Yes, PSEC may point to the fact that Eagle Point's public company is small...but what's hidden behind that defense is the fact that Eagle Point operates a larger private/institutionally oriented CLO Equity investment franchise. At the end of the day we believe it's just hard to for management to say "we're better than ECC".

Of course, we can also move beyond the ethereal arguments and start to look at facts side by side. As you'll notice in **Figure 8**, PSEC's CLO equity holdings are placed side by side Eagle Point's CLO. Notice first that PSEC holds their CLO equity at a 17pt premium to ECC's... yet, as we look we can see that PSEC's deals, on average, have (1) *__a higher degree of bad asset exposure__* and (2) *__a higher level of energy exposure__*. Said differently, the market (and a real valuation firm) may view PSEC's deals as slightly worse (on average) than Eagle Point...but PSEC continues to hold these deals at premium valuations. This makes no sense to us, and likely will be rectified overtime in either (1) a lower NAV—provided PSEC takes the mark or (2) a lower stock price—as investors see how PSEC is mismarking these assets...and they choose to get avoid the shares altogether.

Figure 8. PSEC CLOs vs. ECC CLOs (as of 12/31/15) ($ in Thousands)

ECC CLO Portfolio

CLO Position	Fair Value 9/30/15	9/30/2015 FV as % of Par	% Bad Assets (below 80)	% Oil and Gas
Apidos CLO XIV	7,496	67.1%	6.9%	2.92%
Avery Point V CLO	4,773	43.9%	12.8%	5.66%
Babson CLO 2013-II	8,465	65.4%	7.9%	6.78%
BlueMountain CLO 2013-2	3,505	70.1%	7.3%	1.01%
Battalion CLO IX	15,835	86.8%	6.4%	1.39%
CIFC Funding 2013-I	2,744	68.6%	6.0%	4.61%
CIFC Funding 2013-II	8,003	64.9%	6.6%	4.55%
CIFC Funding 2014	8,214	61.4%	7.0%	4.74%
CIFC Funding 2014	292	58.5%	7.0%	4.74%
CIFC Funding 2014-III	3,308	66.2%	6.4%	5.14%
CIFC Funding 2014-IV	4,027	57.5%	6.4%	6.02%
CIFC Funding 2015-III	13,099	85.1%	0.8%	1.90%
Cutwater 2015-I	22,840	83.7%	4.1%	2.72%
Flagship CLO VIII	11,264	56.3%	9.7%	6.64%
Flagship CLO VIII	3,729	50.7%	9.7%	6.64%
Galaxy XVIII CLO	2,456	49.1%	10.4%	6.03%
GoldenTree Loan Opportunities VIII	11,477	69.3%	7.2%	3.23%
Halcyon Loan Advisors Funding 2014-3	2,753	47.9%	15.1%	12.64%
Marathon CLO VI	2,338	78.6%	13.5%	4.21%
Marathon CLO VII	7,574	72.0%	12.9%	3.92%
Marathon CLO VIII	12,732	87.8%	10.3%	4.91%
Octagon Investment Partners XIV	6,381	51.8%	7.2%	4.95%
Octagon Investment Partners XIV	2,131	50.1%	7.2%	4.95%
Octagon Investment Partners XIX	1,667	55.6%	7.2%	3.04%
Octagon Investment Partners XVII	6,710	55.9%	7.9%	4.07%
Octagon Investment Partners XX	1,639	65.6%	7.6%	4.22%
OHA Credit Partners IX	4,022	59.6%	7.7%	4.06%
Regatta III Funding	1,110	44.4%	10.9%	7.22%
Sheridan Square CLO	1,744	82.1%	9.1%	2.00%
THL Credit Wind River 2013-2 CLO	429	33.6%	6.9%	3.37%
THL Credit Wind River 2013-2 CLO	6,858	59.8%	6.9%	3.37%
THL Credit Wind River 2014-3 CLO	9,777	75.2%	4.7%	2.85%
Voya CLO 2014-4	6,818	68.2%	8.0%	4.12%
Zais CLO 3	7,962	67.8%	10.9%	4.82%
Total CLO Portfolio	214,173	67.6%	8.1%	4.5%

PSEC CLO Portfolio

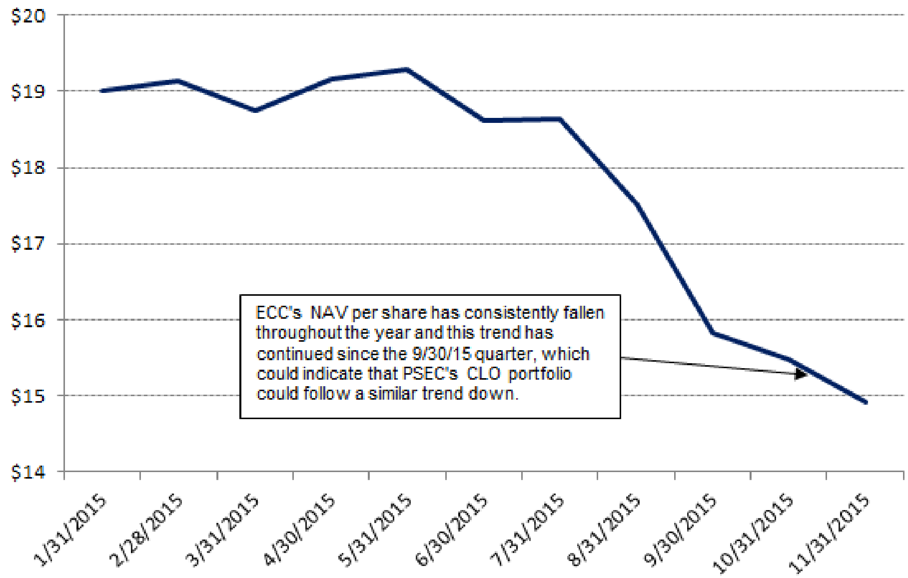
CLO Position	Fair Value 9/30/15	9/30/2015 FV as % of Par	% Bad Assets (below 80)	% Oil and Gas
Apidos CLO IX	22,946	97.5%	7.0%	3.3%
Apidos CLO XI	30,289	79.0%	7.6%	3.0%
Apidos CLO XII	37,440	85.0%	7.4%	3.0%
Apidos CLO XV	29,558	80.9%	7.8%	3.5%
Apidos CLO XXII	26,806	85.5%	0.9%	0.0%
Babson CLO Ltd. 2014-III	45,565	87.2%	8.7%	7.7%
Brookside Mill CLO Ltd.	22,927	88.2%	16.0%	6.0%
Cent CLO 17 Limited	20,167	81.1%	11.2%	2.4%
Cent CLO 20 Limited	32,087	79.7%	10.9%	2.2%
Cent CLO 21 Limited	40,353	83.2%	10.1%	2.7%
CIFC Funding 2011-I, Ltd.	18,446	97.1%	3.6%	4.1%
CIFC Funding 2011-I, Ltd.	18,446	93.1%	3.6%	4.1%
CIFC Funding 2013-III, Ltd.	33,811	76.7%	7.8%	4.7%
CIFC Funding 2013-IV, Ltd.	36,772	80.8%	7.6%	5.3%
CIFC Funding 2014-IV Investor, Ltd.	35,354	85.2%	6.4%	6.0%
Galaxy XV CLO, Ltd.	31,905	81.2%	7.9%	4.3%
Galaxy XVI CLO, Ltd.	19,910	81.0%	9.9%	3.9%
Galaxy XVII CLO, Ltd.	32,168	80.6%	9.7%	4.9%
Halcyon Loan Advisors Funding 2012-1 Ltd.	23,249	100.3%	10.7%	11.1%
Halcyon Loan Advisors Funding 2013-1 Ltd.	38,136	94.4%	12.7%	11.9%
Halcyon Loan Advisors Funding 2014-1 Ltd.	21,719	88.6%	17.6%	13.1%
Halcyon Loan Advisors Funding 2014-2 Ltd.	36,727	89.2%	11.1%	9.8%
Halcyon Loan Advisors Funding 2015-3 Ltd.	37,639	95.1%	10.0%	4.9%
HarbourView CLO VII, Ltd.	13,908	73.1%	12.0%	6.6%
Jefferson Mill CLO Ltd.	16,777	86.0%	7.2%	2.8%
LCM XIV Ltd.	25,696	84.2%	3.9%	3.5%
Madison Park Funding IX, Ltd.	25,868	83.2%	6.4%	3.6%
Mountain View CLO 2013-I Ltd.	38,974	89.3%	14.7%	8.5%
Mountain View CLO IX Ltd.	45,263	94.6%	7.0%	5.2%
Octagon Investment Partners XV, Ltd.	28,601	86.9%	7.1%	4.7%
Octagon Investment Partners XVIII, Ltd.	23,183	82.2%	6.4%	3.6%
Sudbury Mill CLO Ltd.	22,484	79.7%	15.5%	5.1%
Symphony CLO IX Ltd.	38,118	83.8%	6.6%	1.9%
Symphony CLO XIV Ltd.	42,649	86.6%	7.6%	1.3%
Symphony CLO XV, Ltd.	44,952	89.5%	7.6%	0.4%
Voya CLO 2012-2, Ltd.	31,558	82.9%	9.8%	3.7%
Voya CLO 2012-3, Ltd.	37,106	79.6%	9.3%	3.5%
Voya CLO 2012-4, Ltd.	33,748	83.1%	9.2%	3.9%
Voya CLO 2014-1, Ltd.	27,919	86.2%	9.1%	4.9%
Washington Mill CLO Ltd.	19,438	86.0%	13.4%	6.1%
Total CLO Portfolio	1,016,058	85.4%	9.0%	4.8%

Note that despite having higher bad asset bucket and more energy exposure than ECC's CLO equity portfolio, PSEC's board believes PSEC's CLOs are worth a 17 point premium to ECC... This, in our view, is extremely hard to justify... and no one can't justify it by saying "we're better than a legendary CLO investor like Tom Majewski at EaglePoint.

Source: Company Reports, Wells Fargo Securities, LLC

<u>Overall, to the extent PSEC chose to mark their CLO equity positions properly (i.e. in line with Eagle Point as of 9/30)</u> **<u>we may see a $250 - 300MM decline in PSEC equity ($0.77/share of NAV).</u>** Note that the directional trend to Eagle Point's NAV remains downward as of 11/30/15 as ECC publishes monthly NAVs. See **Figure 9**. In short, that downward trend means PSEC's CLOs are likely experiencing the similar pressure in valuation given the dislocation in CLO Equity is driven by broader volatility in leveraged finance markets and with some issues more specifically insofar as they are overly exposed to energy and commodities, in our opinion. Declines in ECC's price and NAV would also make it more difficult for PSEC to keep its book well-marked, especially given that it cites Eagle Point as a veritable comparison in its filings associated with spinning off PYLD (Prospect Yield).

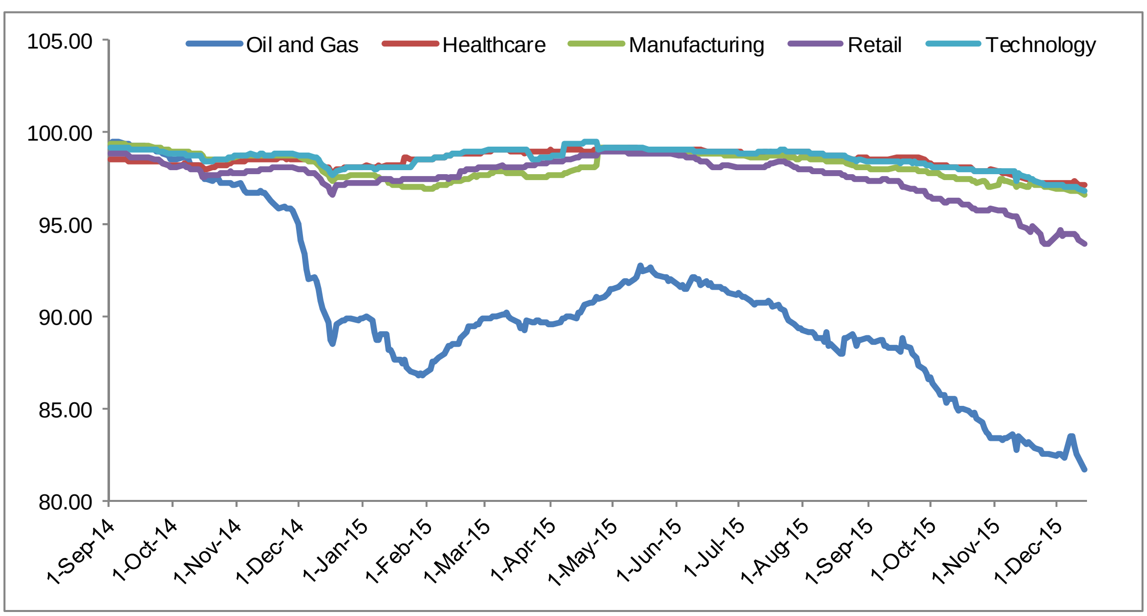
Figure 9. ECC Intra Quarter NAV (as of 11/30/2015)



Source: Company Reports, Wells Fargo Securities, LLC

PSEC's control holdings portfolio contains risky exposures, including energy investments that may experience additional write-downs, in our view. PSEC's control positions account for over $2.0 billion between debt and equity investment structures, which represents 31% of the portfolio at fair value. Key concentrations within this segment of the portfolio include: (1) real estate; (2) consumer finance; (3) Oil & Gas, with the remainder mostly within diversified consumer and manufacturing. Recently we have seen declines in the energy space as depressed oil prices – now for over a year – have put pressure on many middle market bank loans to oil & gas companies. See **Figure 10**.

Figure 10. Oil and Gas Loans vs. Leveraged Loan Average (as of 12/18/15)



Source: Thomson Reuters LPC and Wells Fargo Securities, LLC

PSEC has already started to experience this phenomenon with CP Energy going onto non-accrual last quarter, yet write-downs to the BDC's three main oil & gas holdings (Arctic, CP Energy and Freedom Marine) have experienced relatively mild write-downs to date. See **Figure 11**. What's more, these appear to be aggressively structured on the debt side which, all else equal, limits the operating flexibility of a company and eats into the equity value of a given capital structure.

Figure 11. PSEC Energy Holdings (as of 12/31/15) ($ in Thousands)

Arctic Energy	9/31/14	12/31/2014	3/31/2015	6/30/2015	9/30/2015
FV: Debt	51,870	51,870	51,870	51,870	0
FV: Common Stock	9,505	9,774	10,046	8,494	56,340
Cost: Debt	51,870	51,870	51,870	51,870	0
Cost: Common Stock	9,006	9,006	9,006	9,006	60,876
Mark: Debt	100%	100%	100%	100%	-
Mark: Common Stock	106%	109%	112%	94%	93%

This past quarter, PSEC converted all of its outstanding debt into equity, w hich continues to be marked at 93% of cost.

CP Energy Services	9/31/14	12/31/2014	3/31/2015	6/30/2015	9/30/2015
FV: First Lien Debt	83,273	83,273	84,134	85,528	82,861
FV: Second Lien Debt	15,000	15,000	15,214	5,481	0
FV: Common Stock	30,913	20,499	2,290	0	0
Cost: First Lien Debt	83,273	83,273	84,134	85,528	83,273
Cost: Second Lien Debt	15,000	15,000	15,214	15,563	15,000
Cost: Common Stock	15,227	15,227	15,227	15,227	15,227
Mark: First Lien Debt	100%	100%	100%	100%	100%
Mark: Second Lien Debt	100%	100%	100%	35%	0%
Mark: Common Stock	203%	135%	15%	0%	0%

This past quarter, PSEC put its three loans to CP on to non-accrual and w rote its 2nd lien position to zero; how ever its First Lien debt is stll at 100%.

Freedom Marine Solutions	9/31/14	12/31/2014	3/31/2015	6/30/2015	9/30/2015
FV: Debt	32,004	24,888	27,341	25,970	25,976
FV: Common Stock	2,905	4,260	1,260	1,120	1,121
Cost: Debt	32,004	32,004	32,004	32,004	32,004
Cost: Common Stock	7,807	7,807	7,807	7,808	7,808
Mark: Debt	100%	78%	85%	81%	81%
Mark: Common Stock	37%	55%	16%	14%	14%
Total Debt	182,147	175,031	178,559	168,849	108,837
Total Equity	43,323	34,533	13,596	9,614	57,461
Total Capital	225,470	209,564	192,155	178,463	166,298

While PSEC began to w rite this name dow n early in the sell-off in oil prices, values of debt and equity have been stable in recent quarters.

Source: Company reports and Wells Fargo Securities, LLC

Consumer finance book also gives the market concerns based on declining peer valuations as well as declining book value at the underlying investments. As followers of the BDC space, we have been all too aware that the spectrum of non-bank financials has suffered in recent quarters, especially since the 9/30 period when PSEC's latest valuations are based on. Among the company's control holdings, First Tower ($364 million), Credit Central ($57 million), and Nationwide Loan ($34 million) total for $454 million in fair value -- $152 million of which is equity. See **Figure 12**.

Figure 12. PSEC's Consumer Lending Control Investments (as of 9/30/15) ($ in Thousands)

Portfolio Company	Industry	Investment	Stated Coupon	Calculated Yield	Maturity	Par	Cost	FV
First Tower Finance Company LLC	Consumer Finance	Subordinated Term Loan	10.00% + 12.00% PIK	22.00%	06/24/19	251,246	251,246	251,246
First Tower Finance Company LLC	Consumer Finance	Class A Shares	NA	NA	NA	0	66,473	112,378
Credit Central Loan Company, LLC	Consumer Finance	Subordinated Term Loan	10.00% + 12.00% PIK	20.00%	06/26/19	36,333	36,333	36,333
Credit Central Loan Company, LLC	Consumer Finance	Class A Shares	NA	NA	NA	0	11,633	16,110
Credit Central Loan Company, LLC	Consumer Finance	Net Revenues Interest	NA	NA	NA	0	0	4,066
Nationwide Loan Company LLC	Consumer Finance	Subordinated Term Loan	10.00% + 12.00% PIK	20.00%	06/18/19	14,820	14,820	14,820
Nationwide Loan Company LLC	Consumer Finance	Class A Shares	NA	NA	NA	0	14,794	19,018
						Total	**395,299**	**453,971**

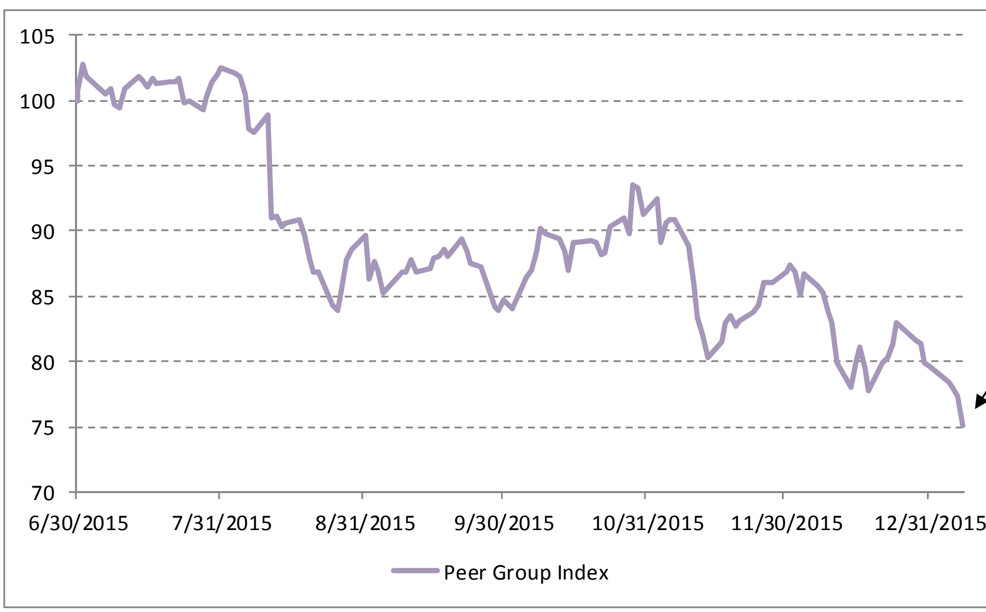
PSEC's specialty consumer finance holdings, which largely engage in offering non-prime unsecured consumer loans, are leveraged with 10.0% cash + 12.0% PIK subordinated term loan structures.

Source: Company reports and Wells Fargo Securities, LLC

PSEC's term loans to these companies of ~$302 million which are structured to pay 20%+ rates, which we can see in the case of First Tower – for which the company releases financials with some detail – results in negative income and common equity on the balance sheet. For this, we believe that debt burdens on PSEC's control companies are likely stretched and contain implicit exposure to equity valuations.

Aside from general volatility within the specialty finance space that could be described by broader economic risk, we have seen pressure across the specialty consumer finance spectrum due to increased regulatory scrutiny and competition that has potentially driven down future returns. For instance, the Consumer Financial Protection Bureau (CFPB) has zeroed in on payday and high-cost installment lenders, with one relevant industry participant recently agreeing to pay the Bureau a settlement and forgive all outstanding installment-lending debt. When looking at major players in the industry including SC, OMF, WRLD, RM and LC – a diverse group of major consumer lenders in our view – we have seen sub-par returns from the back half of 2016 with the group losing 25% on average on a total return basis. See **Figure 13**.

Figure 13. Total Returns for Selected Consumer Finance Companies (as of 1/5/2016)



On the back half of 2015, specialty consumer finance names have sold off considerably. Also selected payments companies which PSEC potentially utilizes in valuation have fared similarly poorly.

Source: FactSet and Wells Fargo Securities, LLC
Index represents equal-weighted total return performance of SC, CACC, PRAA, ECPG, OMF, WRLD, RM, CSH and GDOT

First Tower faces growing Price to Book valuation (when comps are not doing the same) as intangibles run-off and negative earnings eat into book value. While it is difficult to ascertain the valuation techniques applied to First Tower, we see concern that as the company continues to generate negative earnings and its considerable intangibles account on the balance sheet declines, the company will appear to be richly valued on a price/book basis. On the basis that PSEC likely applies high rates of leverage to the holding company, valuing First Tower is a bit of an art, notwithstanding a lack of smaller pure installment lenders. For this, we incorporate the value of the Sub Term Loan into equity for a valuation analysis, which is also adjusted for PSEC's 80.1% ownership of the company. See **Figure 14**.

Figure 14. First Tower Valuation Analysis (as of 9/30/2015) ($ in Thousands)

PSEC Investment	3/31/2015	6/30/2015	9/30/2015
Sub Term Loan (10.00% + 12.00% PIK)	251,246	251,578	251,246
Equity- Class A Shares	103,884	114,372	112,378
Cost Basis			
Sub Term Loan (10.00% + 12.00% PIK)	251,246	251,578	251,246
Equity- Class A Shares	66,473	66,473	66,473
First Tower	**3/31/2015**	**6/30/2015**	**9/30/2015**
Cash	71,919	65,614	69,651
Receivables	395,891	400,451	434,581
Intangibles	125,764	121,822	117,907
Other assets	15,158	17,373	18,228
Total	*608,732*	*605,260*	*640,367*
Notes payable to PSEC or Affiliate	264,432	251,578	251,246
Notes payable	313,844	334,637	367,179
Other Liabilities	53,058	47,493	51,515
Total	*631,334*	*633,708*	*669,940*
Shareholder's deficit	(22,602)	(28,448)	(29,573)
Market Value of Common Stock	129,693	142,787	140,297
Market Value of PSEC Term Loan	313,665	314,080	313,665
Total Market Value	443,358	456,866	453,963
Book Value	291,063	285,632	284,092
Tangible Book Value	165,299	163,810	166,185
Price / Book	1.52x	1.60x	1.60x
Price / TBV	2.68x	2.79x	2.73x

PSEC's 80.1% ownership of the company is divided between a 22.0% (12.0% PIK) term loan and common equity. For valuation purposes, we will consider this total amount (including minority stock) equity capital.

We treat the 22.0% Term Loan (PSEC's and the minority members' portion) and the shareholder deficit as book value. When stripping out intangible assets, book value is much lower. We estimate that the most recent P/BV is 1.6x and P/TBV is 2.7x

Source: Company reports and Wells Fargo Securities, LLC

Further, we see downside potential at First Tower to comparable pure-play subprime consumer / unsecured / installment lenders. In our view, the specialty consumer finance spectrum is diverse in lending areas, financing / leverage, and most importantly accounting. There are some companies such as CACC, PRAA and ECPG that likely hold considerable upside to the value of balance sheet loans given accounting and operating policies that extend or purchase loans below the face value or principal (consequently, return on book equity is very high). There are also companies such as SC (Santander Consumer) and OMF (One Main Financial) with commanding market positions and strong operating histories, in our view. There is also GDOT, a payments processing company, that will more likely be valued on the basis of economic earnings and cash flow (please see the following on section on HarborTouch). When looking at WRLD, RM and CSH, which investors may come to view as more similar to First Tower, we are seeing far lower valuations (**Figure 15**).

Figure 15. First Tower Comp-Valuation Analysis (as of 9/30/2015) ($ in Thousands)

	SC	CACC	PRAA	ECPG	GDOT	OMF	WRLD	RM	CSH
Market Cap (9/30)	7,308,360	4,054,980	2,550,956	935,138	917,840	5,879,571	237,904	200,167	716,877
Cash	2,322,431	310,700	88,111	175,220	613,667	4,135,000	12,558	7,822	19,811
Receivables	32,252,839	2,959,500	2,167,178	2,620,816	NA	6,914,000	764,041	563,822	287,889
Debt	30,206,295	2,081,200	1,654,457	3,116,444	133,125	9,555,000	489,585	379,617	206,239
Other Liabilities	1,424,092	363,100	428,674	326,886	723,950	900,000	27,156	11,754	169,451
Total Liabilities	31,630,387	2,444,300	2,083,131	3,443,330	857,075	10,455,000	516,741	391,371	375,690
Equity	4,360,841	931,300	901,419	625,865	664,272	2,829,000	346,839	197,595	1,024,169
Tangible Equity	4,233,075	931,300	374,578	(333,827)	185,653	2,829,000	337,548	197,596	1,024,169
Price/Book	1.68	4.35	2.83	1.49	1.38	2.08	0.69	1.01	0.70
Price/TBV	1.73	4.35	6.81	(2.80)	4.94	2.08	0.70	1.01	0.70

In our view, CACC, PRAA and ECPG represent under-stated book values due to the companies' business models that entails originating / purchasing receivables below par.

We believe that SC and OMF are best in class operators with scale, while WRLD, RM and CSH are likely more truly comparable.

Source: Company reports and Wells Fargo Securities, LLC

Potentially aggressive loan structures in control investments (20%+) may come under pressure in the event PSEC is no longer able to keep writing the asset value higher. Recall, many of PSEC's control holdings are leveraged with above-normal interest rates. PSEC's control holdings portfolio was reliant on unrealized gains last year, which are likely precarious due to its sector concentration and potentially aggressive loan structures (**Figure 12**). When rates are in the high double digits or north of 20% for example, we believe the market may consider such a lending structure more like equity. What's more, while detailed financials are only available for a few of PSEC's portfolio companies, we can see that operating margins are very slim or negative. As follows in **Figure 16**, three or PSEC's control holdings operate at a loss but carry $180MM in equity value, notwithstanding the $580MM in debt amounts affiliated with these companies that potentially retain some equity-like risk insofar as they stretch deeply into the capital structure of the operating company.

Figure 16. Capital Changes & returns for Control Holdings (as of 9/30/2015) ($ in Thousands)

	Three Months Ended 9/30/14			Three Months Ended 9/30/15			As of 9/30/15	
	Revenue	Expense	Earnings	Revenue	Expense	Earnings	Debt (FV)	Equity (FV)
First Tower Finance	53,130	52,730	400	53,751	55,148	(1,397)	251,246	112,378
Harbortouch Payments	69,950	81,083	(11,133)	78,002	88,222	(10,220)	295,460	62,899
Valley Electric	22,952	25,492	(2,540)	30,345	31,935	(1,590)	33,173	4,223

For the three portfolio companies with full disclosure, PSEC experienced net operating losses in the quarter ending in September 2015; results in the prior year's quarter were similar.

Source: Company reports and Wells Fargo Securities, LLC

For PSEC's latest fiscal year, realized losses were more than offset by unrealized gains, which appears less likely going forward. While the company does not release detailed financial schedules for each portfolio holding, aside from the previously displayed selected control holdings, we are able to derive realized and unrealized gains in PSEC's investments which can potentially give investors guidance. PSEC also details follow-on investments, pay-downs, and interest & dividend income derived from each respective control investment. See **Figure 17**. In the year ended in June 2015, the BDC experienced about $80MM in unrealized losses but this was more than offset by gains. We further note that recent investments have been concentrated into NP REIT, where the company situates loans by Prosper and Lending Club.

Figure 17. Capital Changes & returns for Control Holdings (as of 9/30/2015) ($ in Thousands)

			Earnings	Average Return
Fair Value 6/30/14	**1,640,454**			
Investments	432,562	Interest Income	200,411	11.1%
Disbursements	(177,469)	Dividend Income	6,811	0.4%
Realized Gains	(79,191)	Other Income	12,975	0.7%
Unrealized Gains	158,346	Total	220,197	12.2%
Fair Value 6/30/15	**1,974,202**			
Investments	143,519	Interest Income	51,944	10.4%
Disbursements	(64,836)	Dividend Income	3,213	0.6%
Realized Gains	(1)	Other Income	2,409	0.5%
Unrealized Gains	(40,183)	Total	57,566	11.6%
Fair Value 9/30/15	**2,012,701**			
Total Portfolio	6,430,900			
Percent of Portfolio	31.3%			

While PSEC experienced considerable unrealized gains in 2015, this past quarter saw some reversal. In our view , management has boosted yields principally through investing in online loans.

Source: Company reports and Wells Fargo Securities, LLC

Insofar as PSEC structures its term loan agreements to control holdings to effectively return capital to the BDC, *as steady realized losses throughout an equity bull market suggest may potentially be the case*, we see potential concern for the need for unrealized gains – which management / the Board agree on per discretion – to keep stable asset valuations and therefore management fees. Given general market volatility and for idiosyncratic reasons that are outlined in this section (energy, consumer finance), we believe that market value appreciation of PSEC's control book will be harder to come by without material changes in composition of peer valuation proxies. Further, we see concern over visibility into the NP REIT holding, which warehouses PSEC's online consumer loan portfolio of $459 million – marked above par and yielding 19.5% - where the annualized return for Lending Club loans after fees and losses is under 8.0% according to company filings.

PSEC appears to be intently pursuing its proposed transaction involving rights offerings, to which we see potential dilutive risk. In October, PSEC filed a request to the SEC for exemptive relief in order to conduct rights offerings for: (1) PYLD, involving its CLO portfolio; (2) PRIT, involving its REIT / real estate holdings; and (3) PFAN, involving the BDC's marketplace online loans. Recall, PSEC has advertised this strategy for several quarters as a spin-out intended to unlock the value of its selected strategies to more accurately reflect market multiples; management has also been vocal about its intention to raise capital surrounding the transaction while *maintaining that the capital raise would not be dilutive*. While the SEC has yet to grant Prospect such exemptive relief to our knowledge, we believe it may be inevitable.

Looking at the application, we believe PSEC management is seeking to complete the transaction via a rights offering where PSEC will distribute transferable subscription rights to purchase shares / units of each NewCo; PYLD, PRIT and PFAN. However, the latest filing by Prospect Capital Management (the Advisor to PSEC) does not preclude that the rights offerings will be at par (See **Figure 18**) which entails risk given the manager has offered dilutive shares in the past.

Figure 18. Language on rights offering from PCM's request to the SEC (as of 10/2/15)

*The Company will distribute to the record date holders of its common stock as of each applicable record date transferable subscription rights to purchase shares or units (hereinafter referred to as "shares" or "equity") of each NewCo's common equity **at an exercise price to be established by the Company**, which will be based on the NAV per share of each NewCo's common equity and comparable company valuations, among other factors.*

*The NAV per share of each NewCo's common equity will be based on the fair value of the Transfer Assets, as applicable. **The subscription price of each NewCo's common share may be at a premium or discount to such NAV per share**. Immediately prior to the completion of the PYLD rights offering, in a virtually simultaneous transaction, PYLD will make a pro rata distribution to the Company of its CLO portfolio less the PYLD Transfer Assets.*

Source: Company reports and Wells Fargo Securities, LLC; emphasis ours

We see additional concern that PSEC would reserve the right to select an institutional or accredited anchor investor, who in our view would likely only be interest in partaking in such an offering at a meaningful discount to NAV. As institutional investors are more likely capable of dissecting the pros and cons of the offering – including placement costs, comparable valuations, and Prospect's management capabilities, to name a few – we believe that any such investor would likely require some form of discount for enticement, and it would be the same exercise price as existing shareholders would receive. See **Figure 19**. Further, while the language surrounding an anchor is suggestive that the anchor's role would be in the benefit of shareholders, we see it as open to interpretation by PSEC's Independent Directors as to whether a potential dilutive equity offering would be suitable for shareholders.

Figure 19. Language on rights offering from PCM's request to the SEC (as of 10/2/15)

The Company will utilize an anchor or standby investor for a particular rights offering only if the Non-Interested Directors make a determination that the use of an anchor investor or standby investor is reasonably likely to be necessary to make the offering attractive to the Company's shareholders as a result of having a known level of institutional investor support for the transaction, thereby increasing the likelihood of a successful rights offering, and is in the best interest of the Company's stockholders.

Further, the Company will also use an anchor investor or standby investor only if the Non-Interested Directors determine that the amount of shares and terms will not have a dilutive impact for the interests of the Company's existing stockholders greater than the expected financial and operational benefits to the relevant NewCo and the Company.

Source: Company reports and Wells Fargo Securities, LLC; emphasis ours

What's more... Judging by company filings and valuations of subject portfolios / NewCos, we see concern that any rights offering would have to be either dilutive to PSEC NAV or following material write-downs. While we have explored the potential for over-valuation in previous sections of this report, we see concern that these portfolio assets are headed for losses even under consideration of PSEC's valuation technique. As follows in **Figure 20**, Prospect outlines potentially comparable companies' premium to book valuations. While we believe some investors may dispute the suitability of these names as benchmarks (i.e., LC and OMF consist of origination platforms, and ECC marks their book potentially more conservatively), we can see that nonetheless valuations have declined significantly since Prospect outlined this valuation, which is more than we have seen impact PSEC's balance sheet. As discussed earlier, for example, the CLO Equity book was marked down from 88% of cost to 85% of cost.

Figure 20. Excerpt from PCM's Request to the SEC (as of 10/2/15)

	Premiums and (Discounts) of Market Share Price to NAV or Book Value per Share (Quarter Ending 6/30/2015)		Percentage Price Change Since:	
	Low	High	6/30/2015	9/30/2015
Eagle Point Credit Company Inc.	6%	12%	-17%	-12%
Independence Realty Trust Inc.	6%	29%	-1%	3%
NexPoint Residential Trust, Inc.	7%	22%	-4%	-3%
LendingClub Corporation	513%	719%	-36%	-29%
Springleaf Holdings, Inc.	201%	237%	-19%	-15%

While PSEC tables comparables to highlight potential value unlocked by its spin-out entities, these selected comparables have declined since the 6/30 date, w hile in our view PSEC has yet to incoproroate the imact.

Source: Company reports and Wells Fargo Securities, LLC; emphasis ours

Rights offering placement fees are staged to considerably reduce potential returns to rights subscribers, thus limiting overall attractiveness of the proposed rights offering. Beyond the declines in valuations for PSEC's selected market comparables, which investors may or may not fully agree with, we believe that the potential for outsized placement costs may be necessary to raise this capital for PSEC may render investment in each respectable 'NewCo' potentially unattractive. That is, after the potential need for PSEC to take write-downs on these assets in order to align them with publicly comparable valuations, investors would start "in the hole" given management belief in the need to assess 'IPO-like' offering fees for each respective rights offering given investors would be building exposure to new industries. See **Figure 21**.

Figure 21. Language offering fees for PSEC / PCM rights offerings (as of 10/2/15)

> *The Company intends to enter into a separate dealer manager agreement for each rights offering. The dealer managers will assist the Company in achieving successful offerings, identifying potential anchor or standby investors, and assisting stockholders who do not want to exercise their subscription rights to maximize the proceeds from the sale of their rights.*
>
> *For their services, the dealer managers will receive market rate compensation comparable to initial public offerings in each of PYLD's, PFAN's, and PRIT's respective industries. <u>The Company believes that the Proposed Transactions are more akin to an initial public offering than a typical rights offering because, unlike a typical rights offering where shareholders purchase shares with an established market of the company issuing the rights, in the Proposed Transactions the Company's stockholders will purchase shares of new companies in different industries</u>.*
>
> *The dealer manager fees for each rights offering will be separately negotiated. **The Company currently expects to pay a dealer manager fee of up to 6% (less any consideration paid to any anchor or standby investor) in the PYLD rights offering and up to 7% in the PFAN rights offering**. As of the date hereof, the Company has not negotiated the dealer manager fee in the PRIT rights offering.*
>
> Source: Company reports and Wells Fargo Securities, LLC; emphasis ours

What's more, we see concern in that management's language recognizes that to bring in a qualified / accredited buyer, PSEC would need to offer 'separate consideration' to attract such investors in order to agree to backstop the rights offering in order to make it successful. While any such institutional / accredited investor would receive the same price, they would potentially receive additional discounts / fees, which would potentially further harm shareholders of the NewCos and moreover PSEC shareholders. See **Figure 22**.

Figure 22. Language on anchor investor for PSEC / PCM rights offerings (as of 10/2/15)

> *In conjunction with the rights offerings, the Company may enter into an agreement with an anchor or standby investor or investors that will purchase non-registered restricted shares of the applicable NewCo in a private placement. <u>Any anchor or standby investor will be an institutional investor that is either a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933 or an institutional "accredited investor"</u>…*
>
> *Anchor investors, if any, will pay the same subscription price as the public; however, <u>anchor investors will receive separate consideration for the applicable rights offering in exchange for their separate commitment to purchase shares in a private placement</u>. Standby investors will separately commit to purchase in a private placement up to a specific number or dollar amount of shares of a NewCo subject to reduction of the extent subscriptions by others reduce the amount available to it. Standby investors, if any, will pay the same price for such shares as the subscription price to the public; however, <u>standby investors will receive separate consideration to commit to purchase such shares if necessary to meet the required PSEC holding conditions for the applicable rights offering</u>.*
>
> Source: Company reports and Wells Fargo Securities, LLC; emphasis ours

While the potential hit to NAV from CLO holdings / control investments is bad, it could also lead to loss of PSEC's investment grade rating placing further pressure on PSEC (and all of PSEC's debt holders). In September, PSEC was downgraded by S&P to BBB- with a stable outlook, down from BBB. With this, S&P outlined several metrics which could cause them to lower their rating further. The two metrics which stood out to us were (1) a 0.85x debt to equity ceiling and (2) a 220% asset coverage ratio floor. See **Figure 23.**

Figure 23. Quote from Standard & Poor's Press Release (as of 9/29/15)

"We could lower the rating if the company's debt to equity rises to more than 0.85x or its asset coverage ratio declines below 220%, and we expect these levels to be sustained over several quarters. We could also lower the ratings if we observe any signs of increasing portfolio risk or portfolio deterioration, such as a significant rise in nonaccruals and unrealized and realized losses that could result in realized return on average portfolio investments remaining below 5% or its non-deal-dependent income coverage of both income and dividend remaining below 1x."

Source: Company Reports, Wells Fargo Securities, LLC

PSEC is currently relatively close to both measures with leverage of 0.78x and asset coverage of 231%. If PSEC were to reduce the fair value marks of the CLO portfolio to reflect the actual value of securities (i.e. 15-25pts lower), we believe this would breach the asset coverage ratio outlined by S&P which could result in further downgrade. What's more, if PSEC chooses not to lower the value of the CLO portfolio we believe they would draw additional skepticism from the rating agencies as well as the market that this is a team who "does not value assets properly".

In the event a downgrade does occur...we do see additional pressure on liquidity at PSEC. Recall, PSEC has recently been able to continually issue InterNotes, which are less costly than their some of PSEC's other sources of capital. If PSEC loses its investment grade rating we would expect that their cost of borrowing would increase and the InterNotes program could be curtailed significantly as PSEC debt is perceived as more risky, due to the lower rating. Looking at PSEC's debt maturity schedule, we see that PSEC has a sizable amount of debt coming due in 3-5 years. See **Figure 24.** As this debt comes close to being due, PSEC would need to (1) replace the debt (likely at a higher rate) or (2) draw more on their credit facility which currently has substantial capacity available. Now, while it seems easy for PSEC to simply borrow on the credit facility...it is also true that PSEC lenders would require collateral for the increased draw on the line. This means PSEC's unencumbered capital balance would fall and the quality of the unencumbered capital would decline (as no lender would love to have CLO equity and/or private equity as collateral). What's more, the credit facility currently has capacity of approximately $728MM. If PSEC were to use their low cost credit facility to replace all the debt coming to maturity, they would run out of capacity within three years. Therefore, PSEC would have to issue more debt in order to maintain their leverage position and if they do not have their investment grade rating we can assume that their borrowing costs will be higher. While three years is a long time...the main point is this "Moving forward, PSEC will likely have less flexibility in maintaining their leverage position".

Figure 24. PSEC Debt Maturity Schedule (as of 9/30/15) ($ in Thousands)

	Total	less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Revolving Credit Facility	$156,700	-	-	$156,700	-
Convertible Notes	$1,239,500	$317,500	$530,000	$392,000	-
Public Notes	$548,094	-	-	$300,000	$248,094
Prospect InterNotes	$874,948	-	$54,509	$539,202	$281,237
Total Contractual Obligations	$2,819,242	$317,500	$584,509	$1,387,902	$529,331

Source: Company Reports, Wells Fargo Securities, LLC

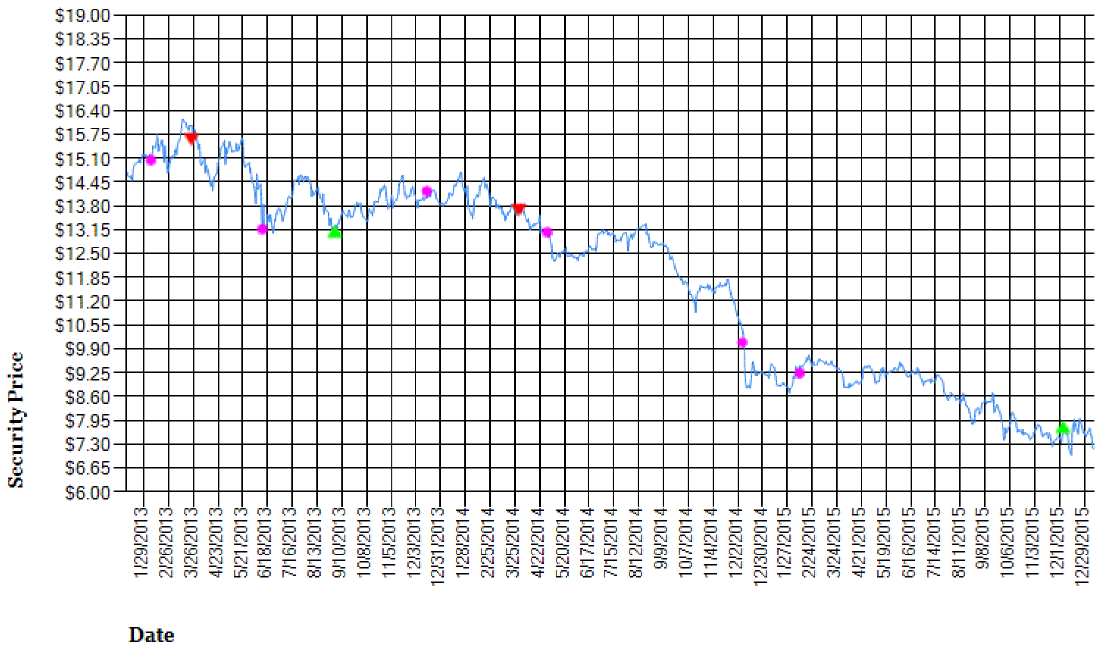
While the overall effects of PSEC losing investment grade rating may be difficult to quantify, we can say that the effects will not be positive. We would expect PSEC to see increased cost of borrowing and reduced flexibility surrounding their financing choices. The effects may not be extremely detrimental, however when added on top of the likely NAV reductions we expect PSEC to see, it adds to the potentially difficult situation PSEC may find itself in. What's more, while the request for exemptive relief effectively admits that PCM is overcharging PSEC (by offering much lower fee structures for each respective vehicle), potential class actions may pile up and boost administrative expense structure for PSEC.

Company Description:

Prospect Capital Corp. (PSEC) is a business development company (BDC) regulated under the Investment Company Act of 1940. PSEC invests in senior and subordinated debt and equity of primarily private businesses. It provides capital to companies for a variety of purposes including financings for acquisitions, divestitures, growth, development, project financings and recapitalizations. PSEC completed its IPO in July, 2004 although its predecessor companies were originally established in 1998.

Required Disclosures

Medley Capital Corp. (MCC) 3-yr. Price Performance



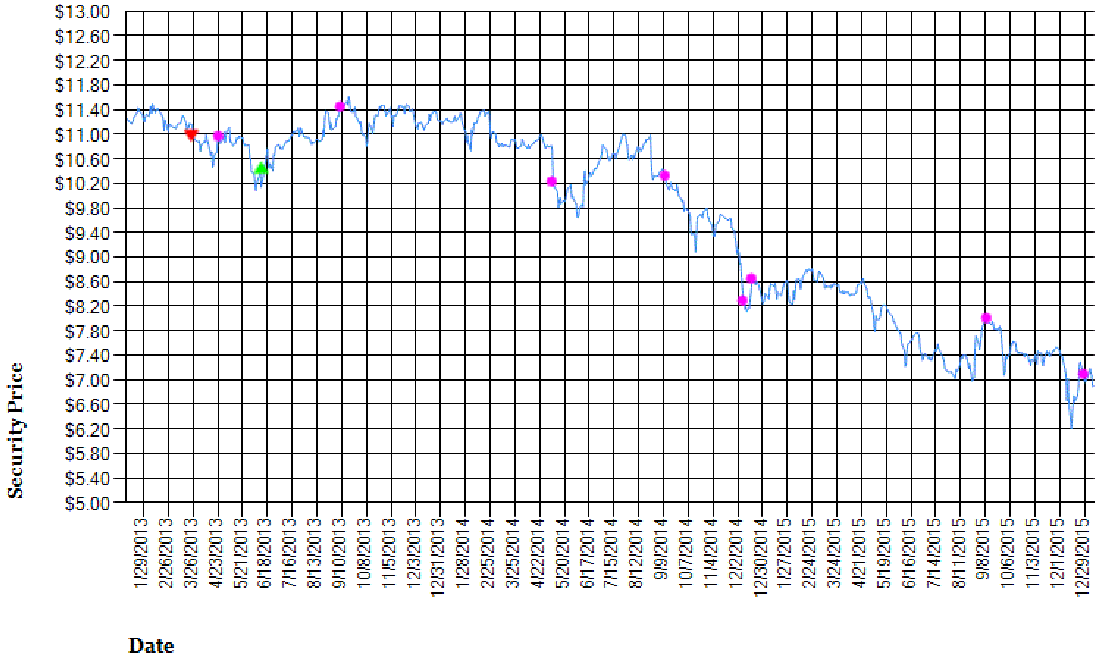
	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	1/9/2013		Bock			
	1/9/2013	NA	1	15.00	16.00	14.76
●	2/7/2013	15.00	1	15.50	16.00	15.00
▼●	3/26/2013	15.97	2	15.00	16.00	15.55
●	6/14/2013	13.83	2	14.00	15.00	13.10
▲●	9/4/2013	13.27	1	14.00	15.00	13.04
●	12/17/2013	14.03	1	14.50	15.00	14.15
▼●	3/31/2014	13.62	2	14.00	15.00	13.61
●	5/2/2014	13.04	2	13.00	14.00	13.04
●	12/9/2014	10.03	2	10.00	11.00	10.03
●	2/11/2015	9.21	2	9.00	10.00	9.20
▲●	12/7/2015	7.57	1	8.25	9.25	7.68

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- □ Split Adjustment

Rating Code Key
- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Prospect Capital Corporation (PSEC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	1/9/2013		Bock			
	1/9/2013	NA	2	10.50	11.50	11.22
▼●	3/26/2013	11.15	3	10.50	11.00	10.94
●	4/24/2013	10.88	3	10.00	11.00	10.94
▲●	6/14/2013	10.29	2	10.00	11.00	10.41
●	9/10/2013	11.43	2	11.50	12.00	11.44
●	5/7/2014	10.20	2	9.50	10.50	10.20
●	9/11/2014	10.31	2	10.50	11.00	10.31
●	12/8/2014	8.27	2	9.50	10.50	8.27
●	12/18/2014	8.35	2	9.00	9.50	8.63
●	9/10/2015	7.93	2	8.00	8.50	7.97
●	12/28/2015	7.13	2	6.75	7.25	7.07

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ❐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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As of: January 10, 2016

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