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As filed with the Securities and Exchange Commission on August 23, 2012

Registration No. 333-

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

ý REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
o PRE-EFFECTIVE AMENDMENT NO.
o POST-EFFECTIVE AMENDMENT NO.

PROSPECT CAPITAL CORPORATION

(Exact Name of Registrant as Specified in Charter)

10 East 40th Street, 44th Floor
New York, NY 10016
(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: **(212) 448-0702**

John F. Barry III
Brian H. Oswald
c/o Prospect Capital Management LLC
10 East 40th Street, 44th Floor
New York, NY 10016
(212) 448-0702
(Name and Address of Agent for Service)

Copies of information to:

Richard T. Prins
Skadden Arps Slate Meagher & Flom LLP
4 Times Square
New York, NY 10036
(212) 735-3000

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a distribution reinvestment plan, check the following box. ý

It is proposed that this filing will become effective (check appropriate box):

o when declared effective pursuant to section 8(c).
If appropriate, check the following box:

o This post-effective amendment designates a new effective date for a previously filed post-effective amendment registration statement.

o This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, $.001 par value per share(2)(3)				
Preferred Stock, $.001 par value per share(2)				
Subscription Rights(2)				
Debt Securities(4)				
Warrants(5)				
Units(6)				
Total	$2,000,000,000		$2,000,000,000(7)	$229,200

(1) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rule 457(o) of the rules and regulations under the Securities Act of 1933 (the "Securities Act"), which permits the registration fee to be calculated on the basis of the maximum offering price of all the securities listed, the table does not specify by each class information as to the amount to be registered, proposed maximum offering price per unit or proposed maximum aggregate offering price. Pursuant to Rule 415(a)(6) under the Securities Act, this registration statement covers a total of $131,046,903 of unsold securities that had previously been registered under the registrant's registration statement on Form N-2, initially filed with the Securities and Exchange Commission (the "SEC") on October 11, 2011 (No. 333-176637) (the "Prior Registration Statement") and that are being carried forward to this registration statement. The Prior Registration Statement initially registered securities for a maximum aggregate offering price of $750,000,000 and of that amount the registrant has previously sold common stock for an aggregate offering price of $618,953,097, leaving a balance of unsold securities with an aggregate offering price of $131,046,903. In connection with the registration of securities on the Prior Registration Statement, the registrant paid a registration fee of $15,018 covering such unsold securities and which registration fee is being carried forward to this registration statement and will continue to be applied to such unsold securities pursuant to Rule 415(a)(6). Pursuant to Rule 415(a)(6), the offering of the unsold securities registered under the Prior Registration Statement will be deemed terminated as of the date of effectiveness of this registration statement. If the registrant sells any of such unsold securities pursuant to the Prior Registration Statement after the date of the initial filing, and prior to the date of effectiveness, of this registration statement, the registrant will file a pre-effective amendment to this registration statement which will reduce the number of such unsold securities included on this registration statement.

(2) Subject to Note 7 below, there is being registered hereunder an indeterminate principal amount of common stock or preferred stock, or subscription rights to purchase shares of common stock as may be sold, from time to time separately or as units in combination with other securities registered hereunder.

(3) Includes such indeterminate number of shares of common stock as may, from time to time, be issued upon conversion or exchange of other securities registered hereunder, to the extent any such securities are, by their terms, convertible or exchangeable for common stock.

(4) Subject to Note 7 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed $2,000,000,000.

(5) Subject to Note 7 below, there is being registered hereunder an indeterminate principal amount of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.

(6) Subject to Note 7 below, there is being registered hereunder an indeterminate number of units. Each unit may consist of a combination of any one or more securities being registered hereunder and may also include securities being issued by third parties, including the U.S. Treasury.

(7) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed $2,000,000,000.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATES AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission has been declared effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 23, 2012

$2,000,000,000

PROSPECT CAPITAL CORPORATION

Common Stock
Preferred Stock
Debt Securities
Subscription Rights
Warrants
Units

We may offer, from time to time, in one or more offerings or series, together or separately, up to $2,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock or units, warrants representing rights to purchase shares of common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing, collectively, the Securities, to provide us with additional capital. Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

We may offer shares of common stock, subscription rights, units, warrants, options or rights to acquire shares of common stock, at a discount to net asset value per share in certain circumstances. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. At our 2011 annual meeting, held on December 8, 2011, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. We are currently seeking stockholder approval at our 2012 annual meeting, to be held on December 7, 2012, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering.

Our Securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of the prospectus and a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market under the symbol "PSEC." As of August 22, 2012, the last reported sales price for our common stock was $11.62.

Prospect Capital Corporation, or the Company, is a company that lends to and invests in middle market privately-held companies. Prospect Capital Corporation, a Maryland corporation, has been organized as a closed-end investment company since April 13, 2004 and has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act, and is a non-diversified investment company within the meaning of the 1940 Act.

Prospect Capital Management LLC, our investment adviser, manages our investments and Prospect Administration LLC, our administrator, provides the administrative services necessary for us to operate.

Investing in our Securities involves a heightened risk of total loss of investment and is subject to risks. Before buying any Securities, you should read the discussion of the material risks of investing in our Securities in "Risk Factors" beginning on page 10 of this prospectus.

This prospectus contains important information about us that you should know before investing in our Securities. Please read it before making an investment decision and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. You may make inquiries or obtain this information free of charge by writing to Prospect Capital Corporation at 10 East 40th Street, 44th Floor, New York, NY 10016, or by calling 212-448-0702. Our Internet address is http://www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website to be a part of this prospectus. You may also obtain information about us from our website and the SEC's website (http://www.sec.gov).

The SEC has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The date of this Prospectus is   , 2012.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time on a delayed basis, up to $2,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock or units, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing, on the terms to be determined at the time of the offering. The Securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the heading "Available Information" and the section under the heading "Risk Factors" before you make an investment decision.

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PROSPECTUS SUMMARY

The following summary contains basic information about this offering. It does not contain all the information that may be important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred.

Information contained or incorporated by reference in this prospectus may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which are statements about the future that may be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "plans," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the Securities Act. The matters described in "Risk Factors" and certain other factors noted throughout this prospectus and in any exhibits to the registration statement of which this prospectus is a part, constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements. The Company reminds all investors that no forward-looking statement can be relied upon as an accurate or even mostly accurate forecast because humans cannot forecast the future.

The terms "we," "us," "our," "Prospect," and "Company" refer to Prospect Capital Corporation; "Prospect Capital Management" or the "Investment Adviser" refers to Prospect Capital Management LLC, our investment adviser; and "Prospect Administration" or the "Administrator" refers to Prospect Administration LLC, our administrator.

The Company

We are a financial services company that lends to and invests in middle market privately-held companies.

From our inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy. Since then, we have widened our strategy to focus on other sectors of the economy and continue to broaden our portfolio holdings.

We have been organized as a closed-end investment company since April 13, 2004 and have filed an election to be treated as a business development company under the 1940 Act. We are a non-diversified company within the meaning of the 1940 Act. Our headquarters are located at 10 East 40th Street, 44th Floor, New York, NY 10016, and our telephone number is (212) 448-0702.

The Investment Adviser

Prospect Capital Management, an affiliate of the Company, manages our investment activities. Prospect Capital Management is an investment adviser that has been registered under the Investment Advisers Act of 1940, or the Advisers Act, since March 31, 2004. Under an investment advisory and management agreement between us and Prospect Capital Management, or the Investment Advisory Agreement, we have agreed to pay Prospect Capital Management investment advisory fees, which will consist of an annual base management fee based on our gross assets, which we define as total assets without deduction for any liabilities (and, accordingly, includes the value of assets acquired with proceeds from borrowings), as well as a two-part incentive fee based on our performance.

The Offering

We may offer, from time to time, in one or more offerings or series, together or separately, up to $2,000,000,000 of our Securities, which we expect to use initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investment in high quality short-term debt

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instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objectives.

Our Securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to a particular offering will disclose the terms of that offering, including the name or names of any agents, underwriters or dealers involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

We may sell our common stock, subscription rights, units, warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock upon approval of our directors, including a majority of our independent directors, in certain circumstances. At our 2011 annual meeting, held on December 8, 2011, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of the stockholder approval. We are currently seeking stockholder approval at our 2012 annual meeting, to be held on December 7, 2012, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering. Similarly, our stockholders approved our ability to issue warrants, options or rights to acquire our common stock at our 2008 annual meeting of stockholders for an unlimited time period and in accordance with the 1940 Act which provides that the conversion or exercise price of such warrants, options or rights may be less than net asset value per share at the date such securities are issued or at the date such securities are converted into or exercised for shares of our common stock. See "Sales of Common Stock Below Net Asset Value" in this prospectus and in the prospectus supplement, if applicable. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. We have no current intention of engaging in a rights offering, although we reserve the right to do so in the future.

Set forth below is additional information regarding the offering of our Securities:

Use of proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, 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. See "Use of Proceeds."

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Distributions	In June 2010, our Board of Directors approved a change in dividend policy from quarterly distributions to monthly distributions. Since that time, we have paid monthly distributions to the holders of our common stock and generally intend to continue to do so. The amount of the monthly distributions is determined by our Board of Directors and is based on our estimate of our investment company taxable income and net short-term capital gains. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the month as a result of our deliberate planning or accounting reclassifications. Distributions in excess of our current or accumulated earnings or profits constitute a return of capital and will reduce the stockholder's adjusted tax basis in such stockholder's common stock. After the adjusted basis is reduced to zero, these distributions will constitute capital gains to such stockholders. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of Securities will likely pay distributions in accordance with their terms. See "Price Range of Common Stock," "Distributions" and "Material U.S. Federal Income Tax Considerations."
Taxation	We have qualified and elected to be treated for U.S. federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or the Code. As a RIC, we generally do not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our qualification as a RIC and obtain RIC tax treatment, we must satisfy certain source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See "Distributions" and "Material U.S. Federal Income Tax Considerations."
Dividend reinvestment plan	We have a dividend reinvestment plan for our stockholders. This is an "opt out" dividend reinvestment plan. As a result, when we declare a dividend, the dividends are automatically reinvested in additional shares of our common stock, unless a stockholder specifically "opts out" of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan."
The NASDAQ Global Select Market Symbol	PSEC
Anti-takeover provisions	Our charter and bylaws, as well as certain statutory and regulatory requirements, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. See "Description Of Our Capital Stock."

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Management arrangements	Prospect Capital Management serves as our investment adviser. Prospect Administration serves as our administrator. For a description of Prospect Capital Management, Prospect Administration and our contractual arrangements with these companies, see "Business Management Services Investment Advisory Agreement," and "Business Management Services Administration Agreement."
Risk factors	Investment in our Securities involves certain risks relating to our structure and investment objective that should be considered by prospective purchasers of our Securities. In addition, as a business development company, our portfolio primarily includes securities issued by privately-held companies. These investments generally involve a high degree of business and financial risk, and are less liquid than public securities. We are required to mark the carrying value of our investments to fair value on a quarterly basis, and economic events, market conditions and events affecting individual portfolio companies can result in quarter-to-quarter mark-downs and mark-ups of the value of individual investments that collectively can materially affect our net asset value, or NAV. Also, our determinations of fair value of privately-held securities may differ materially from the values that would exist if there was a ready market for these investments. A large number of entities compete for the same kind of investment opportunities as we do. Moreover, our business requires a substantial amount of capital to operate and to grow and we seek additional capital from external sources. In addition, the failure to qualify as a RIC eligible for pass-through tax treatment under the Code on income distributed to stockholders could have a materially adverse effect on the total return, if any, obtainable from an investment in our Securities. See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Securities.
Plan of distribution	We may offer, from time to time, up to $2,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock or units, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing on the terms to be determined at the time of the offering. Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. We may not sell Securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such Securities. For more information, see "Plan of Distribution."

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Fees and Expenses

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed $1.314 billion. We do not intend to issue preferred stock during the year. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)(1)	3.00%
Offering expenses borne by us (as a percentage of offering price)(2)	0.20%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)(4)	3.20%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Management fees(5)	3.58%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	3.09%
Total advisory fees	6.67%
Interest payments on the credit facility	1.01%
Interest payments on the 2015 Notes(7)	0.62%
Interest payments on the 2016 Notes(8)	0.61%
Interest payments on the 2017 Notes(9)	0.46%
Interest payments on the 2018 Notes(10)	0.76%
Interest payments on the 2022 Notes(11)	0.46%
Interest payments on the InterNotes®(12)	0.25%
Total interest expense	4.17%
Acquired Fund Fees and Expenses(13)	0.01%
Other expenses(14)	1.43%
Total annual expenses(6)(14)	12.28%

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed $1.314 billion, that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 102.21	$ 237.93	$ 367.60	$ 667.05

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While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The income incentive fee under our Investment Advisory Agreement with Prospect Capital Management is unlikely to be material assuming a 5% annual return and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our distributions to our common stockholders and our expenses would likely be higher. In addition, while the example assumes reinvestment of all dividends and other distributions at NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

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

(1) In the event that the Securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the estimated applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the estimated offering expenses borne by us as a percentage of the offering price.

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

(4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.

(5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Although we have no intent to borrow the entire amount available under our line of credit, assuming that we borrowed $1.314 billion, the 2% management fee of gross assets equals approximately 3.58% of net assets. Based on our borrowings as of August 22, 2012 of $806.6 million, the 2% management fee of gross assets equals approximately 3.03% of net assets. See "Business Management Services Investment Advisory Agreement" and footnote 6 below.

(6) Based on the incentive fee paid during our fiscal year ended June 30, 2012, all of which consisted of an income incentive fee. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services Investment Advisory Agreement" in this prospectus.

(7) On December 21, 2010, the Company issued $150 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the 2015 Notes. See "Business General" and "Risk Factors Risks Related to our Business" for more detail on the 2015 Notes.

(8) On February 18, 2011, the Company issued $172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the 2016 Notes. See "Business General" and "Risk Factors Risks Related to our Business" for more detail on the 2016 Notes.

(9) On April 16, 2012, the Company issued $130 million in aggregate principal amount of 5.375% Convertible Senior Notes due 2017, which we refer to as the 2017 Notes.

(10) On August 14, 2012, the Company issued $200 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018, which we refer to as the 2018 Notes. The 2015 Notes, 2016 Notes, 2017 Notes and 2018 Notes are referred to collectively as the Senior Convertible Notes.

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(11)

On May 1, 2012, the Company issued $100 million in aggregate principal amount of 6.95% Senior Notes due 2022, which we refer to as the 2022 Notes.

(12)

Since February 2012, the Company issued $48.0 million in aggregate principal amount of our Prospect Capital InterNotes®. The Senior Convertible Notes, the 2022 Notes and the Prospect Capital InterNotes® are referred to collectively as the Notes.

(13)

The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of June 30, 2012. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately $1.512 billion as of June 30, 2012.

(14)

"Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended June 30, 2012 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement."

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SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus. Financial information below for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 has been derived from the financial statements that were audited by our independent registered public accounting firm. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page 35 for more information.

	For the Year/Period Ended June 30,				
	2012	2011	2010	2009	2008
	(in thousands except data relating to shares, per share and number of portfolio companies)				
Performance Data:					
Interest income	$ 219,536	$ 134,454	$ 86,518	$ 62,926	$ 59,033
Dividend income	64,881	15,092	15,366	22,793	12,033
Other income	36,493	19,930	12,675	14,762	8,336
Total investment income	320,910	169,476	114,559	100,481	79,402
Interest and credit facility expenses	(35,836)	(17,598)	(8,382)	(6,161)	(6,318)
Investment advisory expense	(46,671)	(46,051)	(30,727)	(26,705)	(20,199)
Other expenses	(51,719)	(11,606)	(8,260)	(8,452)	(7,772)
Total expenses	(134,226)	(75,255)	(47,369)	(41,318)	(34,289)
Net investment income	186,684	94,221	67,190	59,163	45,113
Realized and unrealized gains (losses)	4,220	24,017	(47,565)	(24,059)	(17,522)
Net increase in net assets from operations	$ 190,904	$ 118,238	$ 19,625	$ 35,104	$ 27,591
Per Share Data:					
Net increase in net assets from operations(1)	$ 1.67	$ 1.38	$ 0.33	$ 1.11	$ 1.17
Distributions declared per share	$ (1.22)	$ (1.21)	$ (1.33)	$ (1.62)	$ (1.59)
Average weighted shares outstanding for the period	114,394,554	85,978,757	59,429,222	31,559,905	23,626,642
Assets and Liabilities Data:					
Investments	$ 2,094,221	$ 1,463,010	$ 748,483	$ 547,168	$ 497,530
Other assets	161,303	86,307	84,212	119,857	44,248
Total assets	2,255,524	1,549,317	832,695	667,025	541,778
Amount drawn on credit facility	96,000	84,200	100,300	124,800	91,167
Senior Convertible Notes	447,500	322,500			
2022 Notes	100,000				
InterNotes®	20,638				
Amount owed to related parties	8,571	7,918	9,300	6,713	6,641
Other liabilities	70,571	20,342	11,671	2,916	14,347
Total liabilities	743,280	434,960	121,271	134,429	112,155
Net assets	$ 1,511,974	$ 1,114,357	$ 711,424	$ 532,596	$ 429,623
Investment Activity Data:					

No. of portfolio companies at period end	82	72	58	30	29(2)
Acquisitions	$ 1,120,659	$ 953,337	$ 364,788(3)	$ 98,305	$ 311,947
Sales, repayments, and other disposals	$ 500,952	$ 285,562	$ 136,221	$ 27,007	$ 127,212
Weighted-Average Yield at end of period(4)	13.6%	12.8%	16.2%	14.6%	15.5%

(1) Per share data is based on average weighted shares for the period

(2) Includes a net profits interest in Charlevoix Energy Trading LLC ("Charlevoix"), remaining after loan was paid.

(3) Includes $207,126 of acquired portfolio investments acquired from Patriot Capital Funding, LLC.

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

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RISK FACTORS

Investing in our Securities involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before you decide whether to make an investment in our Securities. The risks set forth below are not the only risks we face. If any of the adverse events or conditions described below occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV, and the trading price of our common stock could decline, or the value of our preferred stock, debt securities, and warrants, if any are outstanding, may decline, and you may lose all or part of your investment.

Risks Relating To Our Business

We may suffer credit losses.

Investment in small and middle-market companies is highly speculative and involves a high degree of risk of credit loss. These risks are likely to increase during volatile economic periods, such as the US and many other economies have recently been experiencing. See "Risks Related to Our Investments."

Our financial condition and results of operations will depend on our ability to manage our future growth effectively.

Prospect Capital Management has been registered as an investment adviser since March 31, 2004, and we have been organized as a closed-end investment company since April 13, 2004. Our ability to achieve our investment objective depends on our ability to grow, which depends, in turn, on our Investment Adviser's ability to continue to identify, analyze, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Investment Adviser's structuring of investments, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. As we continue to grow, Prospect Capital Management will need to continue to hire, train, supervise and manage new employees. Failure to manage our future growth effectively could have a materially adverse effect on our business, financial condition and results of operations.

We are dependent upon Prospect Capital Management's key management personnel for our future success.

We depend on the diligence, skill and network of business contacts of the senior management of our Investment Adviser. We also depend, to a significant extent, on our Investment Adviser's access to the investment professionals and the information and deal flow generated by these investment professionals in the course of their investment and portfolio management activities. The senior management team of the Investment Adviser evaluates, negotiates, structures, closes, monitors and services our investments. Our success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior management team could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain our investment adviser or that we will continue to have access to its investment professionals or its information and deal flow.

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us to make the types of investments that we make in target companies. We compete with other business development companies, public and private funds, commercial and investment banks and commercial financing companies. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in,

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including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified, a trend we expect to continue.

Many of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more or fuller relationships with borrowers and sponsors than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. We cannot assure you that the competitive pressures we face will not have a materially adverse effect on our business, financial condition and results of operations. Also, as a result of existing and increasing competition and our competitors ability to provide a total package solution, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We do not seek to compete primarily based on the interest rates that we offer, and we believe that some of our competitors make loans with interest rates that are comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

Most of our portfolio investments are recorded at fair value as determined in good faith by our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments.

A large percentage of our portfolio investments consist of securities of privately held companies. Hence, market quotations are generally not readily available for determining the fair values of such investments. The determination of fair value, and thus the amount of unrealized losses we may incur in any year, is to a degree subjective, and the Investment Adviser has a conflict of interest in making the determination. We value these securities quarterly at fair value as determined in good faith by our Board of Directors based on input from our Investment Adviser, our Administrator, third party independent valuation firms and our audit committee. Our Board of Directors utilizes the services of independent valuation firms to aid it in determining the fair value of any securities. The types of factors that may be considered in determining the fair values of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow, current market interest rates and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, the valuations may fluctuate significantly over short periods of time due to changes in current market conditions. The determinations of fair value by our Board of Directors may differ materially from the values that would have been used if an active market and market quotations existed for these investments. Our NAV could be adversely affected if the determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

In addition, decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Unprecedented declines in prices and liquidity in the corporate debt markets experienced during the recent financial crises resulted in significant net unrealized depreciation in our portfolio in the past. The effect of all of these factors on our portfolio reduced our NAV by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may continue to suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations. We have no policy regarding holding a minimum level of liquid assets. As such, a high

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percentage of our portfolio generally is not liquid at any given point in time. See " The lack of liquidity may adversely affect our business."

Senior securities, including debt, expose us to additional risks, including the typical risks associated with leverage and could adversely affect our business, financial condition and results of operations.

We currently use our revolving credit facility to leverage our portfolio and we expect in the future to borrow from and issue senior debt securities to banks and other lenders and may securitize certain of our portfolio investments. We also have the Notes outstanding, which are a form of leverage and are senior in payment to our common stock.

With certain limited exceptions, as a business development company, or a BDC, we are only allowed to borrow amounts or otherwise issue senior securities, such that our asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing or other issuance. The amount of leverage that we employ will depend on our Investment Adviser's and our Board of Directors' assessment of market conditions and other factors at the time of any proposed borrowing. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for stockholders, any of which could adversely affect our business, financial condition and results of operations, including the following:

- A likelihood of greater volatility in the net asset value and market price of our common stock;
- Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;
- The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;
- Increased operating expenses due to the cost of leverage, including issuance and servicing costs;
- Convertible or exchangeable securities, such as the Senior Convertible Notes outstanding or those issued in the future, may have rights, preferences and privileges more favorable than those of our common stock;
- Subordination to lenders' superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds are distributed to our stockholders;
- Making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;
- The occurrence of an event of default if we fail to comply with the financial and/or other restrictive covenants contained in our debt agreements, including the credit agreement and each indenture governing the Notes, which event of default could result in all or some of our debt becoming immediately due and payable;
- Reduced availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- The risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and
- Reduced flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

For example, the amount we may borrow under our revolving credit facility is determined, in part, by the fair value of our investments. If the fair value of our investments declines, we may be forced to sell investments at a loss to maintain compliance with our borrowing limits. Other debt facilities we may enter into in the future may contain similar provisions. Any such forced sales would reduce our

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NAV and also make it difficult for the net asset value to recover. Our Investment Adviser and our Board of Directors in their best judgment nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks.

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

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) $2.6 billion in total assets, (ii) an average cost of funds of 5.93%, (iii) $800 million in debt outstanding and (iv) $1.8 billion of shareholders' equity.

Assumed Return on Our Portfolio (net of expenses)	**(10)%**	**(5)%**	**0%**	**5%**	**10%**
Corresponding Return to Stockholder	(17.1)%	(9.9)%	(2.6)%	4.6%	11.8%

The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table.

The Senior Convertible Notes and the 2022 Notes present other risks to holders of our common stock, including the possibility that such Notes could discourage an acquisition of the Company by a third party and accounting uncertainty.

Certain provisions of the Senior Convertible Notes and the 2022 Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Senior Convertible Notes and the 2022 Notes will have the right, at their option, to require us to repurchase all of their Senior Convertible Notes and the 2022 Notes or any portion of the principal amount of such Senior Convertible Notes and the 2022 Notes in integral multiples of $1,000, in the case of the Senior Convertible Notes, and $25, in the case of the 2022 Notes. We may also be required to increase the conversion rate or provide for conversion into the acquirer's capital stock in the event of certain fundamental changes with respect to the Senior Convertible Notes. These provisions could discourage an acquisition of us by a third party.

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

We fund a portion of our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Borrowings and other types of financing, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Our lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our assets increases, then leveraging would cause the net asset value to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

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

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

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

As of August 22, 2012, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

Failure to extend our existing credit facility, the revolving period of which is currently scheduled to expire on March 27, 2015, could have a material adverse effect on our results of operations and financial position and our ability to pay expenses and make distributions.

The revolving period for our credit facility with a syndicate of lenders is currently scheduled to terminate on March 27, 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders. If the credit facility is not renewed or extended by the participant banks by March 27, 2015, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on March 27, 2017. At August 22, 2012 we had no outstanding borrowings under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 275 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 half of the credit facility is drawn or 100 basis points otherwise. The credit facility requires us to pledge assets as collateral in order to borrow under the credit facility. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the two-year term-out period through one or more of the following: (1) principal collections on our securities pledged under the facility, (2) at our option, interest collections on our securities pledged under the facility and cash collections on our securities not pledged under the facility, or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position and may force us to decrease or stop paying certain expenses and making distributions until the facility is repaid. In addition, our stock price could decline significantly, we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

Failure to refinance our existing Notes, could have a material adverse effect on our results of operations and financial position.

Our Notes mature at various dates from December 15, 2015 to November 15, 2022. If we are unable to refinance our Notes or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding at maturity under the facility during the two-year term-out period through one or more of the following: (1) borrowing additional funds under our then current credit facility, (2) issuance of additional common stock or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position. In addition, our stock price could decline significantly; we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

Changes in interest rates may affect our cost of capital and net investment income.

A significant portion of the debt investments we make bears interest at fixed rates and the value of these investments could be negatively affected by increases in market interest rates. In addition, as the interest rate on our revolving credit facility is at a variable rate based on an index, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, a significant increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which would reduce our net investment income.

We need to raise additional capital to grow because we must distribute most of our income.

We need additional capital to fund growth in our investments. A reduction in the availability of new capital could limit our ability to grow. We must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders to maintain our status as a regulated investment company, or RIC, for U.S. federal income tax purposes. As a result, such earnings are not available to fund investment originations. We have sought additional capital by borrowing from financial institutions and may issue debt securities or additional equity securities. If we fail to obtain funds from such sources or from other sources to fund our investments, we could be limited in our ability to grow, which may have an adverse effect on the value of our common stock. In addition, as a business development company, we are generally required to maintain a ratio of total assets to total borrowings and other senior securities of at least 200%, which may restrict our ability to borrow in certain circumstances.

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The lack of liquidity in our investments may adversely affect our business.

We generally make investments in private companies. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or our Investment Adviser has material non-public information regarding such portfolio company.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest or dividend rates payable on the debt or equity securities we hold, the default rate on debt securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, the seasonality of the energy industry, weather patterns, changes in energy prices and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Our most recent NAV was calculated as of June 30, 2012 and our NAV when calculated as of September 30, 2012 may be higher or lower.

Our most recently estimated NAV per share is $10.83 determined by us as of June 30, 2012. NAV per share as of September 30, 2012, may be higher or lower than $10.83 based on potential changes in valuations, issuances of securities and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2012. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, our Investment Adviser, our Administrator and the audit committee of our Board of Directors.

Potential conflicts of interest could impact our investment returns.

Our executive officers and directors, and the executive officers of our Investment Adviser, Prospect Capital Management, may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our best interests or those of our stockholders. Nevertheless, it is possible that new investment opportunities that meet our investment objective may come to the attention of one of these entities in connection with another investment advisory client or program, and, if so, such opportunity might not be offered, or otherwise made available, to us. However, as an investment adviser, Prospect Capital Management has a fiduciary obligation to act in the best interests of its clients, including us. To that end, if Prospect Capital Management or its affiliates manage any additional investment vehicles or client accounts in the future, Prospect Capital Management will endeavor to allocate investment opportunities in a fair and equitable manner over time so as not to discriminate unfairly against any client. If Prospect Capital Management chooses to establish another investment fund in the future, when the investment professionals of Prospect Capital Management identify an investment, they will have to choose which investment fund should make the investment.

In the course of our investing activities, under the Investment Advisory Agreement we pay base management and incentive fees to Prospect Capital Management, and reimburse Prospect Capital Management for certain expenses it incurs. As a result of the Investment Advisory Agreement, there may be times when the senior management team of Prospect Capital Management has interests that differ from those of our stockholders, giving rise to a conflict.

Prospect Capital Management receives a quarterly income incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income incentive fee is subject to a fixed quarterly hurdle rate before providing an income incentive fee return to the Investment Adviser. This fixed hurdle rate was determined when then current interest rates were relatively low on a historical basis. Thus, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that our Investment Adviser will receive an income incentive fee than if interest rates on our investments remained constant or decreased. Subject to the receipt of any requisite stockholder approval under the 1940 Act, our Board of Directors may adjust the hurdle rate by amending the Investment Advisory Agreement.

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that has a deferred interest feature, it is possible that interest accrued under such loan that has previously been included in the calculation of the income incentive fee will become uncollectible. If this happens, our Investment Adviser is not required to reimburse us for any such income incentive fee payments. If we do not have sufficient liquid assets to pay this incentive fee or distributions to stockholders on such accrued income, we may be required to liquidate assets in order to do so. This fee structure could give rise to a conflict of interest for our Investment Adviser to the extent that it may encourage the Investment Adviser to favor debt financings that provide for deferred interest, rather than current cash payments of interest.

We have entered into a royalty-free license agreement with Prospect Capital Management. Under this agreement, Prospect Capital Management agrees to grant us a non-exclusive license to use the name "Prospect Capital." Under the license agreement, we have the right to use the "Prospect Capital" name for so long as Prospect Capital Management or one of its affiliates remains our Investment Adviser. In addition, we rent office space from Prospect Administration, an affiliate of Prospect Capital Management, and pay Prospect Administration our allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations as Administrator under the Administration Agreement, including rent and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. This may create conflicts of interest that our Board of Directors monitors.

Our incentive fee could induce Prospect Capital Management to make speculative investments.

The incentive fee payable by us to Prospect Capital Management may create an incentive for our Investment Adviser to make investments on our behalf that are more speculative or involve more risk than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable is determined (calculated as a percentage of the return on invested capital) may encourage the Investment Adviser to use leverage to increase the return on our investments. Increased use of leverage and this increased risk of replacement of that leverage at maturity, would increase the likelihood of default, which would disfavor holders of our common stock. Similarly, because the Investment Adviser will receive an incentive fee based, in part, upon net capital gains realized on our investments, the Investment Adviser may invest more than would otherwise be appropriate in companies whose securities are likely to yield capital gains, as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to Prospect Capital Management could create an incentive for our Investment Adviser to invest on our behalf in instruments, such as zero coupon bonds, that have a deferred interest feature. Under these investments, we would accrue interest income over the life of the

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investment but would not receive payments in cash on the investment until the end of the term. Our net investment income used to calculate the income incentive fee, however, includes accrued interest. For example, accrued interest, if any, on our investments in zero coupon bonds will be included in the calculation of our incentive fee, even though we will not receive any cash interest payments in respect of payment on the bond until its maturity date. Thus, a portion of this incentive fee would be based on income that we may not have yet received in cash in the event of default may never receive.

We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.

Our investment adviser is entitled to incentive compensation for each fiscal quarter based, in part, on our pre-incentive fee net investment income if any, for the immediately preceding calendar quarter above a performance threshold for that quarter. Accordingly, since the performance threshold is based on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay Prospect Capital Management incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

Changes in the laws or regulations governing our business or the businesses of our portfolio companies and any failure by us or our portfolio companies to comply with these laws or regulations, could negatively affect the profitability of our operations or of our portfolio companies.

We are subject to changing rules and regulations of federal and state governments, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and The NASDAQ Global Select Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations. In particular, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply, or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, financial condition and results of operations.

Foreign and domestic political risk may adversely affect our business.

We are exposed to political risk to the extent that Prospect Capital Management, on its behalf and subject to its investment guidelines, transacts in securities in the U.S. and foreign markets. The governments in any of these jurisdictions could impose restrictions, regulations or other measures, which may have a material adverse impact on our strategy.

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Capital markets have been in a period of disruption and instability for an extended period of time. These market conditions have materially and adversely affected debt and equity capital markets in the United States and abroad, which have had, and may in the future have, a negative impact on our business and operations.

The U.S. and foreign capital markets have been in a period of disruption for an extended period of time as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While these conditions appear to be improving, they could continue for a prolonged period of time or worsen in the future. In addition, while these conditions persist, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because subject to some limited exceptions, as a business development company, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our annual meeting of stockholders held on December 8, 2011, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. In addition, our ability to incur indebtedness or issue other senior securities (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness or issue other senior securities. The debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Moreover, recent market conditions have made, and may in the future make, it difficult to extend the maturity of or refinance our existing indebtedness for borrowed money and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the recent extreme volatility and dislocation in the capital markets, many business development companies have faced, and may in the future face, a challenging environment in which to raise capital. Recent significant changes in the capital markets affecting our ability to raise capital have affected the pace of our investment activity. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

The instability in the financial markets has led the U.S. federal government to take a number of unprecedented actions and pass legislation designed to regulate and support certain financial institutions and numerous segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity.

On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

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The Dodd-Frank Act, among other things, grants regulatory authorities such as the Commodity Futures Trading Commission ("CFTC") and SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives market. The regulations adopted to date by these regulators have not had a material adverse effect on our business. However, several significant rulemaking initiatives have not been completed and these could have the effect of reducing liquidity or otherwise adversely affecting us or our investments. There can be no assurance that future regulatory actions authorized by the Dodd-Frank Act will not significantly reduce our profitability. The implementation of the Dodd-Frank Act could also adversely affect us by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase our exposure to potential liabilities. Increased regulatory oversight can also impose administrative burdens on us and on PCM, including, without limitation, responding to examinations or investigations and implementing new policies and procedures.

Additionally, federal, state, foreign and other governments, their regulatory agencies or self regulatory organizations may take actions that affect the regulation of the securities in which we invest, or the issuers of such securities, in ways that are unforeseeable. Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of our portfolio companies. Furthermore, volatile financial markets can expose us to greater market and liquidity risk and potential difficulty in valuing securities.

At any time after the date of this prospectus, legislation may be enacted that could negatively affect us or our portfolio companies. Changing approaches to regulation may have a negative impact on the entities in which we invest. Legislation or regulation may also change the way in which we are regulated. There can be no assurance that the Dodd-Frank Act or any future legislation, regulation or deregulation will not have a material adverse effect on us or will not impair our ability to achieve our investment objective.

The recent downgrade of the U.S. credit rating and uncertainty about the financial stability of several countries in the European Union ("EU") could have a significant adverse effect on our business, results of operations and financial condition.

Due to long-term federal budget deficit concerns, on August 5, 2011 S&P downgraded the federal government's credit rating from AAA to AA+ for the first time in history. This downgrade could lead to subsequent downgrades by S&P, as well as to downgrades by the other two major credit rating agencies, Moody's and Fitch Ratings. These developments, and the government's credit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our stock price and our financial performance.

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these EU "peripheral nations" to continue to service their sovereign debt obligations. Despite assistance packages to Greece, Ireland and Portugal, the creation of a joint EU-IMF European Financial Stability Facility in May 2010, and a recently announced plan to expand financial assistance to Greece, uncertainty over the outcome of the EU governments' financial support programs and worries about sovereign finances persist. Risks and ongoing concerns about the debt crisis in Europe could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may continue to affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. There can be no assurance that the market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely affected.

Risks Relating To Our Operation As A Business Development Company

A failure on our part to maintain our status as a business development company would significantly reduce our operating flexibility.

If we do not continue to qualify as a business development company, we might be regulated as a registered closed-end investment company under the 1940 Act; our failure to qualify as a BDC would make us subject to additional regulatory requirements, which may significantly decrease our operating flexibility by limiting our ability to employ leverage and issue common stock.

If we fail to qualify as a RIC, we will have to pay corporate-level taxes on our income, and our income available for distribution would be reduced.

To maintain our qualification for U.S. federal income tax purposes as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code, and obtain RIC tax treatment, we must meet certain source of income, asset diversification and annual distribution requirements.

The source of income requirement is satisfied if we derive at least 90% of our annual gross income from interest, dividends, payments with respect to certain securities loans, gains from the sale or other disposition of securities or options thereon or foreign currencies, or other income derived with respect to our business of investing in such securities or currencies, and net income from interests in "qualified publicly traded partnerships," as defined in the Code.

The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify for RIC tax treatment. If we are unable to obtain cash from other sources, we may fail to qualify for RIC tax treatment and, thus, may be subject to corporate-level income tax on all of our taxable income.

To maintain our qualification as a RIC, we must also meet certain asset diversification requirements at the end of each quarter of our taxable year. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses.

If we fail to qualify as a RIC for any reason or become subject to corporate income tax, the resulting corporate taxes would substantially reduce our net assets, the amount of income available for distribution, and the actual amount of our distributions. Such a failure would have a materially adverse effect on us and our stockholders. For additional information regarding asset coverage ratio and RIC requirements, see "Regulation Senior Securities" and "Material U.S. Federal Income Tax Considerations".

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We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For U.S. federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount or payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such amounts could be significant relative to our overall investment activities. We also may be required to include in taxable income certain other amounts that we do not receive in cash. While we focus primarily on investments that will generate a current cash return, our investment portfolio currently includes, and we may continue to invest in, securities that do not pay some or all of their return in periodic current cash distributions.

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the income incentive fee will become uncollectible.

Since in some cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty distributing at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, as required to maintain RIC tax treatment. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC treatment and thus become subject to corporate-level income tax. See "Regulation Senior Securities" and "Material U.S. Federal Income Tax Considerations".

Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital.

We have incurred indebtedness under our revolving credit facility and through the issuance of the Notes and, in the future, may issue preferred stock and/or borrow additional money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test, which would prohibit us from paying dividends and could prohibit us from qualifying as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments or sell additional shares of common stock at a time when such sales may be disadvantageous in order to repay a portion of our indebtedness. In addition, issuance of additional common stock could dilute the percentage ownership of our current stockholders in us.

As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share without stockholder approval. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain circumstances, including if (i)(1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders' best interests and (b) in consultation with any underwriter or underwriters of the offering,

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make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at our annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share. At our 2011 annual meeting of stockholders held on December 8, 2011, we obtained the first method of approval from our shareholders to sell subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, an unlimited number of shares of common stock at any discount to net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. We are currently seeking stockholder approval at our 2012 annual meeting, to be held on December 7, 2012, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering. We will not sell shares of common stock under a prospectus supplement to the registration statement (the "current registration statement") if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. See "If we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material" discussed below.

To generate cash for funding new investments, we pledged a substantial portion of our portfolio investments under our revolving credit facility. These assets are not available to secure other sources of funding or for securitization. Our ability to obtain additional secured or unsecured financing on attractive terms in the future is uncertain.

Alternatively, we may securitize our future loans to generate cash for funding new investments. See " Securitization of our assets subjects us to various risks."

Securitization of our assets subjects us to various risks.

We may securitize assets to generate cash for funding new investments. We refer to the term securitize to describe a form of leverage under which a company (sometimes referred to as an "originator" or "sponsor") transfers income producing assets to a single-purpose, bankruptcy-remote subsidiary (also referred to as a "special purpose entity" or SPE), which is established solely for the purpose of holding such assets and entering into a structured finance transaction. The SPE then issues notes secured by such assets. The special purpose entity may issue the notes in the capital markets either publicly or privately to a variety of investors, including banks, non-bank financial institutions and other investors. There may be a single class of notes or multiple classes of notes, the most senior of which carries less credit risk and the most junior of which may carry substantially the same credit risk as the equity of the SPE.

An important aspect of most debt securitization transactions is that the sale and/or contribution of assets into the SPE be considered a true sale and/or contribution for accounting purposes and that a reviewing court would not consolidate the SPE with the operations of the originator in the event of the originator's bankruptcy based on equitable principles. Viewed as a whole, a debt securitization seeks to lower risk to the note purchasers by isolating the assets collateralizing the securitization in an SPE that is not subject to the credit and bankruptcy risks of the originator. As a result of this perceived reduction of risk, debt securitization transactions frequently achieve lower overall leverage costs for originators as compared to traditional secured lending transactions.

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In accordance with the above description, to securitize loans, we may create a wholly owned subsidiary and contribute a pool of our assets to such subsidiary. The SPE may be funded with, among other things, whole loans or interests from other pools and such loans may or may not be rated. The SPE would then sell its notes to purchasers who we would expect to be willing to accept a lower interest rate and the absence of any recourse against us to invest in a pool of income producing assets to which none of our creditors would have access. We would retain all or a portion of the equity in the SPE. An inability to successfully securitize portions of our portfolio or otherwise leverage our portfolio through secured and unsecured borrowings could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings, if any. However, the successful securitization of portions of our portfolio exposes us to a risk of loss for the equity we retain in the SPE and might expose us to greater risk on our remaining portfolio because the assets we retain may tend to be those that are riskier and more likely to generate losses. A successful securitization may also impose financial and operating covenants that restrict our business activities and may include limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. The 1940 Act may also impose restrictions on the structure of any securitizations.

Interests we hold in the SPE, if any, will be subordinated to the other interests issued by the SPE. As such, we will only receive cash distributions on such interests if the SPE has made all cash interest and other required payments on all other interests it has issued. In addition, our subordinated interests will likely be unsecured and rank behind all of the secured creditors, known or unknown, of the SPE, including the holders of the senior interests it has issued. Consequently, to the extent that the value of the SPE's portfolio of assets has been reduced as a result of conditions in the credit markets, or as a result of defaults, the value of the subordinated interests we retain would be reduced. Securitization imposes on us the same risks as borrowing except that our risk in a securitization is limited to the amount of subordinated interests we retain, whereas in a borrowing or debt issuance by us directly we would be at risk for the entire amount of the borrowing or debt issuance.

Generally, we would expect the SPE not to be consolidated with us and in that event our only interest will be the value of our retained subordinated interest and the income allocated to us, which may be more or less than the cash we receive from the SPE, and none of the SPE's liabilities will be reflected as our liabilities. If the assets of the SPE are not consolidated with our assets and liabilities, then our interest in the SPE may be deemed not to be a qualifying asset for purposes of determining whether 70% of our assets are qualifying assets and the leverage incurred by such SPE may or may not be treated as borrowings by us for purposes of the requirement that we not issue senior securities in an amount in excess of our net assets.

We may also engage in transactions utilizing SPEs and securitization techniques where the assets sold or contributed to the SPE remain on our balance sheet for accounting purposes. If, for example, we sell the assets to the SPE with recourse or provide a guarantee or other credit support to the SPE, its assets will remain on our balance sheet. Consolidation would also generally result if we, in consultation with the SEC, determine that consolidation would result in a more accurate reflection of our assets, liabilities and results of operations. In these structures, the risks will be essentially the same as in other securitization transactions but the assets will remain our assets for purposes of the limitations described above on investing in assets that are not qualifying assets and the leverage incurred by the SPE will be treated as borrowings incurred by us for purposes of our limitation on the issuance of senior securities.

Our Investment Adviser may have conflicts of interest with respect to potential securitizations in as much as securitizations that are not consolidated may reduce our assets for purposes of determining its investment advisory fee although in some circumstances our investment adviser may be paid certain fees for managing the assets of the SPE so as to reduce or eliminate any potential bias against securitizations.

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Our ability to invest in public companies may be limited in certain circumstances.

As a BDC, we must not acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as qualifying assets only if such issuer has a market capitalization that is less than $250 million at the time of such investment.

Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. As part of the valuation process, the types of factors that we may take into account in determining the fair value of our investments include, as relevant and among other factors: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, merger and acquisition comparables, our principal market (as the reporting entity) and enterprise values. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Unprecedented declines in prices and liquidity in the corporate debt markets resulted in significant net unrealized depreciation in our portfolio in the past. The effect of all of these factors on our portfolio has reduced our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

Our common stock may trade at a discount to our net asset value per share.

Common stock of BDCs, like that of closed-end investment companies, frequently trades at a discount to current net asset value, which could adversely affect the ability to raise capital. In the past, our common stock has traded at a discount to our net asset value. The risk that our common stock may continue to trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline.

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

At our 2011 annual meeting of stockholders held on December 8, 2011, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following the December 8, 2011 approval in accordance with the exception described above in " Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital." We are currently seeking stockholder approval at our 2012 annual meeting, to be held on December 7, 2012, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering. The issuance or sale by us of shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information and hypothetical examples of these risks, see "Sales of Common Stock Below Net Asset Value" and the prospectus supplement pursuant to which such sale is made. We have sold shares of our common stock at prices below net asset value per share and may continue to do so to the future. For additional information, see "Recent Sales of Common Stock Below Net Asset Value" in the prospectus supplement pursuant to which such sale is made, if applicable.

Our ability to enter into transactions with our affiliates is restricted.

We are prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any security or other property from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits "joint" transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. We are prohibited from buying or selling any security or other property from or to our Investment Adviser and its affiliates and persons with whom we are in a control relationship, or entering into joint transactions with any such person, absent the prior approval of the SEC.

Risks Relating To Our Investments

We may not realize gains or income from our investments.

We seek to generate both current income and capital appreciation. However, the securities we invest in may not appreciate and, in fact, may decline in value, and the issuers of debt securities we invest in may default on interest and/or principal payments. Accordingly, we may not be able to realize gains from our investments, and any gains that we do realize may not be sufficient to offset any losses we experience. See "Business Our Investment Objective and Policies."

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Our investments in prospective portfolio companies may be risky and we could lose all or part of our investment.

Some of our portfolio companies have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their investment objective and the value of our investment in them may decline substantially or fall to zero.

In addition, investment in the middle market companies that we are targeting involves a number of other significant risks, including:

- these companies may have limited financial resources and may be unable to meet their obligations under their securities that we hold, which may be accompanied by a deterioration in the value of their securities or of any collateral with respect to any securities and a reduction in the likelihood of our realizing on any guarantees we may have obtained in connection with our investment;

- they may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;

- because many of these companies are privately held companies, public information is generally not available about these companies. As a result, we will depend on the ability of our Investment Adviser to obtain adequate information to evaluate these companies in making investment decisions. If our Investment Adviser is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and we may lose money on our investments;

- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a materially adverse impact on our portfolio company and, in turn, on us;

- they may have less predictable operating results, may from time to time be parties to litigation, may be engaged in changing businesses with products subject to a risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

- they may have difficulty accessing the capital markets to meet future capital needs;

- changes in laws and regulations, as well as their interpretations, may adversely affect their business, financial structure or prospects;

- increased taxes, regulatory expense or the costs of changes to the way they conduct business due to the effects of climate change may adversely affect their business, financial structure or prospects.

In addition, our executive officers, directors and our Investment Adviser could, in the ordinary course of business, be named as defendants in litigation arising from proposed investments or from our investments in the portfolio companies.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

The U.S. and foreign capital financial markets have been experiencing a high level of volatility, disruption and distress, which was exacerbated by the failure of several major financial institutions in the last few months of 2008. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While these conditions appear to be improving, they could continue for a prolonged period of time or worsen in the

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future both in the U.S. and globally. Our portfolio companies will generally be affected by the conditions and overall strength of the national, regional and local economies, including interest rate fluctuations, changes in the capital markets and changes in the prices of their primary commodities and products. These factors also impact the amount of residential, industrial and commercial growth in the energy industry. Additionally, these factors could adversely impact the customer base and customer collections of our portfolio companies.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans or meet other obligations during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease, during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt or preferred equity, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt or equity holding and subordinate all or a portion of our claim to those of other creditors.

Our portfolio contains a limited number of portfolio companies, which subjects us to a greater risk of significant loss if any of these companies defaults on its obligations under any of its debt securities.

A consequence of the limited number of investments in our portfolio is that the aggregate returns we realize may be significantly adversely affected if one or more of our significant portfolio company investments perform poorly or if we need to write down the value of any one significant investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our portfolio could contain relatively few portfolio companies.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our equity ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing or (3) attempt to preserve or enhance the value of our investment.

We may elect not to make follow-on investments, may be constrained in our ability to employ available funds, or otherwise may lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities, or because we are inhibited by compliance with BDC requirements or the desire to maintain our tax status.

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We may be unable to invest the net proceeds raised from offerings and repayments from investments on acceptable terms, which would harm our financial condition and operating results.

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings and repayments from investments in interest-bearing deposits or other short-term instruments or use the net proceeds from such offerings to reduce then-outstanding obligations under our credit facility. We cannot assure you that we will be able to find enough appropriate investments that meet our investment criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return.

The lack of liquidity in our investments may adversely affect our business.

We make investments in private companies. A portion of these investments may be subject to legal and other restrictions on resale, transfer, pledge or other disposition or will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our Investment Adviser has or could be deemed to have material non-public information regarding such business entity.

We may have limited access to information about privately held companies in which we invest.

We invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of our Investment Adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act of 2002 and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investment.

We may not be in a position to control a portfolio investment when we are a debt or minority equity investor and its management may make decisions that could decrease the value of our investment.

We make both debt and minority equity investments in portfolio companies. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

We may invest in mezzanine debt and dividend-paying equity securities issued by our portfolio companies. Our portfolio companies usually have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, the securities in which we invest. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of the securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying the senior security holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with securities in which we invest, we would have to share on an

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equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

We may not be able to fully realize the value of the collateral securing our debt investments.

Although a substantial amount of our debt investments are protected by holding security interests in the assets of the portfolio companies, we may not be able to fully realize the value of the collateral securing our investments due to one or more of the following factors:

- our debt investments may be in the form of mezzanine loans, therefore our liens on the collateral, if any, are subordinated to those of the senior secured debt of the portfolio companies, if any. As a result, we may not be able to control remedies with respect to the collateral;
- the collateral may not be valuable enough to satisfy all of the obligations under our secured loan, particularly after giving effect to the repayment of secured debt of the portfolio company that ranks senior to our loan;
- bankruptcy laws may limit our ability to realize value from the collateral and may delay the realization process;
- our rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral;
- the need to obtain regulatory and contractual consents could impair or impede how effectively the collateral would be liquidated and could affect the value received; and
- some or all of the collateral may be illiquid and may have no readily ascertainable market value.

The liquidity and value of the collateral could be impaired as a result of changing economic conditions, competition, and other factors, including the availability of suitable buyers.

Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates potential investments in securities of foreign companies including those located in emerging market countries. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Such risks are more pronounced in emerging market countries.

Although currently all of our investments are, and we expect that most of our investments will be, U.S. dollar-denominated, investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments.

We may expose ourselves to risks if we engage in hedging transactions.

We may employ hedging techniques to minimize certain investment risks, such as fluctuations in interest and currency exchange rates, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against

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a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Furthermore, our ability to engage in hedging transactions may also be adversely affected by recent rules adopted by the CFTC.

The success of our hedging transactions depends on our ability to correctly predict movements, currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies. The Company has no current intention of engaging in any of the hedging transaction described above, although it reserves the right to do so in the future.

Our Board of Directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse to us and could impair the value of our stockholders' investment.

Our Board of Directors has the authority to modify or waive our current operating policies and our strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, financial condition, and value of our common stock. However, the effects might be adverse, which could negatively impact our ability to pay dividends and cause stockholders to lose all or part of their investment.

Risks Relating To Our Securities

Investing in our securities may involve a high degree of risk and is highly speculative.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be speculative and aggressive, and therefore, an investment in our shares may not be suitable for someone with low risk tolerance.

The market price of our securities may fluctuate significantly.

The market price and liquidity of the market for our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in the energy industry, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of RIC qualification;

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- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of one or more of Prospect Capital Management's key personnel;
- operating performance of companies comparable to us;
- changes in prevailing interest rates;
- litigation matters;
- general economic trends and other external factors; and
- loss of a major funding source.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has, from time to time, been brought against that company.

If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

Sales of substantial amounts of our securities in the public market may have an adverse effect on the market price of our securities.

Sales of substantial amounts of our securities or the availability of such securities for sale could adversely affect the prevailing market price for our securities. If this occurs and continues it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

There is a risk that you may not receive distributions or that our distributions may not grow over time.

We have made and intend to continue to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Our charter and bylaws and the Maryland General Corporation Law contain provisions that may have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interest. These provisions may prevent stockholders from being able to sell shares of our common stock at a premium over the current of prevailing market prices.

Our charter provides for the classification of our Board of Directors into three classes of directors, serving staggered three-year terms, which may render a change of control or removal of our incumbent management more difficult. Furthermore, any and all vacancies on our Board of Directors will be filled generally only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term until a successor is elected and qualifies.

Our Board of Directors is authorized to create and issue new series of shares, to classify or reclassify any unissued shares of stock into one or more classes or series, including preferred stock and,

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without stockholder approval, to amend our charter to increase or decrease the number of shares of common stock that we have authority to issue, which could have the effect of diluting a stockholder's ownership interest. Prior to the issuance of shares of common stock of each class or series, including any reclassified series, our Board of Directors is required by our governing documents to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series of shares of stock.

Our charter and bylaws also provide that our Board of Directors has the exclusive power to adopt, alter or repeal any provision of our bylaws, and to make new bylaws. The Maryland General Corporation Law also contains certain provisions that may limit the ability of a third party to acquire control of us, such as:

- The Maryland Business Combination Act, which, subject to certain limitations, prohibits certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of the common stock or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, imposes special minimum price provisions and special stockholder voting requirements on these combinations; and

- The Maryland Control Share Acquisition Act, which provides that "control shares" of a Maryland corporation (defined as shares of common stock which, when aggregated with other shares of common stock controlled by the stockholder, entitles the stockholder to exercise one of three increasing ranges of voting power in electing directors, as described more fully below) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares of common stock.

The provisions of the Maryland Business Combination Act will not apply, however, if our Board of Directors adopts a resolution that any business combination between us and any other person will be exempt from the provisions of the Maryland Business Combination Act. Our Board of Directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, *provided* that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. There can be no assurance that this resolution will not be altered or repealed in whole or in part at any time. If the resolution is altered or repealed, the provisions of the Maryland Business Combination Act may discourage others from trying to acquire control of us.

As permitted by Maryland law, our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of our common stock. Although our bylaws include such a provision, such a provision may also be amended or eliminated by our Board of Directors at any time in the future, provided that we will notify the Division of Investment Management at the SEC prior to amending or eliminating this provision. However, as noted above, the SEC has recently taken the position that the Maryland Control Share Acquisition Act is inconsistent with the 1940 Act and may not be invoked by a BDC. It is the view of the staff of the SEC that opting into the Maryland Control Share Acquisition Act would be acting in a manner inconsistent with section 18(i) of the 1940 Act.

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Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial. See "Risk Factors Risks Relating To Our Operation As A Business Development Company If we sell shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material." and "Sales of Common Stock Below Net Asset Value."

We may in the future choose to pay dividends in our own stock, in which case our stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock. Under IRS Revenue Procedure 2010-12, up to 90% of any such taxable dividend could be payable in our stock for dividends declared on or before December 31, 2012 with respect to any taxable year ending on or before December 31, 2011. The IRS has also issued (and where Revenue Procedure 2010-12 is not currently applicable, the IRS continues to issue) private letter rulings on cash/stock dividends paid by RICs and real estate investment trusts if certain requirements are satisfied and we have received such a ruling permitting us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2012 and August 31, 2013. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. Stockholder (as defined in "Material U.S. Federal Income Tax Considerations") may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. Stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to Non-U.S. Stockholders (as defined in "Material U.S. Federal Income Tax Considerations"), we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock (whether pursuant to Revenue Procedure 2010-12, a private letter ruling, or otherwise).

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

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus or incorporated by reference into this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" and "Forward-Looking Statements" appearing elsewhere herein.

Note on Forward Looking Statements

Some of the statements in this section of the prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

We generally use words such as "anticipates," "believes," "expects," "intends" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this prospectus. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act.

We have based the forward-looking statements included in herein on information available to us on the date of this document, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including any annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Overview

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in senior and subordinated debt and equity of companies in need of capital for

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acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We seek to be a long-term investor with our portfolio companies. From our July 27, 2004 inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy. Since then, we have widened our strategy to focus in other sectors of the economy and continue to reduce our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 7% of our investment portfolio.

The aggregate value of our portfolio investments was $2,094,221 and $1,463,010 as of June 30, 2012 and June 30, 2011, respectively. During the fiscal year ended June 30, 2012, our net cost of investments increased by $663,579, or 46.2%, as a result of thirty-eight new investments, seventeen follow-on investments and revolver advances of $1,115,012, accrued of payment-in-kind interest of $5,647 and accretion of purchase discount of $7,284, while we received full repayment on seventeen investments, sold five investments and received several partial prepayments and revolver repayments totaling of $500,952, including a net realized gain of $36,588. During the year ended June 30, 2012, Deb Shops, Inc. ("Deb Shops") filed for bankruptcy and a plan for reorganization was proposed. The plan was approved by the bankruptcy court and our debt position was eliminated with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary on September 30, 2011 and recorded a realized loss of $14,607 for the full amount of the amortized cost. The asset was completely written off when the plan of reorganization was approved. This realized loss was primarily offset the sale of our shares in NRG Manufacturing Inc. ("NRG") common stock for which we realized a gain of $36,940. The remaining net realized gain of $14,255 is primarily due to the sale of our equity investments in C&J Cladding, LLC ("C&J"), The Copernicus Group, Inc. ("Copernicus"), Nupla Corporation ("Nupla") and Sport Helmets Holdings, LLC ("Sport Helmets").

Compared to the end of last fiscal year (ended June 30, 2011), net assets increased by $397,617 or 35.7% during the year ended June 30, 2012, from $1,114,357 to $1,511,974. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $337,562, dividend reinvestments of $10,530, and another $190,904 from operations. These increases, in turn, were offset by $141,379 in dividend distributions to our stockholders. The $190,904 increase in net assets resulting from operations is net of the following: net investment income of $186,684, net realized gain on investments of $36,588, and a decrease in net assets due to changes in net unrealized depreciation of investments of $32,368.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ and those differences could be material.

Patriot Acquisition

On December 2, 2009, we acquired the outstanding shares of Patriot Capital Funding, Inc. ("Patriot") common stock for $201,083. Under the terms of the merger agreement, Patriot common shareholders received 0.363992 shares of our common stock for each share of Patriot common stock, resulting in 8,444,068 shares of common stock being issued by us. In connection with the transaction, we repaid all the outstanding borrowings of Patriot, in compliance with the merger agreement.

The fair value of Patriot's investments was determined by the Board of Directors in conjunction with an independent valuation agent. This valuation resulted in a purchase price of $207,126 which was $98,150 below the amortized cost of such investments. During the year ended June 30, 2012, we recognized $6,613 of interest income due to purchase discount accretion from the assets acquired from

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Patriot. Included in the $6,613 is $3,083 of normal accretion and $3,530 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC ("Mac & Massey"), Nupla, ROM Acquisition Corporation ("ROM") and Sport Helmets.

During the year ended June 30, 2011, we recognized $22,084 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $22,084 is $4,912 of normal accretion, $12,035 of accelerated accretion resulting from the repayment of Impact Products, LLC ("Impact Products"), Label Corp Holdings Inc ("Label Corp") and Prince Mineral Company, Inc. ("Prince") and $4,968 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead General Insurance Agency, Inc. ("Arrowhead"), Copernicus, Fischbein, LLC ("Fischbein") and Northwestern Management Services, LLC ("Northwestern"). The restructured loans for Arrowhead, Copernicus, Fischbein and Northwestern were issued at market terms comparable to other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loan was recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income.

During the period from the acquisition of Patriot on December 2, 2009 to June 30, 2010, we recognized $18,795 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in this amount $4,579 of normal accretion and $14,216 of accelerated accretion resulting from the early repayments of four loans, three revolving lines of credit, sale of one investment position and restructuring of our loans to Aircraft Fasteners International, LLC ("AFI"), EXL Acquisition Corp. ("EXL"), LHC Holdings Corp. ("LHC"), Prince, and ROM. The revised terms were more favorable than the original terms and increased the present value of the future cash flows. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income.

Investment Holdings

As of June 30, 2012, we continue to pursue our investment strategy. In May 2007, we changed our name to "Prospect Capital Corporation" and terminated our policy to invest at least 80% of our net assets in energy companies. Since that time, we have reduced our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 20% of our investment portfolio.

At June 30 2012, approximately $2,094,221 or 138.5% of our net assets are invested in 82 long-term portfolio investments and 7.8% of our net assets invested in money market funds.

During the year ended June 30, 2012, we originated $1,115,012 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our performing loan's annualized current yield increased from 12.8% as of June 30, 2011 to 13.6% as of June 30, 2012 across all long-term investments. This increase in yield is primarily due to the acquisition of First Tower. Excluding our loans to First Tower, our annualized current yield would have been 12.5% as of June 30, 2012. We expect Prospect's current asset yield may continue to decline modestly as we continue to reduce credit risk. Generally, we have seen a decrease in interest rates on first lien loans issued during our fiscal years ended June 30, 2011 and June 30, 2012 in comparison to the rates in effect at June 30, 2010 along with the effects from reducing the percentage level of second lien loans. Monetization of other equity positions that we hold is not included in this yield calculation. In many of our portfolio

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companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee company. Affiliated investments and affiliated companies 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.

As of June, 2012, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., Energy Solutions Holdings, Inc. ("Energy Solutions"), First Tower, Integrated Contract Services, Inc. ("ICS"), Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. f/k/a Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

The following is a summary of our investment portfolio by level of control at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Level of Control	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Control	$ 518,015	24.7%	$ 564,489	27.0%	$ 262,301	18.3%	$ 310,072	21.2%
Affiliate	44,229	2.1%	46,116	2.2%	56,833	4.0%	72,337	4.9%
Non-control/Non-affiliate	1,537,069	73.2%	1,483,616	70.8%	1,116,600	77.7%	1,080,601	73.9%
Total Portfolio	$ 2,099,313	100.0%	$ 2,094,221	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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The following is our investment portfolio presented by type of investment at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Type of Investment	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Revolving Line of Credit	$ 1,145	0.1%	$ 868	0.0%	$ 7,144	0.5%	$ 7,278	0.5%
Senior Secured Debt	1,138,991	54.3%	1,080,053	51.6%	822,582	57.3%	789,981	54.0%
Subordinated Secured Debt	544,363	25.9%	488,113	23.3%	491,188	34.2%	448,675	30.7%
Subordinated Unsecured Debt	72,617	3.5%	73,195	3.5%	54,687	3.8%	55,336	3.8%
CLO Debt	27,258	1.3%	27,717	1.3%		%		%
CLO Residual Interest	214,559	10.2%	218,009	10.4%		%		%
Preferred Stock	31,323	1.5%	29,155	1.4%	31,979	2.2%	25,454	1.7%
Common Stock	61,459	2.9%	137,198	6.6%	19,865	1.4%	116,076	7.9%
Membership Interests	5,437	0.2%	13,844	0.7%	6,128	0.4%	15,392	1.1%
Overriding Royalty Interests		%	1,623	0.1%		%	2,168	0.1%
Escrows Receivable		%	17,686	0.8%		%		%
Warrants	2,161	0.1%	6,760	0.3%	2,161	0.2%	2,650	0.2%
Total Portfolio	$ 2,099,313	100.0%	$ 2,094,221	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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The following is our investments in debt securities presented by type of security at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Level of Control	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	$ 1,147,599	64.3%	$ 1,088,887	65.2%	$ 902,031	65.6%	$ 854,975	65.7%
Second Lien	536,900	30.1%	480,147	28.7%	418,883	30.5%	390,959	30.0%
Unsecured	72,617	4.1%	73,195	4.4%	54,687	4.0%	55,336	4.3%
CLO Debt	27,258	1.5%	27,717	1.7%		%		%
Total Debt Securities	$ 1,784,374	100.0%	$ 1,669,946	100.0%	$ 1,375,601	100.0%	$ 1,301,270	100.0%

The following is our investment portfolio presented by geographic location of the investment at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Geographic Location	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	$ 15,134	0.7%	$ 17,040	0.8%	$ 74,239	5.2%	$ 75,207	5.1%
Cayman Islands	241,817	11.5%	245,726	11.7%		%		%
Ireland	14,918	0.7%	15,000	0.7%	14,908	1.0%	15,000	1.0%
Midwest US	427,430	20.4%	377,139	18.0%	358,540	25.0%	340,251	23.4%
Northeast US	293,181	14.0%	313,437	15.0%	242,039	16.9%	234,628	16.0%
Southeast US	642,984	30.6%	634,945	30.4%	234,528	16.3%	208,226	14.2%
Southwest US	193,627	9.2%	234,433	11.2%	189,436	13.2%	266,004	18.2%
Western US	270,222	12.9%	256,501	12.2%	322,044	22.4%	323,694	22.1%
Total Portfolio	$ 2,099,313	100.0%	$ 2,094,221	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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The following is our investment portfolio presented by industry sector of the investment at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Industry	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	$ 56	0.0%	$	%	$ 56	0.0%	$ 35	0.0%
Automobile / Auto Finance	32,806	1.6%	32,478	1.6%	41,924	2.9%	42,444	2.9%
Biomass Power(1)		%		%	2,540	0.2%		%
Business Services	3,164	0.2%	3,288	0.2%	6,604	0.5%	6,787	0.5%
Chemicals	58,104	2.8%	58,104	2.8%	25,277	1.8%	25,277	1.7%
Commercial Services	80,418	3.8%	80,407	3.8%	34,625	2.4%	34,625	2.4%
Consumer Finance	305,521	14.6%	305,521	14.6%		%		%
Consumer Services	146,335	7.0%	147,809	7.1%	68,286	4.8%	68,286	4.7%
Contracting	15,949	0.8%		%	18,220	1.3%	1,767	0.1%
Diversified Financial Services	260,219	12.3%	264,128	12.6%		%		%
Diversified / Conglomerate Service		%	35	0.0%		%		%
Durable Consumer Products	153,327	7.3%	152,862	7.3%	141,779	9.9%	144,362	9.9%
Ecological	141	0.0%	240	0.0%	141	0.0%	194	0.0%
Electronics		%	144	0.0%	588	0.0%	1,374	0.1%
Energy(1)	63,245	3.0%	126,868	6.1%		%		%
Food Products	101,975	4.9%	96,146	4.5%	144,503	10.1%	146,498	10.0%
Gas Gathering and Processing(1)		%		%	42,003	2.9%	105,406	7.2%
Healthcare	141,990	6.8%	143,561	6.9%	156,396	10.9%	163,657	11.2%
Home and Office Furnishings, Housewares and Durable		%		%	1,916	0.1%	6,109	0.4%
Insurance	83,461	4.0%	83,461	4.0%	86,850	6.0%	87,448	6.0%
Machinery	4,684	0.2%	6,485	0.3%	13,179	0.9%	13,171	0.9%
Manufacturing	95,191	4.5%	127,127	6.1%	114,113	7.9%	136,039	9.3%
Media	165,866	7.9%	161,843	7.7%	121,302	8.4%	121,300	8.3%
Metal Services and Minerals		%		%	580	0.0%	4,699	0.3%
Mining, Steel, Iron and Non-Precious Metals and Coal Production(1)		%		%	1,448	0.1%		%
Oil and Gas Equipment Services	7,188	0.3%	7,391	0.4%		%		%
Oil and Gas Production	130,928	6.2%	38,993	1.9%	124,662	8.7%	70,923	4.8%
Oilfield Fabrication		%		%	23,076	1.6%	23,076	1.6%
Personal and Nondurable Consumer Products	39,351	1.8%	39,968	1.9%	15,147	1.1%	23,403	1.6%
Production Services	268	0.0%	2,040	0.1%	14,387	1.0%	15,357	1.0%
Property Management	51,770	2.5%	47,982	2.2%	52,420	3.7%	51,726	3.5%
Retail	63	0.0%	129	0.0%	14,669	1.0%	145	0.0%
Shipping Vessels(1)		%		%	11,303	0.8%	3,079	0.2%
Software & Computer Services	53,908	2.6%	54,711	2.6%	37,890	2.7%	38,000	2.7%
Specialty Minerals	37,732	1.8%	44,562	2.1%	30,169	2.1%	34,327	2.3%
Textiles and Leather	15,123	0.7%	17,161	0.8%	12,931	0.9%	15,632	1.1%
Transportation	50,530	2.4%	50,777	2.4%	76,750	5.3%	77,864	5.3%
Total Portfolio	$ 2,099,313	100.0%	$ 2,094,221	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

(1) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, Inc. ("CCEHI") and Change Clean Energy, Inc. ("CCEI"), Freedom Marine Holdings, LLC ("Freedom Marine") and Yatesville Coal Holdings, Inc. ("Yatesville") was transferred to Energy Solutions to consolidate all of our energy holdings under one management team.

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Portfolio Investment Activity

During the year ended June 30, 2012, we acquired $1,000,885 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately $112,627, funded $1,500 of revolver advances, and recorded PIK interest of $5,647, resulting in gross investment originations of $1,120,659. The more significant of these investments are described briefly in the following:

On July 1, 2011, we made a senior secured follow-on investment of $2,300 in Boxercraft to support the acquisition of Jones & Mitchell, a supplier of college-licensed apparel. The first lien note bears interest in cash at Libor plus 7.50% and has a final maturity on September 16, 2013.

On July 8, 2011, we made a senior secured investment of $39,000 to support the recapitalization of Totes Isotoner Corporation ("Totes"). The second lien note bears interest in cash at the greater of 10.75% or Libor plus 9.25% and has a final maturity on January 8, 2018.

On August 5, 2011 and September 7, 2011, we made senior secured follow-on investments of $3,850 and $11,800, respectively, in ROM to support the acquisitions of Havis Lighting Solutions, a supplier of products primarily used by emergency response and police vehicles, and the acquisition of a leading manufacturer of personal safety products for the transportation and industrial markets. The first lien notes bear interest in cash at the greater of 10.50% or Libor plus 9.50% and have a final maturity on May 8, 2013.

On August 9, 2011, we provided a $15,000 term loan to support the acquisition of Nobel Learning Communities, Inc., a leading national operator of private schools. The unsecured note bears interest in cash at 11.50% and interest in kind of 1.50% and has a final maturity on August 9, 2017.

On August 9, 2011, we made an investment of $32,116 to purchase 66.2% of the unrated subordinated notes in Babson CLO Ltd 2011-I.

On September 16, 2011, we acted as the facility agent and lead lender of a syndication of lenders that collectively provided $132,000 in senior secured financing to support the financing of Capstone Logistics, LLC ("Capstone"), a leading logistics company. This company provides a broad array of logistics services to a diverse group of blue chip customers in the grocery, food service, retail, and specialty automotive industries. As of June 30, 2012 our investment is $75,418 structured as $33,793 of Term Loan A and $41,625 of Term Loan B first lien notes. After the financing, we received repayment of the loan that was outstanding for Progressive Logistics Services, LLC. The Term Loan A notes bear interest in cash at the greater of 7.50% or Libor plus 5.50% and have a final maturity on September 16, 2016. The Term Loan B notes bear interest in cash at the greater of 13.50% or Libor plus 11.50% and have a final maturity on September 16, 2016.

On September 30, 2011, we provided a $23,000 senior secured loan to support the recapitalization of Anchor Hocking, LLC ("Anchor Hocking"), a leading designer, manufacturer, and marketer of high quality glass products for the retail, food service, and OEM channels. The second lien note bears interest in cash at the greater of 10.50% or Libor plus 9.00% and has a final maturity on September 27, 2016.

On October 13, 2011 and October 19, 2011, we made investments of $9,319 and $1,358, respectively, to purchase 32.9% of the unrated subordinated notes to Apidos CLO VIII, Ltd ("Apidos VIII").

On October 24, 2011, we made a secured second lien investment of $6,000 in Renaissance Learning, Inc., a leading provider of technology based school improvement and student assessment programs. The second lien loan bears interest in cash at the greater of 12.0% or Libor plus 10.50% and has a final maturity on October 19, 2018.

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On October 28, 2011, we made a follow-on investment of $8,200 in Empire Today, LLC. The follow-on first lien note bears interest in cash at 11.375% and has a final maturity on February 1, 2017.

On November 4, 2011, we made a secured second lien investment of $15,000 to support the acquisition of Injured Workers Pharmacy, LLC, a specialty pharmacy services company, in a private equity backed transaction. The secured loan bears interest in cash at the greater of 12.0% or Libor plus 7.50% and has a final maturity on November 4, 2017.

On December 2, 2011, we made a secured second-lien follow-on investment of $7,500 to American Gilsonite Company ("American Gilsonite") for a dividend recapitalization. After the financing, we received a $1,383 dividend as a result of our equity holdings in American Gilsonite. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 2.5% and has a final maturity on March 10, 2016.

On December 22, 2011, we made a secured first lien investment of $31,083 to VanDeMark Chemicals, Inc ("VanDeMark"), a specialty chemical manufacturer. The secured loan bears interest in cash at the greater of 12.2% or Libor plus 10.2% and has a final maturity on December 31, 2014.

On December 22, 2011, we made an investment of $17,900 to purchase 13.2% of the secured Class D Notes and 86.0% of the unsecured Class E Notes in CIFC Funding 2011-I, Ltd ("CIFC"). The $2,500 secured Class D Notes bear interest in cash at Libor plus 5.0% and have a final maturity date on January 19, 2023. The $15,400 unsecured Class E Notes bear interest in cash at Libor plus 7.0% and have a final maturity on January 19, 2023.

On December 28, 2011, we made a secured first-lien follow-on investment of $4,750 in Energy Solutions in order to facilitate the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine. We invested $1,250 of equity in Energy Solutions and $3,500 of debt to Vessel Holdings LLC. The first lien note bears interest in cash at 18.0% and has a final maturity of December 12, 2016.

On December 28, 2011, we made a secured debt investment of $10,000 to support the acquisition of Hoffmaster Group, Inc. After the financing we received a repayment of the loan that was previously outstanding. The $10,000 second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.50% and has a final maturity date of January 3, 2019.

On December 28, 2011, we made a secured debt investment of $37,218 to support the recapitalization of NRG. After the financing, we received repayment of the $13,080 loan that was previously outstanding and a dividend of $6,711 as a result of our equity holdings. In addition, we sold 392 shares of NRG common stock for $13,266, realizing a gain of $12,131. Our remaining 408 shares of NRG common stock held by us were sold back to NRG on February 2, 2012. The secured first lien note bears interest at 15.0% and has a final maturity on December 27, 2016.

On December 30, 2011, we provided $8,000 of senior secured debt to Hi-Tech Testing Service, Inc. and Wilson Inspection X-Ray Services, Inc, a provider of non-destructive testing services to detect leaks and other defects in pipes, vessels, and related equipment for the oil and gas pipeline, chemical and paper and pulp industries. The secured note bears interest in cash at 11.0% and has a final maturity on September 26, 2016.

On January 12, 2012, we made a follow-on investment of $16,500 to purchase 86.8% of the secured Class D Notes in CIFC. The secured Class D Notes bear interest in cash at Libor plus 5.0% and have a final maturity date on January 19, 2023.

On January 17, 2012, we provided $18,332 of secured second-lien financing to National Bankruptcy Solutions, LLC, a financial services processing company purchased by a leading private

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equity sponsor. The second lien note bears interest in cash at the greater of 12.00% or Libor plus 9.0% and interest in kind of 1.50% and has a final maturity of July 17, 2017.

On February 10, 2012, we provided $15,000 of secured second-lien financing to Rocket Software, Inc., a leading global infrastructure software company. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On February 15, 2012, we provided $25,000 of secured second-lien financing to Blue Coat Systems, Inc., a leading provider of Web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 11.50% or Libor plus 10.0% and has a final maturity of August 15, 2018.

On February 24, 2012, we made a follow-on investment of $7,856 to purchase 23.9% of the unrated subordinated notes to Apidos VIII.

On February 28, 2012, we made a senior secured follow-on investment of $9,500 in Clearwater Seafoods LP ("Clearwater") to finance the repayment of a senior secured note due to mature in 2012 and settle outstanding claims senior to our own investment. The second lien note bears interest in cash at 12.00% and has a final maturity of February 4, 2016.

On February 29, 2012, we provided $15,000 of secured second-lien financing to Focus Brands, Inc., a leading franchiser and operator of restaurants, cafes, ice cream stores and retail bakeries. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.00% and has a final maturity on August 21, 2018.

On March 1, 2012, we made a senior secured follow-on investment of $27,500 in SG Acquisition Inc. ("Safe-Guard") to support a recapitalization. As of June 30, 2012, our investment is $26,367 structured as $12,686 of Term Loan C and $13,681 of Term Loan D first lien notes. The Term Loan C note bears interest in cash at the greater of 8.50% or Libor plus 6.50% and has a final maturity of March 18, 2016. The Term Loan D notes bears interest in cash at the greater of 14.50% or Libor plus 12.50% and has a final maturity of March 18, 2016.

On March 14, 2012, we made an investment of $26,569 to purchase 74.4% of the unrated subordinated notes in Babson CLO Ltd 2012-I.

On March 27, 2012, we provided $12,500 of senior secured financing to IDQ Holdings, Inc., a manufacturer of a refrigerant refill kit for automobile air conditioners. The senior secured note bears interest in cash at 11.50% and has a final maturity of April 1, 2017.

On April 2, 2012 we made an investment of $22,000 to purchase 51.2% of the subordinated notes in Galaxy.

On April 16, 2012, we made a senior secured debt investment of $15,000 to support the acquisition of Nixon, a designer and distributor of watches and accessories. The first lien note bears interest in cash at 8.75% and interest in kind of 2.75% and has a final maturity of April 16, 2018.

On April 20, 2012 we made an investment of $43,195 to purchase 71.1% of the LP Certificates in Symphony.

On May 17, 2012, we made an investment of $50,000 in Archipelago, providers of educational software which deliver online curriculum and assessments to the U.S. educational market. The second lien note bears interest in cash at the greater of 11.25% or Libor plus 9.75% and has a final maturity of May 17, 2019.

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On May 21, 2012, we made a follow-on investment of $10,500 in Stauber. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 7.5% and has a final maturity of May 21, 2017.

On June 1, 2012, we made a senior secured second lien investment of $17,500 in SMC. The second lien note bears interest in cash at 12.0% and interest in kind of 5.0% and has a final maturity of May 31, 2017.

On June 7, 2012, we provided $51,100 of senior secured financing to Naylor, an outsourced provider of media and communications services to professional, trade and interest associations, of which $48,600 was funded at closing. The first lien notes bear interest in cash at the greater of 11.0% or Libor plus 8.0% and has a final maturity of June 7, 2017.

On June 7, 2012, we made an investment of $27,449 to purchase 73.6% of the unrated subordinated notes in Babson 2012-IIA.

On June 14, 2012, we made an investment of $18,723 to purchase 52.7% of the subordinated notes in Apidos IX.

On June 15, 2012, we completed the acquisition of the businesses of First Tower. We acquired 80.1% of First Tower's businesses for $110,200 in cash and 14,518,207 unregistered shares of our common stock. The first lien note bears interest at the greater of 18.50% or Libor plus 17.0% and has a final maturity of June 30, 2022.

On June 22, 2012, we made an investment of $25,810 to purchase 51.0% of the subordinated notes in Madison IX.

During the year ended June 30, 2012, we closed-out fifteen positions which are briefly described below.

On October 31, 2011, IEC-Systems, LP/Advanced Rig Services, LLC ("IEC/ARS") repaid the $20,909 loan receivable to us.

On November 21, 2011, we received an equity distribution from the sale of our shares of Fairchild Industrial Products, Co. ("Fairchild") common and preferred stock, realizing $1,549 of gross proceeds and a total gain of $960 on settlement of the investment.

On December 29, 2011, Iron Horse Coiled Tubing, Inc ("Iron Horse") repaid the $11,338 loan receivable to us.

On December 30, 2011, we exited our investment in Mac & Massey and received $10,239 for repayment of the $9,323 loan receivable to us and monetization of our equity position, resulting in a realized gain of $820. We recognized $694 of accelerated purchase discount accretion in the quarter ended December 31, 2011.

On January 9, 2012, Arrowhead repaid the $27,000 loan receivable to us.

On January 31, 2012, AFI repaid the $7,441 loan receivable to us.

On February 2, 2012, NRG was sold to an outside buyer for $123,258. In conjunction with the sale, the $37,218 loan that was outstanding was repaid. We also received a $26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the year ended June 30, 2012. Further, we received a $3,800 advisory fee for the transaction, which was recorded as other income in the year ended June 30, 2012. After expenses, including the make whole and advisory fees discussed above, $40,886 was available to be distributed to stockholders. While our 408 shares of NRG common stock represented 67.1% of the ownership, we received net proceeds of $25,991 as our contribution to the escrow amount was proportionately higher than the other shareholders. In connection with the sales, we recognized a realized gain of $24,810 in the

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results for year ended June 30, 2012. In total, we received proceeds of $93,977 at closing. In addition, there is $11,125 being held in escrow of which 80% is due to us upon release of the escrowed amounts. This will be recognized as additional gain when and if received.

On March 16, 2012, VPSI, Inc. repaid the $16,958 loan receivable to us.

On March 23, 2012, Anchor Hocking repaid the $20,444 loan receivable to us.

On March 30, 2012, ROM repaid the $31,638 loan receivable to us.

On May 8, 2012, SonicWALL repaid the $23,000 loan receivable to us.

On May 31, 2012, Copernicus repaid the remaining $17,596 loan receivable to us and we received $2,562 for our preferred stock positions, resulting in a realized gain of $2,283.

On June 1, 2012, we sold our membership interests in C&J for $4,000, recognizing a realized gain of $3,420 on the sale, and received an advisory fee of $1,500.

On June 15, 2012, we exited our investment in Nupla for a sales price of $6,850. After payment of expenses, including accumulated managerial assistance of $450 paid to our Administrator and a $1,500 structuring fee paid to us, the proceeds were applied to repayment of the loans receivable to us, resulting in a realized gain of $2,907, as this loan was acquired in the Patriot Capital acquisition at a discount to the par amount outstanding.

On June 29, 2012, Sport Helmets repaid the $17,556 loan receivable to us. We recognized $2,585 of accelerated purchase discount accretion in the quarter ended June 30, 2012.

During the year ended June 30, 2012, we also received principal amortization payments of $23,923 on several loans, and $38,418 of partial prepayments primarily related to AIRMALL, AFI, Ajax, Byrider Systems Acquisition Corp., Copernicus, EXL, Fischbein, Iron Horse, LHC, Nupla, Northwestern, Progrexion Holdings, Inc. ("Progrexion"), ROM, Seaton Corp. and Stauber Performance Ingredients, Inc.

During the year ended June 30, 2012, we recognized $6,613 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $6,613 is $3,083 of normal accretion and $3,530 of accelerated accretion resulting from the repayment of Mac & Massey, Nupla, ROM and Sport Helmets. We expect to recognize $284 of normal accretion during the three months ended September 30, 2012.

During the year ended June 30, 2011, we recognized $22,084 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $22,084 is $4,912 of normal accretion, $12,035 of accelerated accretion resulting from the repayment of Impact Products, Label Corp and Prince, and $4,968 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead, Copernicus, Fischbein and Northwestern. The restructured loans for Arrowhead, Copernicus, Fischbein and Northwestern were issued at market terms comparable to other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayments which were recognized as interest income.

During the period from the acquisition of Patriot on December 2, 2009 to June 30, 2010, we recognized $18,795 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in this amount is $4,579 of normal accretion and $14,216 of accelerated accretion resulting from the early repayments of four loans, three revolving lines of credit, sale of one investment position and restructuring of our loans to AFI, EXL, LHC, Prince and ROM. The revised terms were more favorable than the original terms and increased the present value of the future cash flows. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income.

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The following is a quarter-by-quarter summary of our investment activity:

Quarter-End	Acquisitions(1)	Dispositions(2)
June 30, 2012	$ 573,314	$ 146,292
March 31, 2012	170,073	188,399
December 31, 2011	154,697	120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	$ 3,249,313	$ 1,157,677

(1) Includes new deals, additional fundings, refinancings and PIK interest.

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

(3) The $210,438 of acquisitions for the quarter ended December 31, 2009 includes $207,126 of portfolio investments acquired from Patriot.

Investment Valuation

In determining the fair value of our portfolio investments at June 30, 2012 the Audit Committee considered valuations from the independent valuation firm having an aggregate range of $2,018,360 to $2,190,139, excluding money market investments.

In determining the range of value for debt instruments, the independent valuation firm generally shadow rated the investment and then based upon the range of ratings, determined appropriate yields

to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of $2,094,221, excluding money market investments.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than $150,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

AIRMALL USA, Inc.

AIRMALL is a leading developer and manager of airport retail operations. AIRMALL has developed and presently manages all or substantially all of the retail operations and food and beverage concessions at Baltimore/Washington International Thurgood Marshall Airport (BWI), Boston Logan International Airport (BOS), Cleveland Hopkins International Airport (CLE) and Pittsburgh International Airport (PIT). AIRMALL does so pursuant to long-term, infrastructure-like contracts with the respective municipal agencies that own and operate the airports.

On July 30, 2010, we invested $52,420 of combined debt and equity as follows: $30,000 senior term loan, $12,500 senior subordinated note and $9,920 preferred equity. We own 100% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

The Board of Directors decreased the fair value of our investment in AIRMALL to $47,982 as of June 30, 2012, a discount of $3,788 from its amortized cost, compared to the $694 unrealized depreciation recorded at June 30, 2011.

Ajax Rolled Ring & Machine, Inc.

Ajax forges large seamless steel rings on two forging mills in the company's York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded $22,000 of senior secured term debt, $11,500 of subordinated term debt and $6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional $3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid $3,461 of this secured subordinated debt during the quarter ended September 30, 2010. As of June 30, 2012, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was $20,167 and new debt was $15,035 as of June 30, 2012.

The Board of Directors increased the fair value of our investment in Ajax to $52,410 as of June 30, 2012, a premium of $11,151 from its amortized cost, compared to the $7,822 unrealized depreciation recorded at June 30, 2011.

Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.)

Energy Solutions owns interests in other companies operating in the energy sector. These include operating offshore supply vessels and ownerships of a non-operating biomass plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in a gas gathering and processing system in the East Texas.

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. ("GSHI") renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry with the intent of strategically expanding Energy Solutions operations across energy sectors. As part of the reorganization, we transferred our equity interests in CCEHI, CCEI, Freedom Marine and Yatesville to Energy Solutions. On December 28, 2011, we made a follow-on investment of $4,750 to support the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of $199,805, adjusted for the final working capital settlement, including a potential earnout of $28,000 that will be paid based on the future performance of Gas Solutions. Our loans to and investment in Energy Solutions remain outstanding as Energy Solutions and will continue as a portfolio company of Prospect managing other energy-related subsidiaries. The cash balances of Energy Solutions continue to collateralize our loan positions.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be $126,868 for our debt and equity positions at June 30, 2012 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At June 30, 2012 and June 30, 2011, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at $63,623 and $51,491 above its amortized cost, respectively. We received a distribution of $33,250 from Energy Solutions which was recorded as dividend income during the quarter ended June 30, 2012.

First Tower Holdings of Delaware LLC

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 150 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower's businesses for $110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of $11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately $270,771. As consideration for our investment, First Tower Holdings of Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of $244,760 and equity of $43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. We received $8,075 in structuring fee income as part of the acquisition.

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The Board of Directors set the fair value of our investment in First Tower to $287,953 as of June 30, 2012, equal to its amortized cost.

Integrated Contract Services, Inc.

ICS is a company that was created to purchase the assets of ESA Environmental Specialists, Inc. ("ESA") out of bankruptcy in April 2007. ESA was a contract management company with core expertise in construction, environmental and engineering services and competed in the market for government contracts. Prior to January 2009, ICS owned the assets of ESA and 100% of the stock of The Healing Staff ("THS"). THS is a contractor focused on providing outsourced medical staffing solutions primarily to government agencies.

ESA originally defaulted under our contract governing our investment in ESA, prompting us to commence foreclosure actions with respect to certain ESA assets in respect of which we have a priority lien. In response to our actions, ESA filed voluntarily for reorganization under the bankruptcy code on August 1, 2007. On September 20, 2007, the U.S. Bankruptcy Court approved a Section 363 Asset Sale from ESA to us. To complete this transaction, we contributed our ESA debt to a newly-formed entity, ICS, and provided funds for working capital on October 9, 2007. In return for the ESA debt, we received senior secured debt in ICS of equal amount to our ESA debt, preferred stock of ICS, and 49% of the ICS common stock. ICS subsequently ceased operations and assigned the collateral back to us. ICS is in default of both payment and financial covenants. During September and October 2007, we provided $1,170 to THS for working capital.

In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS and certain ESA assets. THS provides outsourced medical staffing and security staffing services to governmental and commercial enterprises. In November 2009, THS was informed that the U.S. Air Force would not exercise its option to renew its contract. THS continues to solicit new contracts to replace the revenue lost when the Air Force contract ended. As part of its strategy to recovery from the loss of the Air Force contract, in 2010 THS started a new business, Vets Securing America, Inc. ("VSA"), to provide out-sourced security guards staffed primarily using retired military veterans. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of $1,708 and $874, respectively, to support the ongoing operations of THS and VSA. In early May 2012, we made short-term secured debt investments of $118 and $42, respectively, to support the operations of THS and VSA, which short term debt was repaid in early June 2012. There were no additional fundings during the six months ended June 30, 2012. In October 2011, we sold a building acquired from ESA for $894. In January 2012, we received $2,250 towards an ESA litigation settlement. The proceeds from both of these transactions were used to reduce the outstanding loan balance due to us. In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider we agreed to subordinate our first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

Based upon an analysis of the liquidation value of the ESA assets and the enterprise value of THS/VSA, our Board of Directors determined the fair value of our investment in ICS to be zero at June 30, 2012, a reduction of $15,949 from its amortized cost, compared to the $16,453 unrealized loss recorded at June 30, 2011.

Manx Energy, Inc.

Manx was formed for the purpose of rolling up the assets of two existing Prospect portfolio companies, Coalbed, LLC ("Coalbed") and Appalachian Energy Holdings, LLC ("AEH"), bringing

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them under new management, restructuring the outstanding debt, and infusing additional capital to allow for future growth. Coalbed is the owner of 100% of the outstanding equity interests of Coalbed Pipelines, LLC and Coalbed Operator, LLC. Coalbed was formed in October 2009 to acquire our outstanding senior secured loan and assigned interests in Conquest Cherokee, LLC ("Conquest"). Conquest's assets consisted primarily of coalbed methane reserves in the Cherokee Basin. AEH was formed in 2006 and is the owner of 100% of the outstanding equity interests of East Cumberland L.L.C., a provider of outsourced mine site development and construction services for coal production companies operating in Southern Appalachia, and C&S Oilfield and Pipeline Construction, a provider of support services to companies engaged in the exploration and production of oil and natural gas.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. The assets of the three companies were combined under new common management. We funded $2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of $750 in Manx to support ongoing operations. On June 30, 2012, Manx assigned the membership interests of Coalbed and AEH to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed, separately owned holding company.

The Board of Directors decreased the fair value of our investment in Manx to zero as of June 30, 2012, a reduction of $11,028 from its amortized cost, compared to the $17,707 unrealized loss recorded at June 30, 2011.

Wolf Energy Holdings, Inc.

Wolf Energy Holdings, Inc. ("Wolf") is a holding company formed to hold 100% of the outstanding membership interests of each of Coalbed and AEH. The membership interests of Coalbed and AEH, which were previously owned by Manx, were assigned to Wolf effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. In addition, effective June 29, 2012 C&J Cladding Holding Company, Inc. ("C&J") merged with and into Wolf, with Wolf surviving. At the time of the merger, C&J held the remaining undistributed proceeds from the sale of its membership interests in C&J Cladding, LLC. The merger was effectuated in connection with the broader simplification of our energy investment holdings.

The Board of Directors set the fair value of our investment in Wolf to zero as of June 30, 2012, a reduction of $7,991 from its amortized cost.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Two of our portfolio companies experienced such volatility due to improved operating results and experienced meaningful increases in valuation during the year ended June 30, 2012 Ajax and R-V. The valuation of Ajax increased due to improved operating results and emergent customer base. The value of our equity position in Ajax has increased to $17,191 as of June 30, 2012, a premium of $11,134 to its cost, compared to the $6,057 unrealized loss recorded at June 30, 2011. The valuation of R-V has increased due to improved operating results. The value of our equity position in R-V has increased to $23,856 as of June 30, 2012, a premium of $17,087 to its cost, compared to the $1,348 unrealized gain recorded at June 30, 2011. Six of the other controlled investments have been valued at discounts to the original investment. Four of the control investments are valued at the original investment amounts or higher. Overall, at June 30, 2012, the control investments are valued at $46,474 above their amortized cost.

We hold three affiliate investments at June 30, 2012. The affiliate investments reported strong operating results with valuations remaining relatively consistent from June 30, 2011. Our equity investment in Biotronic experienced a decrease in valuation as in the prior year we anticipated that the company would be sold at a substantial premium to our cost basis. This sales process was discontinued during the year ended June 30, 2012 as the buyer and Biotronic could not agree to terms acceptable to each party. The value of our equity position in Biotronic has decreased to $2,693 as of June 30, 2012, a discount of $186 to its amortized cost, compared to the $4,127 unrealized gain recorded at June 30, 2011. Overall, at June 30, 2012, affiliate investments are valued $1,887 above their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia 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. The exception to this categorization relates to investments which were acquired in the Patriot Acquisition, many of which were acquired at significant discounts to par value, and any changes in operating results or interest rates can have a significant effect on the value of such investments. During the year ended June 30, 2012, our investment in Stryker Energy, LLC ("Stryker") experienced a decrease in valuation due to declining operating results and lower natural gas prices. The value of our investment in Stryker has decreased to $1,623 as of June 30, 2012, a discount of $31,088 to its amortized cost, compared to the $6,706 unrealized loss recorded at June 30, 2011. The decrease was due primarily to a drop in natural gas prices during the year ended June 30, 2012. During the year ended June 30, 2012, our investment in H&M Oil & Gas, LLC ("H&M") also experienced a significant decrease in valuation due to declining operating results. The value of our investment in H&M has decreased to $35,031 as of June 30, 2012, a discount of $29,418 to its amortized cost, compared to the $21,556 unrealized loss recorded at June 30, 2011. Other Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. Overall, at June 30, 2012, other Non-control/Non-affiliate investments are valued $7,053 above their amortized cost, excluding our investments in H&M and Stryker.

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 currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011 and April 2012, Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® amounts and outstanding borrowings at June 30, 2012 and June 30, 2011:

	As of June 30, 2012		As of June 30, 2011	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	$ 492,500	$ 96,000	$ 325,000	$ 84,200
Senior Convertible Notes	$ 447,500	$ 447,500	$ 322,500	$ 322,500
Senior Unsecured Notes	$ 100,000	$ 100,000	$	$
InterNotes®	$ 20,638	$ 20,638	$	$

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The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® at June 30, 2012:

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 Years	3 - 5 Years	After 5 Years
Revolving Credit Facility	$ 96,000	$	$ 96,000	$	$
Senior Convertible Notes	447,500			317,500	130,000
Senior Unsecured Notes	100,000				100,000
InterNotes®	20,638				20,638
Total contractual obligations	$ 664,138	$	$ 96,000	$ 317,500	$ 250,638

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities and preferred stock, 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 and warrants to purchase such securities in an amount up to $465,163 as of June 30, 2012. 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.

Revolving Credit Facility

On June 11, 2010, we closed an extension and expansion of our existing credit facility with a syndicate of lenders through PCF (the "2010 Facility"). The 2010 Facility, which had $325,000 total commitments as of June 30, 2011, included an accordion feature which allowed the Syndicated Facility to accept up to an aggregate total of $400,000 of commitments, a limit which was met on September 1, 2011. Interest on borrowings under the 2010 Facility was one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charged a fee on the unused portion of the 2010 Facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

On March 27, 2012, we renegotiated the Syndicated Facility and closed on an expanded five-year $650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of $492,500 under the 2012 Facility as of June 30, 2012; which was increased by $507,500 in July 2012 (See *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to $650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 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 2012 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 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At June 30, 2012, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge 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. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of June 30, 2012 and June 30, 2011, we had $451,252 and $255,673, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was $96,000 and $84,200, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of $492,500. At June 30, 2012, the investments used as collateral for the 2012 Facility had an aggregate market value of $783,384, which represents 51.8% of our net assets. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF holds all of these investments at market value as of June 30, 2012. The release of any assets from PCF requires the approval of the facility agent.

Concurrent with the extension of our 2012 Facility, in March 2012, we wrote off $304 of the unamortized debt issue costs associated with the previous credit facility, in accordance with ASC 470-50, *Debt Modifications and Extinguishments.* In connection with the origination and amendments of the 2012 Facility, we incurred $8,428 of fees, including $1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which $8,722 remains to be amortized.

During the years ended June 30, 2012, June 30, 2011 and June 30, 2010, we recorded $14,883, $8,507 and $8,382 of interest costs, unused fees and amortization of financing costs on our credit facility as interest expense, respectively.

Senior Convertible Notes

On December 21, 2010, we issued $150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds following underwriting expenses of approximately $145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 88.0902 and 88.1030 shares of common stock, respectively, per $1 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately $11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (December 21, 2010) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes will be increased if monthly cash dividends paid to common shares exceed the rate of $0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued $172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately $167,325. Interest on the 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 78.3699 and 78.3835 shares, respectively, of common stock per $1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately $12.76 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (February 18, 2011) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes will be increased when monthly cash dividends paid to common shares exceed the rate of $0.101150 per share.

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On April 16, 2012, we issued $130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds following underwriting expenses of approximately $126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 85.8442 shares of common stock per $1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately $11.65 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (April 16, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.10150 per share.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per $1 principal amount of the 2015 Notes (the "conversion rate cap"), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the "Guidance") permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate of the 2015 Notes increasing the conversion rate beyond what it would have been in the absence of such transaction unless we have engaged in a reverse stock split or share combination transaction such that in our reasonable best estimation, the conversion rate following the adjustment for such transaction will not be any closer to the conversion rate cap than it would have been in the absence of such transaction.

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 Senior Convertible Notes.

No holder of Senior 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 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 Notes upon a fundamental change at a price equal to 100% of the principal amount of the 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 Senior Convertible Notes through and including the maturity date.

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In connection with the issuance of the Senior Convertible Notes, we incurred $14,527 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments,* of which $11,713 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the year ended June 30, 2012, we recorded $22,197 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense.

Senior Unsecured Notes

On May 1, 2012, we issued $100,000 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for net proceeds net of offering expenses of $97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

In connection with the issuance of the 2022 Notes, we incurred $3,200 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments,* of which $3,180 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the year ended June 30, 2012, we recorded $1,178 of interest costs and amortization of financing costs on the 2022 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"). Additional agents appointed by the Company from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement.

These notes will be our direct unsecured senior obligations and will rank equally with all of our unsecured senior 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.

In connection with the issuance of the Prospect Capital InterNotes®, we incurred $812 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, Debt Modifications and Extinguishments, of which $800 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the year ended June 30, 2012, we issued $20,638 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately $20,202. These notes were issued with stated interest rates ranging from 6.50% to 7.00% with an average rate of 6.78%. These notes mature between June 15, 2019 and June 15, 2022. We issued an additional $38,473 in aggregate principal amount of our Prospect Capital InterNotes® subsequent to June 30, 2012. (See *Recent Developments*.)

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The following table shows our issuances to date:

Date of Issuance	Amount	Interest Rate	Maturity Date
March 1, 2012	$ 4,000	7.00%	March 15, 2022
March 8, 2012	1,465	6.90%	March 15, 2022
April 5, 2012	4,000	6.85%	April 15, 2022
April 12, 2012	2,462	6.70%	April 15, 2022
April 26, 2012	2,054	6.50%	April 15, 2022
June 14, 2012	2,657	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	June 15, 2019
July 6, 2012	2,778	6.45%	June 15, 2019
July 12, 2012	5,673	6.35%	June 15, 2019
July 19, 2012	6,810	6.30%	June 15, 2019
July 26, 2012	5,667	6.20%	June 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019$

10,673

$
2,223

$
16,569

$
29,465

$
3,408,605

$
3,438,070

$
—

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Nonaccruing loans (excluding FDIC-supported loans, net of discount and acquired non-covered loans, net of discount) are summarized as follows:

	March 31, 2016	December 31, 2015
	(In Thousands)	
One- to four-family residential construction	$—	$—
Subdivision construction	143	—
Land development	106	139
Commercial construction	—	—
Owner occupied one- to four-family residential	859	715
Non-owner occupied one- to four-family residential	276	345
Commercial real estate	9,779	13,488
Other residential	—	—
Commercial business	181	288
Industrial revenue bonds	—	—
Consumer auto	918	721
Consumer other	656	576
Home equity lines of credit	333	297
Total	$13,251	$16,569

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2016. Also presented are the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2016:

	One- to Four-Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction	Commercial Business	Consumer	Total
	(In Thousands)						
Allowance for loan losses							
Balance January 1, 2016	$4,900	$3,190	$14,738	$3,019	$4,203	$8,099	$38,149
Provision (benefit) charged to expense	51	(582)	1,288	129	(554)	1,769	2,101
Losses charged off	(84)	—	(2,309)	(30)	(19)	(1,737)	(4,179)
Recoveries	16	13	11	8	47	860	955
Balance March 31, 2016	$4,883	$2,621	$13,728	$3,126	$3,677	$8,991	$37,026
Ending balance:							
Individually evaluated for impairment	$729	$—	$1,900	$1,141	$1,120	$359	$5,249

Collectively evaluated for impairment	$3,481	$2,532	$11,586	$1,915	$2,373	$8,435	$30,322
Loans acquired and accounted for under ASC 310-30	$673	$89	$242	$70	$184	$197	$1,455
Loans							
Individually evaluated for impairment	$6,162	$9,472	$31,654	$7,496	$2,215	$2,340	$59,339
Collectively evaluated for impairment	$427,010	$405,645	$1,016,526	$688,448	$386,618	$640,328	$3,564,575
Loans acquired and accounted for under ASC 310-30	$187,210	$35,608	$64,924	$5,436	$9,075	$42,068	$344,321

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The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2015:

	One- to Four- Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction	Commercial Business	Consumer	Total
	(In Thousands)						
Allowance for loan losses							
Balance January 1, 2015	$3,455	$ 2,941	$ 19,773	$ 3,562	$ 3,679	$ 5,025	$38,435
Provision (benefit) charged to expense	556	(140)	385	(113)	467	145	1,300
Losses charged off	(140)	(3)	(2)	(197)	(224)	(1,147)	(1,713)
Recoveries	114	11	60	104	23	737	1,049
Balance March 31, 2015	$3,985	$ 2,809	$ 20,216	$ 3,356	$ 3,945	$ 4,760	$39,071

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2015:

	One- to Four- Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction	Commercial Business	Consumer	Total
	(In Thousands)						
Allowance for loan losses							
Individually evaluated for impairment	$731	$—	$2,556	$ 1,391	$ 1,115	$300	$6,093
Collectively evaluated for impairment	$3,464	$3,122	$11,888	$ 1,570	$ 2,862	$7,647	$30,553
Loans acquired and accounted for under ASC 310-30	$705	$68	$294	$ 58	$ 226	$152	$1,503
Loans							
Individually evaluated for impairment	$6,129	$9,533	$34,629	$ 7,555	$ 2,365	$1,950	$62,161
Collectively evaluated for impairment	$316,052	$410,016	$1,008,845	$ 651,679	$ 392,577	$596,740	$3,375,909
Loans acquired and							

accounted for under ASC 310-30	$194,697	$35,945	$73,148	$4,981	$10,500	$43,574	$362,845

The portfolio segments used in the preceding three tables correspond to the loan classes used in all other tables in Note 6 as follows:

- The one-to four-family residential and construction segment includes the one- to four-family residential construction, subdivision construction, owner occupied one- to four-family residential and non-owner occupied one- to four-family residential classes
- The other residential segment corresponds to the other residential class
- The commercial real estate segment includes the commercial real estate and industrial revenue bonds classes
- The commercial construction segment includes the land development and commercial construction classes
- The commercial business segment corresponds to the commercial business class
- The consumer segment includes the consumer auto, consumer other and home equity lines of credit classes

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include not only nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties.

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Impaired loans (excluding FDIC-supported loans, net of discount and acquired non-covered loans, net of discount), are summarized as follows:

	At or for the Three Months Ended March 31, 2016				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)				
One- to four-family residential construction	$—	$—	$ —	$ —	$ —
Subdivision construction	1,014	1,014	209	1,049	7
Land development	7,496	7,586	1,141	7,506	69
Commercial construction	—	—	—	—	—
Owner occupied one- to four-family residential	5,148	5,718	520	5,121	57
Non-owner occupied one- to four-family residential	—	—	—	—	—
Commercial real estate	31,654	34,773	1,900	33,088	224
Other residential	9,472	9,472	—	9,496	98
Commercial business	2,215	2,644	1,120	2,230	24
Industrial revenue bonds	—	—	—	—	—
Consumer auto	1,000	1,039	150	929	17
Consumer other	880	962	132	897	19
Home equity lines of credit	460	480	77	461	12
Total	$59,339	$63,688	$ 5,249	$ 60,777	$ 527

	At or for the Year Ended December 31, 2015				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)				
One- to four-family residential construction	$—	$—	$ —	$ 633	$ 35
Subdivision construction	1,061	1,061	214	3,533	109
Land development	7,555	7,644	1,391	7,432	287
Commercial construction	—	—	—	—	—
Owner occupied one- to four-family residential	3,166	3,427	389	3,587	179
Non-owner occupied one- to four-family residential	1,902	2,138	128	1,769	100
Commercial real estate	34,629	37,259	2,556	28,610	1,594
Other residential	9,533	9,533	—	9,670	378

Commercial business	2,365	2,539	1,115	2,268	138
Industrial revenue bonds	—	—	—	—	—
Consumer auto	791	829	119	576	59
Consumer other	802	885	120	672	74
Home equity lines of credit	357	374	61	403	27
Total	$62,161	$65,689	$ 6,093	$ 59,153	$ 2,980

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	At or for the Three Months Ended March 31, 2015				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)				
One- to four-family residential construction	$853	$853	$ —	$ 971	$ 16
Subdivision construction	4,434	4,487	280	4,482	51
Land development	7,387	7,395	1,414	7,510	67
Commercial construction	—	—	—	—	—
Owner occupied one- to four-family residential	3,841	4,093	353	3,984	61
Non-owner occupied one- to four-family residential	1,809	2,021	74	1,785	11
Commercial real estate	26,644	27,979	2,271	26,636	201
Other residential	9,768	9,768	—	9,780	111
Commercial business	2,270	2,345	686	2,469	113
Industrial revenue bonds	—	—	—	—	—
Consumer auto	446	501	67	425	10
Consumer other	546	693	82	582	11
Home equity lines of credit	416	440	72	406	9
Total	$58,414	$60,575	$ 5,299	$ 59,030	$ 661

At March 31, 2016, $20.7 million of impaired loans had specific valuation allowances totaling $5.2 million. At December 31, 2015, $25.1 million of impaired loans had specific valuation allowances totaling $6.1 million.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. Troubled debt restructurings are loans that are modified by granting concessions to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. The types of concessions made are factored into the estimation of the allowance for loan losses for troubled debt restructurings primarily using a discounted cash flows or collateral adequacy approach.

The following table presents newly restructured loans during the three months ended March 31, 2016 by type of modification:

	Three Months Ended March 31, 2016			
	Interest Only	Term	Combination	Total Modification
	(In Thousands)			
Mortgage loans on real estate:				
One -to four- family residential	$429	$ —	$ —	$ 429
Commercial	60	—	—	60

Construction and land development	2,946	—	—	2,946
Consumer	—	2	—	2
	$3,435	$ 2	$ —	$ 3,437

At March 31, 2016, the Company had $44.4 million of loans that were modified in troubled debt restructurings and impaired, as follows: $8.3 million of construction and land development loans, $13.5 million of single family and multi-family residential mortgage loans, $20.5 million of commercial real estate loans, $1.9 million of commercial business loans and $294,000 of consumer loans. Of the total troubled debt restructurings at March 31, 2016, $39.4 million were accruing interest and $13.2 million were classified as substandard using the Company's internal grading system, which is

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described below. The Company had no troubled debt restructurings which were modified in the previous 12 months and subsequently defaulted during the three months ended March 31, 2016. When loans modified as troubled debt restructuring have subsequent payment defaults, the defaults are factored into the determination of the allowance for loan losses to ensure specific valuation allowances reflect amounts considered uncollectible. At December 31, 2015, the Company had $45.0 million of loans that were modified in troubled debt restructurings and impaired, as follows: $7.9 million of construction and land development loans, $13.5 million of single family and multi-family residential mortgage loans, $21.3 million of commercial real estate loans, $2.0 million of commercial business loans and $311,000 of consumer loans. Of the total troubled debt restructurings at December 31, 2015, $39.0 million were accruing interest and $12.2 million were classified as substandard using the Company's internal grading system.

During the three months ended March 31, 2016, loans designated as troubled debt restructurings totaling $20,000 met the criteria for placement back on accrual status. The $20,000 consisted of consumer loans. The criteria is generally a minimum of six months of payment performance under original or modified terms.

The Company reviews the credit quality of its loan portfolio using an internal grading system that classifies loans as "Satisfactory," "Watch," "Special Mention," "Substandard" and "Doubtful." Substandard loans are characterized by the distin possibility that the Bank will sustain some loss if certain deficiencies are not corrected. Doubtful loans are those having all the weaknesses inherent to those classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Special mention loans possess potential weaknesses that deserve management's close attention but do not expose the Bank to a degree of risk that warrants substandard classification. Loans classified as watch are being monitored because of indications of potential weaknesses or deficiencies that may require future classification as special mention or substandard. Loans not meeting any of the criteria previously described are considered satisfactory. The FDIC-covered loans are evaluated using this internal grading system. These loans are accounted for in pools and are currently substantially covered through loss sharing agreements with the FDIC. Minimal adverse classification in the loan pools was identified as of March 31, 2016 and December 31, 2015, respectively. The acquired non-covered loans are also evaluated using this internal grading system. These loans are accounted for in pools and minimal adverse classification in the loan pools was identified as of March 31, 2016 and December 31, 2015, respectively. See Note 7 for further discussion of the acquired loan pools and loss sharing agreements.

The Company evaluates the loan risk internal grading system definitions and allowance for loan loss methodology on an ongoing basis. In the fourth quarter of 2014, the Company began using a three-year average of historical losses for the general component of the allowance for loan loss calculation. The Company had previously used a five-year average. For interim periods, the Company uses three full years plus the interim period's annualized average losses for the general component of the allowance for loan loss calculation. The Company believes that the three-year average provides a better representation of the current risks in the loan portfolio. This change was made after consultation with our regulators and other third-party consultants, as well as a review of the practices used by the Company's peers. This change did not materially affect the level of the allowance for loan losses. The general component of the allowance for loan losses is affected by several factors, including, but not limited to, average historical losses, the average life of the loan, the current composition of the loan portfolio, current and expected economic conditions, collateral values and internal risk ratings. Management considers all these factors in determining the adequacy of its allowance for loan losses. No other significant changes were made to the loan risk grading system definitions and allowance for loan loss methodology during the past year.

The loan grading system is presented by loan class below:

	March 31, 2016					
	Satisfactory	Watch	Special Mention	Substandard	Doubtful	Total
	(In Thousands)					
One- to four-family residential construction	$27,097	$—	$710	$ —	$ —	$27,807
Subdivision construction	24,273	261	3,363	431	—	28,328
Land development	55,031	6,978	—	4,089	—	66,098
Commercial construction	629,846	—	—	—	—	629,846
Owner occupied one- to four-family residential	226,786	511	—	1,279	—	228,576
Non-owner occupied one- to four-family residential	143,569	717	3,459	716	—	148,461
Commercial real estate	1,007,471	23,519	—	17,190	—	1,048,180
Other residential	404,801	8,384	—	1,932	—	415,117
Commercial business	350,273	1,366	433	354	—	352,426
Industrial revenue bonds	36,407	—	—	—	—	36,407
Consumer auto	467,969	—	—	952	—	468,921
Consumer other	74,247	—	—	740	—	74,987
Home equity lines of credit	98,313	—	—	447	—	98,760
Acquired FDIC-covered loans, net of discounts	224,330	—	—	12	—	224,342
Acquired loans no longer covered by FDIC loss sharing agreements, net of discounts	31,689	—	—	72	—	31,761
Acquired non-covered loans, net of discounts	86,634	—	—	1,584	—	88,218
Total	$3,888,736	$41,736	$7,965	$ 29,798	$ —	$3,968,235

	December 31, 2015					
	Satisfactory	Watch	Special Mention	Substandard	Doubtful	Total
	(In Thousands)					
One- to four-family residential construction	$22,798	$—	$728	$ —	$ —	$23,526
Subdivision construction	34,370	263	3,407	464	—	38,504
Land development	47,357	6,992	—	4,091	—	58,440
Commercial construction	600,794	—	—	—	—	600,794
Owner occupied one- to-four-family residential	108,584	587	—	1,106	—	110,277
Non-owner occupied one- to-four-family residential	144,744	516	3,827	787	—	149,874
Commercial real estate	1,005,894	18,805	—	18,775	—	1,043,474
Other residential	409,172	8,422	—	1,955	—	419,549
Commercial business	355,370	1,303	438	469	—	357,580

Industrial revenue bonds	37,362	—	—	—	—	37,362
Consumer auto	439,157	—	—	738	—	439,895
Consumer other	74,167	—	—	662	—	74,829
Home equity lines of credit	83,627	—	—	339	—	83,966
Acquired FDIC-covered loans, net of discounts	236,055	—	—	16	—	236,071
Acquired loans no longer covered by FDIC loss sharing agreements, net of discounts	33,237	—	—	101	—	33,338
Acquired non-covered loans, net of discounts	91,614	—	—	1,822	—	93,436
Total	$3,724,302	$36,888	$ 8,400	$ 31,325	$ —	$3,800,915

NOTE 7: FDIC ACQUIRED LOANS, LOSS SHARING AGREEMENTS AND FDIC INDEMNIFICATION ASSETS

On March 20, 2009, Great Southern Bank entered into a purchase and assumption agreement with loss share with the Federal Deposit Insurance Corporation (FDIC) to assume all of the deposits (excluding brokered deposits) and acquire certain assets of TeamBank, N.A., a full service commercial bank headquartered in Paola, Kansas.

The loans, commitments and foreclosed assets purchased in the TeamBank transaction were covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the Bank shared in the losses on assets covered under the agreement (referred to as covered assets). On losses up to $115.0 million, the FDIC agreed to reimburse the Bank for 80% of the losses. On losses exceeding $115.0 million, the FDIC agreed to reimburse the Bank for 95% of the losses. Realized losses covered by the loss sharing agreement included loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by the Bank. This agreement originally was to extend for ten years for 1-4 family real estate loans and for five years for other loans. The five-year period ended March 31, 2014 and the ten-year period was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. See “Loss Sharing Agreements” below. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement was subject to the Bank following servicing procedures as specified in the agreement. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

On September 4, 2009, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Vantus Bank, a full service thrift headquartered in Sioux City, Iowa.

The loans, commitments and foreclosed assets purchased in the Vantus Bank transaction were covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the Bank shared in the losses on assets covered under the agreement (referred to as covered assets). On losses up to $102.0 million, the FDIC agreed to reimburse the Bank for 80% of the losses. On losses exceeding $102.0 million, the FDIC agreed to reimburse the Bank for 95% of the losses. Realized losses covered by the loss sharing agreement included loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by the Bank. This agreement originally was to extend for ten years for 1-4 family real estate loans and for five years for other loans. The five year period ended on September 30, 2014 and the ten-year period was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. See “Loss Sharing Agreements” below. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement was subject to the Bank following servicing procedures as specified in the agreement. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

On October 7, 2011, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Sun Security Bank, a full service bank headquartered in Ellington, Missouri.

The loans and foreclosed assets purchased in the Sun Security Bank transaction were covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the FDIC agreed to cover 80% of the losses on the loans (excluding approximately $4 million of consumer loans at the date of the acquisition) and foreclosed assets purchased subject to certain limitations. Realized losses covered by the loss sharing agreement included loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by Great Southern. This agreement originally was to extend for ten years for 1-4 family real estate loans and for five years for other loans but was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. See “Loss Sharing Agreements” below. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement was subject to the Bank following servicing procedures as specified in the agreement. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

On April 27, 2012, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Inter Savings Bank, FSB (“InterBank”), a full service bank headquartered in Maple Grove, Minnesota.

The loans and foreclosed assets purchased in the InterBank transaction are covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the FDIC agreed to cover 80% of the losses on the loans (excluding approximately $60,000 of consumer loans) and foreclosed assets purchased subject to certain limitations. Realized losses covered by the loss sharing agreement include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by Great Southern. This agreement extends for ten years for 1-4 family real estate loans and for five years for other loans. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement is subject to the Bank following servicing procedures as specified in the agreement with the FDIC. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A premium was recorded in conjunction with the fair value of the acquired loans and the amount amortized to yield during the three months ended March 31, 2016 was $98,000. The amount amortized to yield during the three months ended March 31, 2015 was $122,000.

On June 20, 2014, Great Southern Bank entered into a purchase and assumption agreement with the FDIC to purchase a substantial portion of the loans and investment securities, as well as certain other assets, and assume all of the deposits, as well as certain other liabilities, of Valley Bank (“Valley”), a full-service bank headquartered in Moline, Illinois, with significant operations in Iowa. This transaction did not include a loss sharing agreement.

Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A premium was recorded in conjunction with the fair value of the acquired loans and the amount amortized to yield during the three months ended March 31, 2016 was $148,000. The amount amortized to yield during the three months ended March 31, 2015 was $218,000.

Loss Sharing Agreements. On April 26, 2016, Great Southern Bank executed an agreement with the FDIC to terminate the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank, effective immediately. The agreement required the FDIC to pay $4.4 million to settle all outstanding items related to the terminated loss sharing agreements. As a result of entering into the agreement, assets that were covered by the terminated loss sharing agreements, including covered loans in the amount of $61.5 million and covered other real estate owned in the amount of $468,000 as of March 31, 2016, have been reclassified as non-covered assets effective April 26, 2016. In anticipation of terminating the loss sharing agreements, an impairment of the related indemnification assets was recorded during the three months ended March 31, 2016 in the amount of $584,000. On the date of the termination, the indemnification asset balances (and certain other receivables from the FDIC) related to Team Bank, Vantus Bank and Sun Security Bank, which totaled $4.4 million, net of impairment, at March 31, 2016, became $0 as a result of the receipt of funds from the FDIC as outlined in the termination agreement. There will be no future effects on non-interest income (expense) related to adjustments or amortization of the indemnification assets for Team Bank, Vantus Bank or Sun Security Bank; however, adjustments and amortization related to the InterBank indemnification asset and loss sharing agreement will continue. The remaining accretable yield adjustments that affect interest income are not changed by this transaction and will continue to be recognized for all FDIC-assisted transactions in the same manner as they have been previously.

The termination of the loss sharing agreements for the TeamBank, Vantus Bank and Sun Security Bank transactions will have no impact on the yields for the loans that were previously covered under these agreements. All future recoveries, gains, losses and expenses related to these previously covered assets will now be recognized entirely by

Great Southern Bank since the FDIC will no longer be sharing in such gains or losses. Accordingly, the Company's future earnings will be positively impacted to the extent the Company recognizes gains on any sales or recoveries in excess of the carrying value of such assets. Similarly, the Company's future earnings will be negatively impacted to the extent the Company recognizes expenses, losses or charge-offs related to such assets.

Fair Value and Expected Cash Flows. At the time of these acquisitions, the Company determined the fair value of the loan portfolios based on several assumptions. Factors considered in the valuations were projected cash flows for the loans, type of loan and related collateral, classification status, fixed or variable interest rate, term of loan, current discount rates and whether or not the loan was amortizing. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. Management also estimated the amount of credit losses that were expected to be realized for the loan portfolios. The discounted cash flow approach was used to value each pool of loans. For non-performing loans, fair value was estimated by calculating the present value of the recoverable cash flows using a discount rate based on comparable corporate bond rates. This valuation of the acquired loans is a significant component leading to the valuation of the loss sharing assets recorded.

The amount of the estimated cash flows expected to be received from the acquired loan pools in excess of the fair values recorded for the loan pools is referred to as the accretable yield. The accretable yield is recognized as interest income over the estimated lives of the loans. The Company continues to evaluate the fair value of the loans including cash flows expected to be collected. Increases in the Company's cash flow expectations are recognized as increases to the accretable yield while decreases are recognized as impairments through the allowance for loan losses. During the three months ended March 31, 2016, increases in expected cash flows related to the acquired loan portfolios resulted in adjustments of $4.8 million, to the accretable yield to be spread over the estimated remaining lives of the loans on a level-yield basis. During the three months ended March 31, 2015, similar such adjustments totaling $7.3 million were made to the accretable yield. The increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements. During the three months ended March 31, 2016, this resulted in corresponding adjustments of $1.9 million to the indemnification assets to be amortized on a level-yield basis over the remainder of the loss sharing agreements or the remaining expected lives of the loan pools, whichever is shorter. During the three months ended March 31, 2015, corresponding adjustments of $4.4 million were made to the indemnification assets.

Because these adjustments will be recognized over the remaining lives of the loan pools and the remainder of the loss sharing agreements, respectively, they will impact future periods as well. The remaining accretable yield adjustment that will affect interest income is $11.4 million and the remaining adjustment to the indemnification assets related to InterBank, including the effects of the clawback liability, that will affect non-interest income (expense) is $(5.6) million. The $11.4 million of accretable yield adjustment relates to Team Bank, Vantus Bank, Sun Security Bank and InterBank, and this income is not affected by the termination of the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank. The expense, as noted, is only related to InterBank, as there is no longer, nor will there be in the future, indemnification asset amortization expense related to Team Bank, Vantus Bank, or Sun Security Bank due to the termination of the related loss sharing agreements in April 2016. Of the remaining adjustments, we expect to recognize $7.5 million of interest income and $(4.1) million of non-interest income (expense) during the remainder of 2016. Additional adjustments may be recorded in future periods from the FDIC-assisted transactions, as the Company continues to estimate expected cash flows from the acquired loan pools.

The impact of adjustments on the Company's financial results is shown below:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	(In Thousands, Except Per Share Data and Basis Points Data)	

Impact on net interest income/ net interest margin (in basis points)	$5,382	56 bps	$8,963	98 bps
Non-interest income	(2,934)		(6,679)	
Net impact to pre-tax income	$2,448		$2,284	
Net impact net of taxes	$1,559		$1,485	
Impact to diluted earnings per common share	$0.11		$0.11	

The loss sharing asset is measured separately from the loan portfolio because it is not contractually embedded in the loans and is not transferable with the loans should the Bank choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool (as discussed above) and the loss sharing percentages outlined in the applicable Purchase and Assumption Agreement with the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The loss sharing asset is also separately measured from the related foreclosed real estate.

The loss sharing agreement on the InterBank transaction includes a clawback provision whereby if credit loss performance is better than certain pre-established thresholds, then a portion of the monetary benefit is shared with the FDIC. The pre-established threshold for credit losses is $115.7 million for this transaction. The monetary benefit required to be paid to the FDIC under the clawback provision, if any, will occur shortly after the termination of the loss sharing agreement, which in the case of InterBank is 10 years from the acquisition date.

At March 31, 2016 and December 31, 2015, the Bank’s internal estimate of credit performance was expected to be better than the threshold set by the FDIC in the loss sharing agreement. Therefore, a separate clawback liability totaling $6.6 million and $6.6 million was recorded as of March 31, 2016 and December 31, 2015, respectively. As changes in the fair values of the loans and foreclosed assets are determined due to changes in expected cash flows, changes in the amount of the clawback liability will occur.

In addition, beginning in the three months ended December 31, 2014, the Company's net interest margin has been impacted by additional yield accretion recognized in conjunction with updated estimates of the fair value of the loan pools acquired in the June 2014 Valley Bank FDIC-assisted transaction. Beginning with the three months ended December 31, 2014, the cash flow estimates have increased for certain of the Valley Bank loan pools primarily based on significant loan repayments and also due to collection of certain loans, thereby reducing loss expectations on certain of the loan pools. This resulted in increased income that was spread on a level-yield basis over the remaining expected lives of these loan pools. The Valley Bank transaction does not include a loss sharing agreement with the FDIC. Therefore, there is no related indemnification asset. The entire amount of the discount adjustment will be accreted to interest income over time with no offsetting impact to non-interest income. The amount of the Valley Bank discount adjustment accreted to interest income for the three months ended March 31, 2016 was $2.1 million and is included in the impact on net interest income/net interest margin amount in the table above. Based on current estimates, we anticipate recording additional interest income accretion of $3.2 million in the remainder of 2016 related to these Valley Bank loans, which is included in the $7.5 million discussed above.

TeamBank Loans, Foreclosed Assets and Indemnification Asset. The following tables present the balances of the FDIC indemnification asset related to the TeamBank transaction at March 31, 2016 and December 31, 2015. Gross loan balances (due from the borrower) were reduced approximately $409.0 million since the transaction date because of $276.1 million of repayments from borrowers, $61.6 million in transfers to foreclosed assets and $71.3 million in charge-offs to customer loan balances. Based upon the collectability analyses performed during the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations in this regard. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

	March 31, 2016	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$27,138	$ —
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(1,153)	—
Original estimated fair value of assets, net of activity since acquisition date	(25,815)	—
Expected loss remaining	170	—
Assumed loss sharing recovery percentage	91 %	— %
Estimated loss sharing value	154	—
Indemnification asset to be amortized resulting from change in expected losses	206	—
FDIC indemnification asset	$360	$ —

	December 31, 2015	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$29,115	$ —
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(1,285)	—
Original estimated fair value of assets, net of activity since acquisition date	(27,660)	—
Expected loss remaining	170	—
Assumed loss sharing recovery percentage	90 %	0 %
Estimated loss sharing value	154	—
Indemnification asset to be amortized resulting from change in expected losses	241	—
FDIC indemnification asset	$395	$ —

Vantus Bank Loans, Foreclosed Assets and Indemnification Asset. The following tables present the balances of the FDIC indemnification asset related to the Vantus Bank transaction at March 31, 2016 and December 31, 2015. Gross loan balances (due from the borrower) were reduced approximately $301.2 million since the transaction date because of $255.3 million of repayments from borrowers, $16.6 million in transfers to foreclosed assets and $29.3 million in charge-offs to customer loan balances. Based upon the collectability analyses performed during the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations in this regard. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

	March 31, 2016	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$30,319	$ 608
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(397)	—
Original estimated fair value of assets, net of activity since acquisition date	(29,666)	(418)
Expected loss remaining	256	190
Assumed loss sharing recovery percentage	61 %	— %
Estimated loss sharing value[(1)]	156	—
Indemnification asset to be amortized resulting from change in expected losses	265	—
FDIC indemnification asset	$421	$ —

(1) Includes $152,000 impairment of indemnification asset for foreclosed assets. Resolution of certain items related to commercial foreclosed assets did not occur prior to the expiration of the non-single-family loss sharing agreement for Vantus Bank on September 30, 2014.

	December 31, 2015	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$31,818	$ 608
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(470)	—
Original estimated fair value of assets, net of activity since acquisition date	(31,092)	(418)
Expected loss remaining	256	190
Assumed loss sharing recovery percentage	61 %	— %
Estimated loss sharing value	156	—
Indemnification asset to be amortized resulting from change in expected losses	319	—
FDIC indemnification asset	$475	$ —

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Sun Security Bank Loans, Foreclosed Assets and Indemnification Asset. The following tables present the balances of the FDIC indemnification asset related to the Sun Security Bank transaction at March 31, 2016 and December 31, 2015. Gross loan balances (due from the borrower) were reduced approximately $193.7 million since the transaction date because of $133.8 million of repayments from borrowers, $28.2 million in transfers to foreclosed assets and $31.7 million of charge-offs to customer loan balances. Based upon the collectability analyses performed during the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations in this regard. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above. Of the $1.2 million expected loss remaining at March 31, 2016, $259,000 is non-loss share discount.

	March 31, 2016	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$40,724	$ 564
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(1,810)	—
Original estimated fair value of assets, net of activity since acquisition date	(37,764)	(468)
Expected loss remaining	1,150	96
Assumed loss sharing recovery percentage	27 %	80 %
Estimated loss sharing value	316	77
Indemnification asset to be amortized resulting from change in expected losses(1)	850	—
Accretable discount on FDIC indemnification asset	(19)	(63)
FDIC indemnification asset	$1,147	$ 14

(1) Includes $584,000 impairment of indemnification asset for loans related to the termination of the loss sharing agreements, which was completed in April 2016.

	December 31, 2015	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$43,855	$ 557

Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(2,171)	—
Original estimated fair value of assets, net of activity since acquisition date	(40,349)	(461)
Expected loss remaining	1,335	96
Assumed loss sharing recovery percentage	34 %	80 %
Estimated loss sharing value	456	77
Indemnification asset to be amortized resulting from change in expected losses	1,725	—
Accretable discount on FDIC indemnification asset	(36)	(63)
FDIC indemnification asset	$2,145	$ 14

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InterBank Loans, Foreclosed Assets and Indemnification Asset. The following table presents the balances of the FDIC indemnification asset related to the InterBank transaction at March 31, 2016 and December 31, 2015. Gross loan balances (due from the borrower) were reduced approximately $210.0 million since the transaction date because of $173.3 million of repayments by the borrower, $15.1 million in transfers to foreclosed assets and $21.6 million of charge-offs to customer loan balances. Based upon the collectability analyses performed during the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations in this regard. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

	March 31, 2016	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$183,242	$ 1,702
Non-credit premium/(discount), net of activity since acquisition date	804	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(4,465)	—
Original estimated fair value of assets, net of activity since acquisition date	(162,856)	(1,377)
Expected loss remaining	16,725	325
Assumed loss sharing recovery percentage	83 %	80 %
Estimated loss sharing value(1)	13,934	260
FDIC loss share clawback	2,037	—
Indemnification asset to be amortized resulting from change in expected losses	3,572	—
Accretable discount on FDIC indemnification asset	(1,586)	(33)
FDIC indemnification asset	$17,957	$ 227

(1) Includes $400,000 impairment of indemnification asset for loans

	December 31, 2015	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$193,654	$ 2,110
Non-credit premium/(discount), net of activity since acquisition date	902	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(4,901)	—
Original estimated fair value of assets, net of activity since acquisition date	(170,308)	(1,392)

Expected loss remaining	19,347	718
Assumed loss sharing recovery percentage	83 %	80 %
Estimated loss sharing value	16,032	575
FDIC loss share clawback	2,360	—
Indemnification asset to be amortized resulting from change in expected losses	3,920	—
Accretable discount on FDIC indemnification asset	(1,801)	(33)
FDIC indemnification asset	$20,511	$ 542

Valley Bank Loans and Foreclosed Assets. The following tables present the balances of the loans and discount related to the Valley Bank transaction at March 31, 2016 and December 31, 2015. Gross loan balances (due from the borrower) were reduced approximately $90.7 million since the transaction date because of $82.5 million of repayments by the borrower, $6.5 million of charge-offs to customer loan balances and $1.7 million in transfers to foreclosed assets. The Valley Bank transaction did not include a loss sharing agreement; however, the loans were recorded at a discount, which is accreted to yield over the life of the loans. Based upon the collectability analyses performed during the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations in this regard. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

	March 31, 2016	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis, net of activity since acquisition date	$102,480	$ 1,114
Non-credit premium/(discount), net of activity since acquisition date	571	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(3,609)	—
Original estimated fair value of assets, net of activity since acquisition date	(88,218)	(1,092)
Expected loss remaining	$11,224	$ 22

	December 31, 2015	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis, net of activity since acquisition date	$109,791	$ 1,017
Non-credit premium/(discount), net of activity since acquisition date	719	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(3,213)	—
Original estimated fair value of assets, net of activity since acquisition date	(93,436)	(995)
Expected loss remaining	$13,861	$ 22

Changes in the accretable yield for acquired loan pools were as follows for the three months ended March 31, 2016 and 2015:

	TeamBank	Vantus Bank	Sun Security Bank	InterBank	Valley Bank
	(In Thousands)				
Balance, January 1, 2015	$6,865	$4,453	$7,952	$36,092	$11,132
Accretion	(1,401)	(682)	(1,953)	(9,200)	(2,503)
Reclassification from nonaccretable yield[1]	485	760	1,401	4,916	2,458
Balance, March 31, 2015	$5,949	$4,531	$7,400	$31,808	$11,087
Balance January 1, 2016	$3,805	$3,360	$5,924	$16,347	$8,316
Accretion	(480)	(489)	(1,072)	(4,641)	(3,146)
Reclassification from nonaccretable yield[1]	161	365	471	2,849	3,062
Balance, March 31, 2016	$3,486	$3,236	$5,323	$14,555	$8,232

(1) Represents increases in estimated cash flows expected to be received from the acquired loan pools, primarily due to lower estimated credit losses. The amounts also include changes in expected accretion of the loan pools for TeamBank, Vantus Bank, Sun Security Bank,

InterBank and Valley Bank for the three months ended March 31, 2016, totaling $161,000, $365,000, $304,000, $690,000 and $612,000, respectively, and for the three months ended March 31, 2015, totaling $320,000, $374,000, $493,000, $929,000 and $608,000, respectively.

NOTE 8: OTHER REAL ESTATE OWNED

Major classifications of other real estate owned were as follows:

	March 31, 2016	December 31, 2015
	(In Thousands)	
Foreclosed assets held for sale		
One- to four-family construction	$—	$ —
Subdivision construction	6,821	7,016
Land development	11,477	12,133
Commercial construction	—	—
One- to four-family residential	1,406	1,375
Other residential	1,962	2,150
Commercial real estate	6,534	3,608
Commercial business	—	—
Consumer	1,449	1,109
	29,649	27,391
FDIC-supported foreclosed assets, net of discounts	1,864	1,834
Acquired foreclosed assets no longer covered by FDIC loss sharing agreements, net of discounts	417	460
Acquired foreclosed assets not covered by FDIC loss sharing agreements, net of discounts	1,091	995
Foreclosed assets held for sale, net	33,021	30,680

Other real estate owned not acquired through foreclosure	6,507	1,213
Other real estate owned	$39,528	$31,893

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Other real estate owned not acquired through foreclosure includes 20 properties, 19 of which were branch locations that have been closed and are held for sale, and one of which is land which was acquired for a potential branch location. During the three months ended March 31, 2016, 12 former branch locations were added to other real estate owned not acquired through foreclosure due to the closing of those branches in January of 2016, and one of those properties was subsequently sold during the period. See Note 15 for further information on the branch consolidations.

At March 31, 2016, residential mortgage loans totaling $1.4 million were in the process of foreclosure, $1.2 million of which were acquired loans. Of the $1.2 million of acquired loans, $798,000 was covered by loss sharing agreements as of March 31, 2016 and $397,000 was acquired in the Valley Bank transaction.

Expenses applicable to other real estate owned included the following:

	Three Months Ended March 31, 2016	2015
	(In Thousands)	
Net (gain) loss on sales of other real estate owned	$(98)	$(125)
Valuation write-downs	374	52
Operating expenses, net of rental income	635	458
	$911	$385

NOTE 9: DEPOSITS

	March 31, 2016	December 31, 2015
	(In Thousands)	
Time Deposits:		
0.00% - 0.99%	$794,458	$863,865
1.00% - 1.99%	482,430	381,956
2.00% - 2.99%	43,522	39,592
3.00% - 3.99%	587	1,137
4.00% - 4.99%	1,222	1,304
5.00% and above	272	293
Total time deposits (0.94% - 0.85%)	1,322,491	1,288,147
Non-interest-bearing demand deposits	615,468	571,629
Interest-bearing demand and savings deposits (0.25% - 0.24%)	1,530,740	1,408,850
Total Deposits	$3,468,699	$3,268,626

NOTE 10: ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank (FHLBank advances) at March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016		December 31, 2015	
Due In	Amount (In Thousands)	Weighted Average Interest Rate	Amount (In Thousands)	Weighted Average Interest Rate
2016	$53	5.14 %	$232,071	0.42 %
2017	30,826	3.25	30,826	3.26
2018	81	5.14	81	5.14
2019	28	5.14	28	5.14
2020	—	—	—	—
2021 and thereafter	500	5.54	500	5.54
	31,488	1.05	263,506	0.76
Unamortized fair value adjustment	35		40	
	$31,523		$263,546	

Included in the Bank's FHLBank advances at March 31, 2016 and December 31, 2015, was a $30.0 million advance with a maturity date of November 24, 2017. The interest rate on this advance is 3.20%. The advance has a call provision that allows the Federal Home Loan Bank of Des Moines to call the advance quarterly.

NOTE 11: SECURITIES SOLD UNDER REVERSE REPURCHASE AGREEMENTS AND SHORT-TERM BORROWINGS

	March 31, 2016	December 31, 2015
	(In Thousands)	
Notes payable – Community Development Equity Funds	$1,076	$1,295
Overnight borrowings from the Federal Home Loan Bank	215,200	—
Securities sold under reverse repurchase agreements	135,097	116,182
	$351,373	$117,477

The Bank enters into sales of securities under agreements to repurchase (reverse repurchase agreements). Reverse repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the statements of financial condition. The dollar amount of securities underlying the agreements remains in

the asset accounts. Securities underlying the agreements are being held by the Bank during the agreement period. All agreements are written on a term of one-month or less.
The following table represents the Company's securities sold under reverse repurchase agreements, by collateral type and remaining contractual maturity.

	March 31, 2016 Overnight and Continuous	December 31, 2015 Overnight and Continuous
	(In Thousands)	
Mortgage-backed securities – GNMA, FNMA, FHLMC	$ 135,097	$ 116,182

NOTE 12: INCOME TAXES

Reconciliations of the Company's effective tax rates to the statutory corporate tax rates were as follows:

	Three Months Ended March 31,	
	2016	2015
Tax at statutory rate	35.0%	35.0%
Nontaxable interest and dividends	(2.8)	(2.9)
Tax credits	(8.7)	(8.3)
State taxes	1.1	1.1
Other	0.5	0.1
	25.1%	25.0%

The Company and its consolidated subsidiaries have not been audited recently by the Internal Revenue Service (IRS) or the State of Missouri with respect to income or franchise tax returns and, as such, tax years through December 31, 2005, have been closed without audit. The Company, through one of its subsidiaries, is a partner in two partnerships currently under Internal Revenue Service examination for 2006 and 2007. As a result, the Company's 2006 and subsequent tax years remain open for examination. The examinations of the partnerships have been advanced during 2015. One of the partnerships has advanced to Tax Court because a settlement was not reached at the IRS appeals level. The Company believes the partnership has a strong case and intends to defend its existing positions in Tax Court. The other partnership is at the IRS appeals level. The Company does not currently expect significant adjustments to its financial statements from these partnership examinations.

The Company is currently in administrative appeals with the State of Kansas for its 2010 through 2012 tax years. The Company protested the state's initial assessment and expects to have an informal conference with the Kansas Department of Revenue. The Company does not currently expect significant adjustments to its financial statements from this state examination.

NOTE 13: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Quoted prices in active markets for identical assets or liabilities (Level 1): Inputs that are quoted unadjusted prices in active markets for identical assets that the Company has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Other observable inputs (Level 2): Inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity including quoted prices for similar assets, quoted prices for securities in inactive markets and inputs derived principally from or corroborated by observable market data by correlation or other means.

- Significant unobservable inputs (Level 3): Inputs that reflect assumptions of a source independent of the reporting entity or the reporting entity's own assumptions that are supported by little or no market activity or observable inputs.

Financial instruments are broken down as follows by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

The Company considers transfers between the levels of the hierarchy to be recognized at the end of related reporting periods. From December 31, 2015 to March 31, 2016, no assets for which fair value is measured on a recurring basis transferred between any levels of the hierarchy.

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial condition measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2016 and December 31, 2015:

		Fair value measurements using		
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In Thousands)			
March 31, 2016				
U.S. government agencies	$20,019	$—	$20,019	$ —
Mortgage-backed securities	154,611	—	154,611	—
States and political subdivisions	71,705	—	71,705	—
Other securities	3,211	—	—	—
Interest rate derivative asset	4,463	—	4,463	—
Interest rate derivative liability	(4,726)	—	(4,726)	—
December 31, 2015				
U.S. government agencies	$19,781	$—	$19,781	$ —

Mortgage-backed securities	161,214	—	161,214	—
States and political subdivisions	78,031	—	78,031	—
Other securities	3,830	—	—	—
Interest rate derivative asset	2,711	—	2,711	—
Interest rate derivative liability	(2,725)	—	(2,725)	—

The following is a description of inputs and valuation methodologies used for assets recorded at fair value on a recurring basis and recognized in the accompanying statements of financial condition at March 31, 2016 and December 31, 2015, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the three-month period ended March 31, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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Available-for-Sale Securities. Investment securities available for sale are recorded at fair value on a recurring basis. The fair values used by the Company are obtained from an independent pricing service, which represent either quoted market prices for the identical asset or fair values determined by pricing models, or other model-based valuation techniques, that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems. Recurring Level 2 securities include U.S. government agency securities, mortgage-backed securities, state and municipal bonds and certain other investments. Inputs used for valuing Level 2 securities include observable data that may include dealer quotes, benchmark yields, market spreads, live trading levels and market consensus prepayment speeds, among other things. Additional inputs include indicative values derived from the independent pricing service's proprietary computerized models. There were no recurring Level 3 securities at both March 31, 2016 and December 31, 2015.

Interest Rate Derivatives. The fair value is estimated using forward-looking interest rate curves and is determined using observable market rates and, therefore, are classified within Level 2 of the valuation hierarchy.

Nonrecurring Measurements

The following tables present the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2016 and December 31, 2015:

		Fair Value Measurements Using		
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In Thousands)			
March 31, 2016				
Impaired loans	$23,166	$—	$ —	$ 23,166
Foreclosed assets held for sale	$160	$—	$ —	$ 160
December 31, 2015				
Impaired loans	$13,896	$—	$—	$13,896
Foreclosed assets held for sale	$1,722	$—	$—	$1,722

The following is a description of valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Loans Held for Sale. Mortgage loans held for sale are recorded at the lower of carrying value or fair value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as Nonrecurring Level 2. Write-downs to fair value typically do not occur as the Company generally enters into commitments to sell individual mortgage loans at the time the loan is originated to reduce market risk. The Company typically does not have commercial loans held for sale. At March 31, 2016 and December 31, 2015, the aggregate fair value of mortgage loans held for sale exceeded their cost. Accordingly, no mortgage loans held for sale were marked down and reported at fair value.

Impaired Loans. A loan is considered to be impaired when it is probable that all of the principal and interest due may not be collected according to its contractual terms. Generally, when a loan is considered impaired, the amount of reserve required under FASB ASC 310, Receivables, is measured based on the fair value of the underlying collateral. The Company makes such measurements on all material loans deemed impaired using the fair value of the collateral for collateral dependent loans. The fair value of collateral used by the Company is determined by obtaining an observable market price or by obtaining an appraised value from an independent, licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or earnings of the subject property based on current market expectations, and other relevant factors. All appraised values are adjusted for market-related trends based on the Company's experience in sales and other appraisals of similar property types as well as estimated selling costs. Each quarter management reviews all collateral dependent impaired loans on a loan-by-loan basis to determine whether updated appraisals are necessary based on loan performance, collateral type and guarantor support. At times, the Company measures the fair value of collateral dependent impaired loans using appraisals with dates prior to one year from the date of review. These appraisals are discounted by applying current, observable market data about similar property types such as sales contracts, estimations of value by individuals familiar with the market, other appraisals, sales or collateral assessments based on current market activity until updated appraisals are obtained. Depending on the length of time since an appraisal was performed and the data provided through our reviews, these appraisals are typically discounted 10-40%. The policy described above is the same for all types of collateral dependent impaired loans.

The Company records impaired loans as Nonrecurring Level 3. If a loan's fair value as estimated by the Company is less than its carrying value, the Company either records a charge-off of the portion of the loan that exceeds the fair value or establishes a reserve within the allowance for loan losses specific to the loan. Loans for which such charge-offs or reserves were recorded during the three months ended March 31, 2016 or the year ended December 31, 2015, are shown in the table above (net of reserves).

Foreclosed Assets Held for Sale. Foreclosed assets held for sale are initially recorded at fair value less estimated cost to sell at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy. The foreclosed assets represented in the table above have been re-measured during the three months ended March 31, 2016 or the year ended December 31, 2015, subsequent to their initial transfer to foreclosed assets.

The following disclosure relates to financial assets for which it is not practicable for the Company to estimate the fair value at March 31, 2016 and December 31, 2015.

FDIC Indemnification Asset: As part of the Purchase and Assumption Agreements for each of the Bank's FDIC-assisted transactions, other than the Valley Bank transaction, the Bank and the FDIC entered into loss sharing agreements. These agreements cover realized losses on loans and foreclosed real estate, subject to certain limitations which are more fully described in Note 7.

Under the TeamBank agreement, the FDIC agreed to reimburse the Bank for 80% of the first $115 million in realized losses and 95% for realized losses that exceed $115 million. The indemnification asset was originally recorded at fair value on the acquisition date (March 20, 2009) and at March 31, 2016 and December 31, 2015, the carrying value was $360,000 and $395,000, respectively.
Under the Vantus Bank agreement, the FDIC agreed to reimburse the Bank for 80% of the first $102 million in realized losses and 95% for realized losses that exceed $102 million. The indemnification asset was originally recorded at fair value on the acquisition date (September 4, 2009) and at March 31, 2016 and December 31, 2015, the carrying value of the FDIC indemnification asset was $421,000 and $475,000, respectively.

Under the Sun Security Bank agreement, the FDIC agreed to reimburse the Bank for 80% of realized losses. The indemnification asset was originally recorded at fair value on the acquisition date (October 7, 2011) and at March 31, 2016 and December 31, 2015, the carrying value of the FDIC indemnification asset was $1.2 million and $2.2 million, respectively.

Under the InterBank agreement, the FDIC agreed to reimburse the Bank for 80% of realized losses. The indemnification asset was originally recorded at fair value on the acquisition date (April 27, 2013) and at March 31, 2016 and December 31, 2015, the carrying value of the FDIC indemnification asset was $18.2 million and $21.1 million, respectively.

From the dates of acquisition, each of the four loss sharing agreements extend ten years for 1-4 family real estate loans and five years for other loans. The loss sharing assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Bank choose to dispose of them. Fair values on the acquisition dates were estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and the loss sharing percentages. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursements from the FDIC. The loss sharing assets are also separately measured from the related foreclosed real estate. Although the assets are contractual receivables from the FDIC, they do not have effective interest rates. The Bank will collect the assets over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreements. While the assets were recorded at their estimated fair values on the acquisition dates, it is not practicable to complete fair value analyses on a quarterly or annual basis. Estimating the fair value of the FDIC indemnification asset would involve preparing fair value analyses of the entire portfolios of loans and foreclosed assets covered by the loss sharing agreements from all four acquisitions on a quarterly or annual basis. The loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank were terminated on April 26, 2016, and the carrying value of the related indemnification assets became $0. The termination of the loss sharing agreements is discussed in Note 7.

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial condition at amounts other than fair value.

Cash and Cash Equivalents and Federal Home Loan Bank Stock. The carrying amount approximates fair value.

Loans and Interest Receivable. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amount of accrued interest receivable approximates its fair value.

Deposits and Accrued Interest Payable. The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date, i.e., their carrying amounts. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Federal Home Loan Bank Advances. Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing advances.

Short-Term Borrowings. The carrying amount approximates fair value.

Subordinated Debentures Issued to Capital Trusts. The subordinated debentures have floating rates that reset quarterly. The carrying amount of these debentures approximates their fair value.

Commitments to Originate Loans, Letters of Credit and Lines of Credit. The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The following table presents estimated fair values of the Company’s financial instruments not recorded at fair value on the statements of financial condition. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	March 31, 2016			December 31, 2015		
	Carrying Amount	Fair Value	Hierarchy Level	Carrying Amount	Fair Value	Hierarchy Level
	(In Thousands)					
Financial assets						
Cash and cash equivalents	$221,731	$221,731	1	$199,183	$199,183	1
Held-to-maturity securities	353	382	2	353	384	2
Mortgage loans held for sale	7,560	7,560	2	12,261	12,261	2
Loans, net of allowance for loan losses	3,527,580	3,540,366	3	3,340,536	3,355,924	3
Accrued interest receivable	11,335	11,335	3	10,930	10,930	3
Investment in FHLBank stock	14,804	14,804	3	15,303	15,303	3
Financial liabilities						
Deposits	3,468,699	3,472,921	3	3,268,626	3,271,318	3
FHLBank advances	31,523	33,134	3	263,546	264,331	3
Short-term borrowings	351,373	351,373	3	117,477	117,477	3
Subordinated debentures	25,774	25,774	3	25,774	25,774	3
Accrued interest payable	1,056	1,056	3	1,080	1,080	3
Unrecognized financial instruments (net of contractual value)						
Commitments to originate loans	—	—	3	—	—	3
Letters of credit	137	137	3	145	145	3
Lines of credit	—	—	3	—	—	3

NOTE 14: DERIVATIVES AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its assets and liabilities. In the normal course of business, the Company may use derivative financial instruments (primarily interest rate swaps) from time to time to assist in its interest rate risk management. The Company has interest rate derivatives that result from a service provided to certain qualifying loan customers that are not used to manage interest rate risk in the Company’s assets or liabilities and are not designated in a qualifying hedging relationship. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions. In addition, the Company has interest rate derivatives that are designated in a qualified hedging relationship.

Nondesignated Hedges

The Company has interest rate swaps that are not designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain loan customers, which the Company began offering during 2011. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

As part of the Valley Bank FDIC-assisted acquisition, the Company acquired seven loans with related interest rate swaps. Valley's swap program differed from the Company's in that Valley did not have back to back swaps with the customer and a counterparty. Two of the seven acquired loans with interest rate swaps have paid off. The notional amount of the five remaining Valley swaps is $3.8 million at March 31, 2016. As of March 31, 2016, the Company had 29 interest rate swaps totaling $132.2 million in notional amount with commercial customers, and 29 interest rate swaps with the same notional amount with third parties related to its program. As of December 31, 2015, the Company had 28 interest rate swaps totaling $123.0 million in notional amount with commercial customers, and 28 interest rate swaps with the same notional amount with third parties related to its program. During the three months ended March 31, 2016 and 2015, the Company recognized net losses of $162,000 and $92,000, respectively, in noninterest income related to changes in the fair value of these swaps.

Cash Flow Hedges

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into two interest rate cap agreements for a portion of its floating rate debt associated with its trust preferred securities. One agreement, with a notional amount of $25 million, states that the Company will pay interest on its trust preferred debt in accordance with the original debt terms at a rate of 3-month LIBOR + 1.60%. Should interest rates rise above a certain threshold, the counterparty will reimburse the Company for interest paid such that the Company will have an effective interest rate on that portion of its trust preferred securities no higher than 2.37%. The agreement became effective on August 1, 2013, and has a term of four years. The other agreement, with a notional amount of $5 million, was terminated when the Company purchased the related trust preferred securities in July 2015. See Item 8, Financial Statements and Supplementary Information, in the Company's December 31, 2015 Annual Report on Form 10-K for more information on the trust preferred securities transaction. The terminated agreement stated that the Company paid interest on its trust preferred debt in accordance with the original debt terms at a rate of 3-month LIBOR + 1.40%. Should interest rates have risen above a certain threshold, the counterparty would reimburse the Company for interest paid such that the Company would have an effective interest rate on that portion of its trust preferred securities no higher than 2.17%.

The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. During the three months ended March 31, 2016 and 2015, the Company recognized $-0- in noninterest income related to changes in the fair value of these derivatives. During the three months ended March 31, 2016 and 2015, the Company recognized $40,000 and $15,000, respectively, in interest expense related to the amortization of the cost of these interest rate caps.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition:

	Location in Consolidated Statements of Financial Condition	Fair Value March 31, 2016	Fair Value December 31, 2015
		(In Thousands)	
Derivatives designated as hedging instruments			
Interest rate caps	Prepaid expenses and other assets	$41	$ 128
Total derivatives designated as hedging instruments		$41	$ 128
Derivatives not designated as hedging instruments			
Asset Derivatives			
Interest rate products	Prepaid expenses and other assets	$4,422	$ 2,583
Total derivatives not designated as hedging instruments		$4,422	$ 2,583
Liability Derivatives			
Interest rate products	Accrued expenses and other liabilities	$4,726	$ 2,725
Total derivatives not designated as hedging instruments		$4,726	$ 2,725

The following table presents the effect of derivative instruments on the statements of comprehensive income for the three months ended March 31, 2016 and 2015:

Cash Flow Hedges	Amount of Gain (Loss) Recognized in AOCI Three Months Ended March 31, 2016	2015
	(In Thousands)	
Interest rate cap, net of income taxes	$(30)	$(96)

Agreements with Derivative Counterparties

The Company has agreements with its derivative counterparties. If the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. If the Bank fails to maintain its status as a well-capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements. Similarly, the Company could be required to settle its obligations under certain of its agreements if certain regulatory events occurred, such as the issuance of a formal directive, or if the Company's credit rating is downgraded below a specified level.

As of March 31, 2016, the termination value of derivatives in a net liability position, which included accrued interest but excluded any adjustment for nonperformance risk, related to these agreements was $4.8 million. The Company has minimum collateral posting thresholds with its derivative counterparties. At March 31, 2016, the Company's activity with its derivative counterparties had met the level in which the minimum collateral posting thresholds take effect and the Company had posted $5.8 million of collateral to satisfy the agreements. As of December 31, 2015, the termination value of derivatives in a net liability position, which included accrued interest but excluded any adjustment for nonperformance risk, related to these agreements was $2.8 million. At December 31, 2015, the Company's activity with its derivative counterparties had met the level in which the minimum collateral posting thresholds take effect and the Company had posted $4.5 million of collateral to satisfy the agreements. If the Company had breached any of these provisions at March 31, 2016 or December 31, 2015, it could have been required to settle its obligations under the agreements at the termination value.

NOTE 15: CONSOLIDATION OF BANKING CENTERS

On September 24, 2015, the Company announced plans to consolidate operations of 16 banking centers into other nearby Great Southern banking center locations. As part of an ongoing performance review of its entire banking center network, Great Southern evaluated each location for a number of criteria, including access and availability of services to affected customers, the proximity of other Great Southern banking centers, profitability and transaction volumes, and market dynamics. This review culminated in the approval of the consolidation of these banking centers by the Great Southern Board of Directors. Subsequent to this announcement, the Bank entered into separate definitive agreements to sell two of the 16 banking centers, including all of the associated deposits (totaling approximately $20 million), to separate bank purchasers. The sale of one of the banking centers was completed on February 19, 2016 and the sale of the other banking center was completed on March 18, 2016. The closing of the remaining 14 facilities, which resulted in the transfer of approximately $127 million in deposits and banking center operations to other Great Southern locations, occurred at the close of business on January 8, 2016.

NOTE 16: ACQUISITION OF LOANS, DEPOSITS AND BRANCHES

On September 30, 2015, the Company announced that it entered into a purchase and assumption agreement to acquire 12 branches and related deposits and loans in the St. Louis, Mo., area from Cincinnati-based Fifth Third Bank. The acquisition was completed at the close of business on January 29, 2016.

The deposits assumed totaled approximately $229 million and had a weighted average rate of approximately 0.28%, the composition of which was: demand deposits and NOW accounts – 42%; money market accounts – 40%; and time deposits and IRAs – 18%.

The loans acquired totaled approximately $158 million and had a weighted average yield of approximately 3.92%, the composition of which was: one- to four-family residential – 75%; commercial real estate – 8%; home equity lines – 10%; commercial business – 5%; and consumer and other – 2%. The one- to four-family residential loans are primarily loans made to professional individuals in the St. Louis market, such as doctors and persons working in the field of medicine. Approximately 55% of the total balance of these loans have fixed rates of interest for varying terms up to 30 years. Approximately 45% of the total balance of these loans have rates of interest that are fixed for varying terms (generally three to seven years), with rates that adjust annually thereafter.

The Fifth Third banking centers presented an attractive franchise for the Company to acquire because it provided the opportunity for expansion in the Company's existing St. Louis, Mo., market area through banking centers which, for the most part, held competitive market positions in transaction account deposits in desirable locations. We have successfully grown loans and deposits in the St. Louis market for a number of years and this addition should provide new or enhanced opportunities for loan and deposit growth. These new locations are in areas that enjoy significant business and consumer activity. The Company was also able to increase its loan portfolio as part of the transaction. The Company anticipates that this transaction will be accretive to earnings on a going-forward basis.

The fair values of the assets acquired and liabilities assumed in the transaction were as follows:

	January 29, 2016 (In Thousands)
Assets	
Cash and cash equivalents	$ 44,363
Loans receivable	157,524
Premises and equipment	17,990
Accrued interest receivable	410
Core deposit intangible	4,424
Deferred income taxes	100
Total assets acquired	224,811
Liabilities	
Total deposits	228,528
Accrued interest payable	50
Advances from borrowers for taxes and insurance	403
Accounts payable and accrued expenses	58
Total liabilities assumed	229,039
Goodwill recognized on business acquisition	$ 4,228

This acquisition was determined to constitute a business combination in accordance with FASB ASC 805. FASB ASC 805 allows a measurement period of up to one year to adjust initial fair value estimates as of the acquisition date. Therefore, provisional measurements of assets acquired and liabilities assumed were recorded on a preliminary basis at fair value on the date of acquisition, January 29, 2016. Based upon the preliminary acquisition date fair values of the net liabilities acquired, goodwill of $4.3 million was recorded. The goodwill will be deductible for tax purposes. Details related to the purchase accounting adjustments are as follows:

	January 29, 2016 (In Thousands)
Deposit premium per Purchase and Assumption Agreement	$ (7,135)
Purchase accounting adjustments	
Deposits	(277)
Loans	(1,340)
Deferred income taxes	100
Core deposit intangible	4,424
Goodwill recognized on business acquisition	$ 4,228

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Forward-looking Statements

When used in this Quarterly Report on Form 10-Q and other documents filed or furnished by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases or other public or stockholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "intends" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, (i) non-interest expense reductions from Great Southern's banking center consolidations might be less than anticipated and the costs of the consolidation and impairment of the value of the affected premises might be greater than expected; (ii) expected revenues, cost savings, earnings accretion, synergies and other benefits from the acquisition of Fifth Third Bank branches and the Company's other merger and acquisition activities might not be realized within the anticipated time frames or at all, and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected; (iii) changes in economic conditions, either nationally or in the Company's market areas; (iv) fluctuations in interest rates; (v) the risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses; (vi) the possibility of other-than-temporary impairments of securities held in the Company's securities portfolio; (vii) the Company's ability to access cost-effective funding; (viii) fluctuations in real estate values and both residential and commercial real estate market conditions; (ix) demand for loans and deposits in the Company's market areas; (x) legislative or regulatory changes that adversely affect the Company's business, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations, and the overdraft protection regulations and customers' responses thereto; (xi) monetary and fiscal policies of the Federal Reserve Board and the U.S. Government and other governmental initiatives affecting the financial services industry; (xii) results of examinations of the Company and Great Southern by their regulators, including the possibility that the regulators may, among other things, require the Company to increase its allowance for loan losses or to write-down assets; (xiii) costs and effects of litigation, including settlements and judgments; and (xiv) competition. The Company wishes to advise readers that the factors listed above and other risks described from time to time in documents filed or furnished by the Company with the SEC could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake-and specifically declines any obligation- to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States and general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Allowance for Loan Losses and Valuation of Foreclosed Assets

The Company believes that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining an allowance level believed by management to be sufficient to absorb estimated loan losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates of, among other things, expected default probabilities, loss once loans default, expected commitment usage, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses, and general amounts for historical loss experience.

The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required which would adversely impact earnings in future periods. In addition, the Bank’s regulators could require additional provisions for loan losses as part of their examination process.

See Note 6 “Loans and Allowance for Loan Losses” included in Item 1 for additional information regarding the allowance for loan losses. Inherent in this process is the evaluation of individual significant credit relationships. From time to time certain credit relationships may deteriorate due to payment performance, cash flow of the borrower, value of collateral, or other factors. In these instances, management may revise its loss estimates and assumptions for these specific credits due to changing circumstances. In some cases, additional losses may be realized; in other instances, the factors that led to the deterioration may improve or the credit may be refinanced elsewhere and allocated allowances may be released from the particular credit. No significant changes were made to management's overall methodology for evaluating the allowance for loan losses during the periods presented in the financial statements of this report.

In addition, the Company considers that the determination of the valuations of foreclosed assets held for sale involves a high degree of judgment and complexity. The carrying value of foreclosed assets reflects management’s best estimate of the amount to be realized from the sales of the assets. While the estimate is generally based on a valuation by an independent appraiser or recent sales of similar properties, the amount that the Company realizes from the sales of the assets could differ materially from the carrying value reflected in the financial statements, resulting in losses that could adversely impact earnings in future periods.

Carrying Value of Loans Acquired in FDIC-assisted Transactions and Indemnification Asset

The Company considers that the determination of the carrying value of loans acquired in the FDIC-assisted transactions and the carrying value of the related FDIC indemnification assets involves a high degree of judgment and complexity. The carrying value of the acquired loans and the FDIC indemnification assets reflect management’s best ongoing estimates of the amounts to be realized on each of these assets. The Company determined initial fair value accounting estimates of the acquired assets and assumed liabilities in accordance with FASB ASC 805, Business Combinations. However, the amount that the Company realizes on these assets could differ materially from the carrying value reflected in its financial statements, based upon the timing of collections on the acquired loans in future periods. Because of the loss sharing agreements with the FDIC on certain of these assets, the Company should not incur any significant losses related to these assets. To the extent the actual values realized for the acquired loans are different from the estimates, the indemnification asset will generally be impacted in an offsetting manner due to the loss sharing support from the FDIC. Subsequent to the initial valuation, the Company continues to monitor identified loan pools and related loss sharing assets for changes in estimated cash flows projected for the loan pools, anticipated credit losses and changes in the accretable yield. Analysis of these variables requires significant estimates and a high degree of judgment. See Note 7 “Acquired Loans, Loss Sharing Agreements and FDIC Indemnification Assets” included in Item 1 for additional information regarding the TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank FDIC-assisted transactions.

Goodwill and Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are subject to an impairment test at least annually and more frequently if circumstances indicate their value may not be recoverable. Goodwill is tested for impairment using a process that estimates the fair value of each of the Company’s reporting units compared with its carrying value. The Company defines reporting units as a level below each of its operating segments for which there is discrete financial information that is regularly reviewed. As of March 31, 2016, the Company has one reporting unit to which goodwill has been allocated – the Bank. If the fair value of a reporting unit exceeds its carrying value, then no impairment is recorded. If the carrying value amount exceeds the fair value of a reporting unit, further testing is completed comparing the implied fair value of the reporting unit's goodwill to its carrying value to measure the amount of impairment. Intangible assets that are not amortized will be tested for impairment at least annually by comparing the fair values of those assets to their carrying values. At March 31, 2016, goodwill consisted of $5.4 million at the Bank reporting unit, which included goodwill of $4.2 million that was recorded during the three months ended March 31, 2016 related to the acquisition of the branches from Fifth Third Bank. For further information on the acquisition, see Note 16 of the Notes to Consolidated Financial Statements contained in this report. Other identifiable intangible assets that are subject to amortization are amortized on a straight-line basis over a period of seven years. At March 31, 2016, the amortizable intangible assets consisted of core deposit intangibles of $8.5 million, which included $4.4 million of intangible assets that were recorded during the three months ended March 31, 2016, for the core deposit intangible related to the deposits assumed from Fifth Third Bank. These amortizable intangible assets are reviewed for impairment if circumstances indicate their value may not be recoverable based on a comparison of fair value.

While the Company believes no impairment existed at March 31, 2016, different conditions or assumptions used to measure fair value of reporting units, or changes in cash flows or profitability, if significantly negative or unfavorable, could have a material adverse effect on the outcome of the Company's impairment evaluation in the future.

A summary of goodwill and intangible assets is as follows:

	March 31, 2016	December 31, 2015
	(In Thousands)	
Goodwill – Branch acquisitions	$5,396	$ 1,169
Deposit intangibles		
TeamBank	—	105
Vantus Bank	130	207
Sun Security Bank	876	964
InterBank	436	472
Boulevard Bank	610	641
Valley Bank	2,100	2,200
Fifth Third Bank	4,319	—
	8,471	4,589
	$13,867	$ 5,758

Current Economic Conditions

Changes in economic conditions could cause the values of assets and liabilities recorded in the financial statements to change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, or capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Following the bursting of the housing bubble in mid-2007, the United States entered into an economic recession. The economic downturn of 2008 was caused by a housing market correction and a subprime mortgage crisis. Unemployment rose from 4.7% in November 2007 to peak at 10% in October 2009. The elevated unemployment levels negatively impacted consumer confidence, which had a detrimental impact on industry-wide performance nationally as well as in the Company's Midwest market area. Economic conditions have improved considerably over the past three years as indicated by increasing consumer confidence levels, increased economic activity and a continued decline in unemployment levels.

The national unemployment rate declined from 5.5% as of March 2015 to 5.0% as of March 2016. While the unemployment rate rose to 5.0% from an eight-year low of 4.9% in February, more Americans continued to return to the labor force. The labor force participation rate, or the share of working-age Americans who are looking for a job, rose one- tenth of a percentage point to 63.0%, the highest level since March 2014. The economy added 215,000 jobs in March 2016, an indication of economic resilience following the Federal Reserve's rate increase in December 2015.

Employment gains in March were broad-based; but manufacturing lost 29,000 jobs, the largest number since December 2009, despite signs of stabilization in the factory sector. The energy employment sector continues to feel the effect of reduced profits from the prolonged slump in oil prices by announcing thousands of job cuts. Unemployment levels have decreased or remained level over the past year in all states in which the Company has offices. Unemployment rates at March 31, 2016, were: Missouri at 4.2%, Arkansas at 4.0%, Kansas at 3.9%, Iowa at 3.8%, Nebraska at 3.0%, Minnesota at 3.7%, Oklahoma at 4.4% and Texas at 4.3%. Of the metropolitan areas in which Great Southern Bank does business, the St.

Louis market area continued to carry the highest level of unemployment at 5.1%. This compares favorably to the 5.9% rate reported as of March 31, 2015. The unemployment rate at 4.2% for the Springfield market area was below the national and state average reported as of March 31, 2016. Metropolitan areas in Iowa, Nebraska and Minnesota boasted unemployment levels among the lowest in the nation.

Sales of newly built, single-family homes were at a seasonally adjusted annual rate of 511,000 units in March 2016, according to the U.S. Department of Housing and Urban Development and the U.S. Census Bureau. The median sales price of new houses sold in March 2016 was $288,000, with an average sales price of $356,200. The seasonally adjusted estimate of new houses for sale at the end of March 2016 was 246,000, which represented a supply of 5.8 months at the current sales rate. Building permit activity continues to fluctuate by market area with residential builders constrained by tighter credit conditions for home buyers and a limited number of buildable lots.

According to Realty Trac, foreclosure filings fell to the lowest level in more than nine years in the first quarter of 2016 and foreclosure activity was below pre-recession levels in more than one-third of major metropolitan areas. The number of properties that received a foreclosure filing in the U.S. was 8% lower than the same time last year.

The performance of commercial real estate markets has improved throughout the Company's market areas as shown by increased real estate sales activity and financing of those activities. According to real estate services firm CoStar Group, retail, office and industrial types of commercial real estate properties continue to improve in occupancy, absorption and rental income, both nationally and in our market areas.

While current economic indicators show improvement nationally in employment, housing starts and prices, commercial real estate occupancy, absorption and rental income, our management will continue to closely monitor regional, national and global economic conditions, as these could significantly impact our market areas.

Loss Sharing Agreements

On April 26, 2016, Great Southern Bank executed an agreement with the FDIC to terminate the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank, effective immediately. The agreement required the FDIC to pay $4.4 million to settle all outstanding items related to the terminated loss sharing agreements. As a result of entering into the agreement, assets that were covered by the terminated loss sharing agreements, including covered loans in the amount of $65.1 million and covered other real estate owned in the amount of $468,000 as of March 31, 2016, have been reclassified as non-covered assets effective April 26, 2016. In anticipation of terminating the loss sharing agreements, an impairment of the related indemnification assets was recorded during the three months ended March 31, 2016 in the amount of $584,000. On the date of the termination, the indemnification asset balances (and certain other receivables from the FDIC) related to Team Bank, Vantus Bank and Sun Security Bank, which totaled $4.4 million at March 31, 2016, became $0 as a result of the receipt of funds from the FDIC as outlined in the termination agreement. There will be no future effects on non-interest income (expense) related to adjustments or amortization of the indemnification assets for Team Bank, Vantus Bank or Sun Security Bank; however, adjustments and amortization related to the InterBank indemnification asset and loss sharing agreement will continue. The remaining accretable yield adjustments that affect interest income are not changed by this transaction and will continue to be recognized for all FDIC-assisted transactions in the same manner as they have been previously.

The termination of the loss sharing agreements for the TeamBank, Vantus Bank and Sun Security Bank transactions will have no impact on the yields for the loans that were previously covered under these agreements. All future recoveries, gains, losses and expenses related to these previously covered assets will now be recognized entirely by Great Southern Bank since the FDIC will no longer be sharing in such gains or losses. Accordingly, the Company's future earnings will be positively impacted to the extent the Company recognizes gains on any sales or recoveries in excess of the carrying value of such assets. Similarly, the Company's future earnings will be negatively impacted to the extent the Company recognizes expenses, losses or charge-offs related to such assets.

General

The profitability of the Company and, more specifically, the profitability of its principal subsidiary, the Bank, depends primarily on its net interest income, as well as provisions for loan losses and the level of non-interest income and non-interest expense. Net interest income is the difference between the interest income the Bank earns on its loan and investment portfolios, and the interest it pays on interest-bearing liabilities, which consists mainly of interest paid on deposits and borrowings. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on these balances. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income.

Great Southern's total assets increased $210.5 million, or 5.1%, from $4.10 billion at December 31, 2015, to $4.31 billion at March 31, 2016. Full details of the current period changes in total assets are provided in the “Comparison of Financial Condition at March 31, 2016 and December 31, 2015” section of this Quarterly Report on Form 10-Q.

Loans. Net loans increased $187.0 million, or 5.6%, from $3.34 billion at December 31, 2015, to $3.53 billion at March 31, 2016. Partially offsetting the increases in net loans were decreases of $18.5 million in the acquired loan portfolios. Excluding previously acquired covered and non-covered loans and mortgage loans held for sale, but including the loans acquired from Fifth Third Bank, total loans increased $204.1 million from December 31, 2015 to March 31, 2016, primarily in the areas of one-to four-family residential loans, construction loans, consumer loans, commercial real estate loans and commercial business loans. The increase was primarily due to the loans acquired in the Fifth Third Bank transaction, as well as loan growth in our existing banking center network. As loan demand is affected by a variety of factors, including general economic conditions, and because of the competition we face and our focus on pricing discipline and credit quality, we cannot be assured that our loan growth will match or exceed the level of increases achieved in this period or prior years. The Company's strategy continues to be focused on maintaining credit risk and interest rate risk at appropriate levels.

Loan growth has occurred in most loan types and, in the three months ended March 31, 2016, was primarily due to the loans acquired from Fifth Third Bank. In addition, loan growth has come from most of Great Southern’s primary lending locations, including Springfield, St. Louis, Kansas City, Des Moines, Omaha and Minneapolis, as well as the loan production offices in Dallas and Tulsa. Net loan balances have increased primarily in the areas of one-to four-family residential loans, construction loans, consumer loans, commercial real estate loans and commercial business loans. Generally, the Company considers commercial construction, consumer, and commercial real estate loans to involve a higher degree of risk compared to some other types of loans, such as first mortgage loans on one- to four-family, owner-occupied residential properties, and has established certain minimum underwriting standards to help assure portfolio quality. For commercial real estate and construction loans, these standards and procedures include, but are not limited to, an analysis of the borrower’s financial condition, collateral, repayment ability, verification of liquid assets and credit history as required by loan type. In addition, geographic diversity of collateral, lower loan-to-value ratios and limitations on speculative construction projects help to mitigate overall risk in these loans. It has been, and continues to be, Great Southern’s practice to verify information from potential borrowers regarding assets, income or payment ability and credit ratings as applicable and as required by the authority approving the loan. Underwriting standards also include loan-to-value ratios which vary depending on collateral type, debt service coverage ratios or debt payment to income ratios, where applicable, credit histories, use of guaranties and other recommended terms relating to equity requirements, amortization, and maturity. Great Southern’s loan committee reviews and approves all new loan originations in excess of lender approval authorities. Consumer loans are primarily secured by new and used motor vehicles and these loans are also subject to certain minimum underwriting standards to assure portfolio quality. Great Southern’s consumer underwriting and pricing standards have been fairly consistent over the past several years. The underwriting standards employed by Great Southern for consumer loans include a determination of the applicant's payment history on other debts, credit scores, employment history and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount. See “Item 1. Business – Lending Activities – General, – Commercial Real Estate and Construction Lending, and – Consumer Lending” in the Company’s December 31, 2015 Annual Report on Form 10-K.

While our policy allows us to lend up to 95% of the appraised value on one-to four-family residential properties, originations of loans with loan-to-value ratios at that level are minimal. When they are made at those levels, private mortgage insurance is typically required for loan amounts above the 80% level unless our analyses determined minimal risk to be involved, and therefore these loans are not considered to have more risk to us than other residential loans. We consider these lending practices to be consistent with or more conservative than what we believe to be the norm for banks

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our size. At March 31, 2016 and December 31, 2015, an estimated 0.2% and 0.2%, respectively, of total owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination. At March 31, 2016 and December 31, 2015, an estimated 1.9% and 2.1%, respectively, of total non-owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination.

At March 31, 2016, troubled debt restructurings totaled $44.4 million, or 1.3% of total loans, down $573,000 from $45.0 million, or 1.3% of total loans, at December 31, 2015. Concessions granted to borrowers experiencing financial difficulties may include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. During the three months ended March 31, 2016, no loans were restructured into multiple new loans. During the year ended December 31, 2015, no loans were restructured into multiple new loans. For further information on troubled debt restructurings, see Note 6 of the Notes to Consolidated Financial Statements contained in this report.

The loss sharing agreements with the FDIC are subject to limitations on the types of losses covered and the length of time losses are covered, and are conditioned upon the Bank complying with its requirements in the agreements with the FDIC, including requirements regarding servicing and other loan administration matters. The loss sharing agreements extend for ten years for single family real estate loans and for five years for other loans.

As noted above, the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank were terminated on April 26, 2016. At March 31, 2016, approximately six years remained on the loss sharing agreement for single family real estate loans acquired from InterBank and the remaining loans had an estimated average life of six to thirteen years. At March 31, 2016, approximately one year remained on the loss sharing agreement for non-single-family loans acquired from InterBank and the remaining loans had an estimated average life of one year. While the expected repayments for certain of the acquired loans extend beyond the terms of the loss sharing agreements, the Bank has identified and will continue to identify problem loans and will make every effort to resolve them within the time limits of the agreements. The Company may sell any loans remaining at the end of the loss sharing agreement subject to the approval of the FDIC.

Loans that were acquired through FDIC-assisted transactions, which are accounted for in pools, are currently included in the analysis and estimation of the allowance for loan losses. If expected cash flows to be received on any given pool of loans decreases from previous estimates, then a determination is made as to whether the loan pool should be charged down or the allowance for loan losses should be increased (through a provision for loan losses). This is true of all acquired loan pools regardless of whether they are covered by loss sharing agreements. If a charge down occurs to a loan pool that is covered by a loss sharing agreement, the full amount of the charge down will be reflected in the allowance for loan losses and a separate asset will be recorded for the amount to be recovered from the FDIC. The loss sharing agreements and their related limitations are described in detail in Note 7 of the Notes to Consolidated Financial Statements contained in this report. For acquired loan pools that currently are not covered by loss sharing agreements, the Company may allocate, and at March 31, 2016, has allocated, a portion of its allowance for loan losses related to these loan pools in a manner similar to how it allocates its allowance for loan losses to those loans which are collectively evaluated for impairment.

The level of non-performing loans and foreclosed assets affects our net interest income and net income. We generally do not accrue interest income on these loans and do not recognize interest income until the loans are repaid or interest payments have been made for a period of time sufficient to provide evidence of performance on the loans. Generally, the higher the level of non-performing assets, the greater the negative impact on interest income and net income.

Premises and Equipment, net. Great Southern had net premises and equipment of $143.4 million at March 31, 2016, an increase of $13.7 million, or 10.6%, from $129.7 million at December 31, 2015. The increase in premises and equipment was primarily due to the acquisition of 12 branches from Fifth Third Bank. For further information on the acquisition, see Note 16 of the Notes to Consolidated Financial Statements contained in this report.

Other Real Estate Owned, net. The Company's other real estate owned totaled $39.5 million at March 31, 2016, an increase of $7.6 million, or 23.9%, compared to $31.9 million at December 31, 2015. The increase was primarily due to the addition of eleven properties during the quarter, all of which were former banking center locations which were closed during January 2016. For further information on the consolidation of banking centers see Note 15 of the Notes to the

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Consolidated Financial Statements contained in this report. In addition, foreclosed assets, excluding acquired foreclosed assets, increased $2.2 million from $27.4 million at December 31, 2015 to $29.6 million at March 31, 2016.

Goodwill and Other Intangible Assets. The Company's goodwill and other intangible assets totaled $13.9 million at March 31, 2016, an increase of $8.1 million, or 140.8%, compared to $5.8 million at December 31, 2015. The increase was due to the goodwill and core deposit intangible amounts recorded during the quarter related to the Fifth Third branch acquisition, as discussed above in this report.

Available-for-Sale Securities. The Company's available-for-sale securities totaled $249.5 million at March 31, 2016, a decrease of $13.4 million, or 5.1%, compared to $262.9 million at December 31, 2015. The decrease was primarily due to calls of municipal securities and sales of certain mortgage-backed securities, normal monthly payments received related to the portfolio of mortgage-backed securities, partially offset by the purchase of two mortgage-backed securities. The investment securities were reduced because they were no longer needed for pledging for public fund deposits.

Deposits. The Company attracts deposit accounts through its retail branch network, correspondent banking and corporate services areas, and brokered deposits. The Company then utilizes these deposit funds, along with FHLBank advances and other borrowings, to meet loan demand or otherwise fund its activities. In the three months ended March 31, 2016, total deposit balances increased $200.1 million, or 6.1%. Transaction account balances increased $165.7 million to $2.15 billion at March 31, 2016, from $1.98 billion at December 31, 2015, while retail certificates of deposit increased $55.0 million to $1.06 billion at March 31, 2016, from $1.00 billion at December 31, 2015. These increases were primarily a result of the Bank's assumption of approximately $229 million in deposits as part of the Fifth Third branch acquisition. In addition, at March 31, 2016 and December 31, 2015, customer deposits totaling $12.7 million and $12.2 million, respectively, were part of the CDARS program, which allows customers to maintain balances in an insured manner that would otherwise exceed the FDIC deposit insurance limit. The FDIC counts these deposits as brokered, but these are deposit accounts that we generate with customers in our local markets. Brokered deposits, including CDARS program purchased funds, were $250.4 million at March 31, 2016, a decrease of $21.1 million from $271.5 million at December 31, 2015.

Our deposit balances may fluctuate depending on customer preferences and our relative need for funding. We do not consider our retail certificates of deposit to be guaranteed long-term funding because customers can withdraw their funds at any time with minimal interest penalty. When loan demand trends upward, we can increase rates paid on deposits to increase deposit balances and utilize brokered deposits to provide additional funding. The level of competition for deposits in our markets is high. It is our goal to gain deposit market share, particularly checking accounts, in our branch footprint. To accomplish this goal, increasing rates to attract deposits may be necessary, which could negatively impact the Company's net interest margin.

Our ability to fund growth in future periods may also depend on our ability to continue to access brokered deposits and FHLBank advances. In times when our loan demand has outpaced our generation of new deposits, we have utilized brokered deposits and FHLBank advances to fund these loans. These funding sources have been attractive to us because we can create either fixed or variable rate funding, as desired, which more closely matches the interest rate nature of much of our loan portfolio. While we do not currently anticipate that our ability to access these sources will be reduced or eliminated in future periods, if this should happen, the limitation on our ability to fund additional loans could have a material adverse effect on our business, financial condition and results of operations.

Net Interest Income and Interest Rate Risk Management. Our net interest income may be affected positively or negatively by changes in market interest rates. A portion of our loan portfolio is tied to the "prime rate" and adjusts immediately when this rate adjusts (subject to the effect of loan interest rate floors, which are discussed below). We monitor our sensitivity to interest rate changes on an ongoing basis (see "Item 3. Quantitative and Qualitative Disclosures About Market Risk"). In addition, our net interest income may be impacted by changes in the cash flows expected to be received from acquired loan pools. As described in Note 7 of the Notes to the Consolidated Financial Statements contained in this report, the Company's evaluation of cash flows expected to be received from acquired loan pools is on-going and increases in cash flow expectations are recognized as increases in accretable yield through interest income. Decreases in cash flow expectations are recognized as impairments through the allowance for loan losses.

The current level and shape of the interest rate yield curve poses challenges for interest rate risk management. Prior to its increase of 0.25% on December 16, 2015, the FRB last changed interest rates on December 16, 2008. This was the first rate increase since June 29, 2006. Great Southern has a significant portfolio of loans which are tied to a "prime rate" of interest. Most of these loans are tied to some national index of "prime," while some are indexed to "Great Southern prime" (GSB). The Company had elected to leave its “Great Southern prime rate” of interest at 5.00%, but increased this rate to 5.25% in December 2015 following the FRB rate increase. This does not affect a large number of customers, as a majority of the loans indexed to “Great Southern prime” remain at or below interest rate floors which are provided for in individual loan documents. But for the interest rate floors, a rate cut by the FRB generally would have an anticipated immediate negative impact on the Company’s net interest income due to the large total balance of loans which generally adjust immediately as the Federal Funds rate adjusts. Loans at their floor rates are subject to the risk that borrowers will seek to refinance elsewhere at the lower market rate, however. Because the Federal Funds rate is already very low, there may also be a negative impact on the Company's net interest income due to the Company's inability to significantly lower its funding costs in the current rate and competitive environment, although interest rates on assets may decline further. Conversely, interest rate increases would normally result in increased interest rates on our prime-based loans. The interest rate floors in effect may limit the immediate increase in interest rates on certain of these loans, until such time as rates rise above the floors. However, the Company may have to increase rates paid on deposits to maintain deposit balances and pay higher rates on borrowings. The impact of the low rate environment on our net interest margin in future periods is expected to be fairly neutral. Any margin gained by these rate increases on loans may be somewhat offset by reduced yields from our investment securities and our existing loan portfolio as payments are made and the proceeds are potentially reinvested at lower rates. Interest rates on certain adjustable rate loans may reset lower according to their contractual terms and index rate to which they are tied and new loans may be originated at lower market rates than the overall portfolio rate. For further discussion of the processes used to manage our exposure to interest rate risk, see “Item 3. Quantitative and Qualitative Disclosures About Market Risk – How We Measure the Risks to Us Associated with Interest Rate Changes.”

The negative impact of declining loan interest rates had been mitigated by the positive effects of the Company’s loans which have interest rate floors. At March 31, 2016, the Company had a portfolio (excluding the loans acquired in the FDIC-assisted transactions) of prime-based loans totaling approximately $454 million with rates that change immediately with changes to the prime rate of interest. Of those loans, $425 million also had interest rate floors. These floors were at varying rates, with $14 million of these loans having floor rates of 7.0% or greater and another $108 million of these loans having floor rates between 5.0% and 7.0%. In addition, $303 million of these loans have floor rates between 2.75% and 5.0%. At March 31, 2016, $206 million of these loans were at their floor rates. Also included in these prime-based loans at March 31, 2016, the Company had a portfolio (excluding the loans acquired in the FDIC-assisted transactions) of GSB prime-based loans totaling approximately $95 million with rates that change immediately with changes to the GSB prime rate of interest. Of those loans, $83 million also had interest rate floors. At March 31, 2016, $21 million of the $83 million GSB prime rate loans with interest rate floors were at their floor rates. The loan yield for the total loan portfolio was approximately 108 basis points and 106 basis points higher than the national "prime rate of interest" at March 31, 2016 and December 31, 2015, respectively, partly because of these interest rate floors. While interest rate floors have had an overall positive effect on the Company’s results during this period, they do subject the Company to the risk that borrowers will elect to refinance their loans with other lenders. To the extent economic conditions improve, the risk that borrowers will seek to refinance their loans increases.

Non-Interest Income and Non-Interest (Operating) Expenses. The Company's profitability is also affected by the level of its non-interest income and operating expenses. Non-interest income consists primarily of service charges and ATM fees, accretion income (net of amortization) related to the FDIC-assisted acquisitions, late charges and prepayment fees on loans, gains on sales of loans and available-for-sale investments and other general operating income. In 2016 and 2015, increases in the cash flows expected to be collected from the FDIC-covered loan portfolios resulted in amortization (expense) recorded relating to reductions of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. Non-interest income may also be affected by the Company's interest rate derivative activities, if the Company chooses to implement derivatives. See Note 14 “Derivatives and Hedging Activities” in the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information regarding the Bank’s hedging activities.

Operating expenses consist primarily of salaries and employee benefits, occupancy-related expenses, expenses related to foreclosed assets, postage, FDIC deposit insurance, advertising and public relations, telephone, professional fees, office expenses and other general operating expenses. Details of the current period changes in non-interest income and non-interest expense are provided in the “Results of Operations and Comparison for the Three Months Ended March 31, 2016 and 2015” section of this Quarterly Report on Form 10-Q.

Effect of Federal Laws and Regulations

General. Federal legislation and regulation significantly affect the operations of the Company and the Bank, and have increased competition among commercial banks, savings institutions, mortgage banking enterprises and other financial institutions. In particular, the capital requirements and operations of regulated banking organizations such as the Company and the Bank have been and will be subject to changes in applicable statutes and regulations from time to time, which changes could, under certain circumstances, adversely affect the Company or the Bank.

Significant Legislation Impacting the Financial Services Industry. On July 21, 2010, sweeping financial regulatory reform legislation entitled the “Dodd-Frank Wall Street Reform and Consumer Protection Act” (the “Dodd-Frank Act”) was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, with broad rulemaking authority for a wide range of consumer protection laws that apply to all banks, require new capital rules (discussed below), change the assessment base for federal deposit insurance, repeal the federal prohibitions on the payment of interest on demand deposits, amend the account balance limit for federal deposit insurance protection, and increase the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company and the financial services industry more generally. Provisions in the legislation that affect deposit insurance assessments, and payment of interest on demand deposits could increase the costs associated with deposits. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future.

A provision of the Dodd-Frank Act, commonly referred to as the “Durbin Amendment,” directed the FRB to analyze the debit card payments system and fix the interchange rates based upon their estimate of actual costs. The FRB has established the interchange rate for all debit transactions for issuers with over $10 billion in assets at $0.21 per transaction. An additional five basis points of the transaction amount and an additional $0.01 may be collected by the issuer for fraud prevention and recovery, provided the issuer performs certain actions. Although the Bank is currently exempt from the provisions of the rule on the basis of asset size, there is some uncertainty about the long-term impact there will be on the interchange rates for issuers below the $10 billion level of assets.

New Capital Rules. The federal banking agencies have adopted new regulatory capital rules that substantially amend the risk-based capital rules applicable to the Bank and the Company. The new rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to various documents released by the Basel Committee on Banking Supervision. For the Company and the Bank, the general effective date of the new rules was January 1, 2015, and, for certain provisions, various phase-in periods and later effective dates apply. The chief features of the new rules are summarized below.

The new rules refine the definitions of what constitutes regulatory capital and add a new regulatory capital element, common equity Tier 1 capital. The minimum capital ratios are (i) a common equity Tier 1 (“CET1”) risk-based capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6%; (iii) a total risk-based capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. In addition to the minimum capital ratios, the new rules include a capital conservation buffer, under which a banking organization must have CET1 more than 2.5% above each of its minimum risk-based capital ratios in order to avoid restrictions on paying dividends, repurchasing shares, and paying certain discretionary bonuses.

Effective January 1, 2015, the new rules also revised the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels show signs of weakness. Under the new prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (i) a common equity Tier 1 risk-based capital ratio of at least 6.5%; (ii) a Tier 1 risk-based capital ratio of at least 8%; (iii) a total risk-based capital ratio of at least 10%; and (iv) a Tier 1 leverage ratio of 5%.

Acquisition of Certain Assets and Liabilities from Fifth Third Bank

On January 29, 2016, Great Southern Bank completed the acquisition of 12 branches and related deposits and loans in the St. Louis, Mo., area from Cincinnati-based Fifth Third Bank. The acquisition increased Great Southern's St. Louis-area banking center total from eight to 20 offices. Assets with a fair value of approximately $224.8 million were acquired, including $158.0 million of loans, $44.4 million of cash and cash equivalents, $18.0 million of premises and equipment and $510,000 of accrued interest receivable and other assets. A core deposit intangible asset of $4.4 million was also recorded. Liabilities with a fair value of $229.0 million were assumed, including $228.5 million of deposits and $511,000 of accrued interest payable and other liabilities. Goodwill recognized on the transaction was $4.2 million. The core deposit intangible will be amortized to non-interest expense over seven years. This will be a non-cash expense item.

The Fifth Third banking centers presented an attractive franchise for the Company to acquire because it provided the opportunity for expansion in the Company's existing St. Louis, Mo., market area through banking centers which, for the most part, held competitive market positions in transaction account deposits in desirable locations. We have successfully grown loans and deposits in the St. Louis market for a number of years and this addition should provide new or enhanced opportunities for loan and deposit growth. These new locations are in areas that enjoy significant business and consumer activity. The Company was also able to increase its loan portfolio as part of the transaction. The Company anticipates that this transaction will be accretive to earnings on a going-forward basis.

Business Initiatives

In January 2016, the Company consolidated operations of 14 banking centers into other nearby Great Southern banking center locations. These 14 banking centers, along with two others, were identified as part of an ongoing performance review of the Company's entire banking center network. Each location was evaluated for a number of criteria, including customer usage, financial performance market dynamics and the proximity of other Great Southern banking centers. The consolidation of the 14 facilities resulted in the transfer of approximately $127 million in deposits. Great Southern ATMs remain operational indefinitely at each of the 14 affected banking center sites.

The other two banking centers, along with associated customer deposits, were sold to separate financial institutions during the first quarter of 2016. The Great Southern banking center located in Thayer, Mo., was sold on February 19, 2016, and the banking center in Buffalo, Mo., was sold on March 18, 2016.

Comparison of Financial Condition at March 31, 2016 and December 31, 2015

During the three months ended March 31, 2016, the Company's total assets increased by $210.5 million to $4.31 billion. The majority of the increase was attributable to the loans, premises and equipment and intangible assets related to the Fifth Third branch acquisition, as well as an increase in loans originated by the Bank, partially offset by reductions in available-for-sale investment securities and the FDIC indemnification asset.

Net loans increased $187.0 million from December 31, 2015, to $3.53 billion at March 31, 2016. Excluding previously acquired covered and non-covered loans, and mortgage loans held for sale, but including the loans acquired from Fifth Third Bank, total loans increased $204.1 million from December 31, 2015 to March 31, 2016, with increases primarily in the areas of one-to four-family residential loans, construction loans, consumer loans, commercial real estate loans, and commercial business loans. Partially offsetting these increases were decreases in net loans acquired in the FDIC-assisted transactions of $18.5 million, or 5.1%.

The Company's available-for-sale securities decreased $13.3 million compared to December 31, 2015. The decrease was due to calls of municipal securities, sales of certain mortgage-backed securities and normal monthly payments received related to the portfolio of mortgage-backed securities, partially offset by the purchase of mortgage-backed securities. The investment securities were reduced because they were no longer needed for pledging.

Cash and cash equivalents were $221.7 million at March 31, 2016, an increase of $22.5 million, or 11.3%, from $199.2 million at December 31, 2015. The increase in cash and cash equivalents was primarily due to the cash received in the Fifth Third Bank transaction and sales of and payments received on available-for-sale securities. We anticipate utilizing this liquidity to fund loans and to meet reserve requirements at the Federal Reserve Bank.

Net premises and equipment increased $13.8 million from December 31, 2015, primarily due to the branches acquired in the Fifth Third Bank transaction, partially offset by the transfer of branches closed in January 2016 to other real estate owned.

Net other real estate owned increased $7.6 million to $39.5 million at March 31, 2016. The increase was primarily due to the net addition of eleven properties during the quarter, all of which were former banking center locations that closed in January 2016. In addition, foreclosed assets, excluding acquired foreclosed assets, increased $2.2 million from $27.4 million at December 31, 2015 to $29.6 million at March 31, 2016.

Total liabilities increased $203.5 million from $3.71 billion at December 31, 2015 to $3.91 billion at March 31, 2016. The increase was primarily attributable to the $229 million of deposits assumed in the Fifth Third Bank branch transaction. Total deposits increased $200.1 million from December 31, 2015. Transaction account balances increased $165.7 million to $2.15 billion at March 31, 2016, from $1.98 billion at December 31, 2015, while retail certificates of deposit increased $55.0 million to $1.06 billion at March 31, 2016, from $1.00 billion at December 31, 2015.

Federal Home Loan Bank advances decreased $232.0 million from $263.5 million at December 31, 2015 to $31.5 million at March 31, 2016. A large portion of the decreased funds were replaced with overnight fed funds borrowings through the FHLBank. As such, short-term borrowings had a corresponding increase of $215.0 million from $1.3 million at December 31, 2015 to $216.3 million at March 31, 2016. The overnight fed funds borrowing rate was cheaper than the one week or longer term rates for FHLBank advances.

Securities sold under reverse repurchase agreements with customers increased $18.9 million from $116.2 million at December 31, 2015 to $135.1 million at March 31, 2016. These balances fluctuate over time based on customer demand for this product.

Total stockholders' equity increased $7.0 million from $398.2 million at December 31, 2015 to $405.2 million at March 31, 2016. The Company recorded net income of $9.8 million for the three months ended March 31, 2016, and dividends declared on common stock were $3.1 million. Accumulated other comprehensive income increased $31,000 due to increases in the fair value of available-for-sale investment securities and changes in the fair value of cash flow hedges. In addition, total stockholders’ equity increased $113,000 due to stock option exercises.

Results of Operations and Comparison for the Three Months Ended March 31, 2016 and 2015

General

Net income was $9.8 million for the three months ended March 31, 2016 compared to $11.7 million for the three months ended March 31, 2015. This decrease of $1.9 million, or 16.0%, was primarily due to a decrease in net interest income of $3.0 million, or 6.8%, an increase in non-interest expense of $3.7 million, or 13.5%, and an increase in provision for loan losses of $801,000, or 61.6%, partially offset by an increase in non-interest income of $5.0 million, and a decrease in income tax expense of $595,000, or 15.4%. Net income available to common stockholders was $9.8 million and $11.5 million for the three months ended March 31, 2016 and 2015, respectively.

Total Interest Income

Total interest income decreased $2.2 million, or 4.5%, during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The decrease was due to a $1.9 million decrease in interest income on loans and a $259,000 decrease in interest income on investments and other interest-earning assets. Interest income on loans decreased for the three months ended March 31, 2016, due to lower average rates of interest, partially offset by higher average balances on loans. Interest income from investment securities and other interest-earning assets decreased during the three months ended March 31, 2016 compared to the same period in 2015 due to lower average balances, partially offset by higher average rates of interest.

Interest Income – Loans

During the three months ended March 31, 2016 compared to the three months ended March 31, 2015, interest income on loans decreased due to lower average interest rates, partially offset by higher average balances.

Interest income decreased $7.0 million as a result of lower average interest rates on loans. The average yield on loans decreased from 5.94% during the three months ended March 31, 2015, to 5.07% during the three months ended March 31, 2016. This decrease was primarily due to significant interest recoveries in the prior year three month period, as discussed in the paragraph below, as well as lower overall loan rates and a lower amount of accretion income in the current year period compared to the prior year period resulting from the increases in expected cash flows to be received from the FDIC-acquired loan pools as previously discussed in Note 7 of the Notes to Consolidated Financial Statements.

During the three months ended March 31, 2015, the Company collected $891,000 on certain acquired loans from customers with loans which had previously not been expected to be collectible. These collections were recorded as interest income in the prior year three month period and had a positive impact on the net interest margin in the prior year period of approximately 10 basis points (annualized). As the loans were subject to loss sharing agreements, 80% of the amounts collected, or $713,000, was recorded in the prior year three month period and included in non-interest income under "accretion (amortization) of income related to business acquisitions."

On an on-going basis, the Company estimates the cash flows expected to be collected from the acquired loan pools. This cash flows estimate has increased, based on the payment histories and reduced loss expectations of the loan pools, resulting in adjustments to be spread on a level-yield basis over the remaining expected lives of the loan pools. For the loan pools acquired in the 2009, 2011 and 2012 FDIC-assisted transactions, the increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. Therefore, the expected indemnification assets have also been reduced, resulting in adjustments to be amortized on a comparable basis over the remainder of the loss sharing agreements or the remaining expected life of the loan pools, whichever is shorter. For the three months ended March 31, 2016 and 2015, the adjustments increased interest income by $5.4 million and $9.0 million, respectively, and decreased non-interest income by $2.9 million and $6.7 million, respectively. The net impact to pre-tax income was $2.4 million and $2.3 million for the three months ended March 31, 2016 and 2015, respectively.

As of March 31, 2016, the remaining accretable yield adjustment that will affect interest income is $11.4 million and the remaining adjustment to the indemnification assets related to InterBank, including the effects of the clawback liability, that will affect non-interest income (expense) is $(5.6) million. The $11.4 million of accretable yield adjustment relates to Team Bank, Vantus Bank, Sun Security Bank and InterBank, and this income is not affected by the termination of the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank. The expense, as noted, is only related to InterBank, as there is no longer, nor will there be in the future, expense related to Team Bank, Vantus Bank, or Sun Security Bank due to the termination of the related loss sharing agreements. Of the remaining adjustments, we expect to recognize $7.5 million of interest income and $(4.1) million of non-interest income (expense) during the remainder of 2016. Additional adjustments may be recorded in future periods from the FDIC-assisted transactions, as the Company continues to estimate expected cash flows from the acquired loan pools. Apart from the yield accretion, the average yield on loans was 4.45% for the three months ended March 31, 2016, down from 4.78% for the three months ended March 31, 2015, as a result of the prior year loan recovery as noted above, loan pay-offs, normal amortization of higher-rate loans and new loans that were made at current lower market rates.

In addition, the Company's net interest margin has been impacted by additional yield accretion recognized in conjunction with updated estimates of the fair value of the loan pools acquired in the June 2014 Valley Bank FDIC-assisted transaction. Beginning with the three months ended December 31, 2014, the cash flow estimates have increased for certain of the Valley Bank loan pools primarily based on significant loan repayments and also due to collection of certain loans, thereby reducing loss expectations on certain of the loan pools. This resulted in increased income that was spread on a level-yield basis over the remaining expected lives of these loan pools. The Valley Bank transaction does not include a loss sharing agreement with the FDIC. Therefore, there is no related indemnification asset. The entire amount of the discount adjustment has been and will be accreted to interest income over time with no offsetting impact to non-interest income. The amount of the Valley Bank discount adjustment accreted to interest income for the three months ended March 31, 2016 was $2.1 million and is included in the impact on net interest income/net interest margin amount discussed above. Based on current estimates, we anticipate recording additional interest income accretion of $3.2 million in the remainder of 2016 related to Valley Bank loans, which is included in the $7.5 million discussed above.

Interest income increased $5.1 million as the result of higher average loan balances, which increased from $3.14 billion during the three months ended March 31, 2015, to $3.50 billion during the three months ended March 31, 2016. The higher average balances were primarily due to organic loan growth, as well as the loans added as part of the Fifth Third Bank branch acquisition.

Interest Income – Investments and Other Interest-earning Assets

Interest income on investments and other interest-earning assets decreased in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. Interest income decreased $583,000 as a result of a decrease in average balances from $577.4 million during the three months ended March 31, 2015, to $382.1 million during the three months ended March 31, 2016. Average balances of securities decreased primarily due to the calls of certain municipal securities, the sale of certain securities during the three months ended March 31, 2016, and the normal monthly payments received on the portfolio of mortgage-backed securities, with proceeds ultimately being used to fund a portion of new loan originations. Interest income increased $324,000 due to an increase in average interest rates from 1.34% during the three months ended March 31, 2015, to 1.79% during the three months ended March 31, 2016 due to a change in the mix of both investments and other interest-earning assets.

The Company's interest-earning deposits and non-interest-earning cash equivalents currently earn very low or no yield and therefore negatively impact the Company's net interest margin. At March 31, 2016, the Company had cash and cash equivalents of $221.7 million compared to $199.2 million at December 31, 2015.

Total Interest Expense

Total interest expense increased $846,000, or 22.4%, during the three months ended March 31, 2016, when compared with the three months ended March 31, 2015, due to an increase in interest expense on deposits of $772,000, or 24.4%, an increase of interest expense on short-term borrowing and repurchase agreements of $60,000, or 285.7%, and an increase in interest expense on subordinated debentures issued to capital trust of $23,000, or 15.2%, partially offset by a decrease in interest expense on FHLBank advances of $9,000, or 2.0%.

Interest Expense – Deposits

Interest expense on demand deposits increased $163,000 due to average rates of interest that increased from 0.20% in the three months ended March 31, 2015 to 0.25% in the three months ended March 31, 2016. Interest expense on demand deposits increased $20,000 due to an increase in average balances from $1.43 billion during the three months ended March 31, 2015, to $1.47 billion during the three months ended March 31, 2016. The increase in average balances of interest-bearing demand deposits was a result of the deposits assumed as part of the Fifth Third Bank branch acquisitions, partially offset by decreases in certain deposit types, such as public funds.

Interest expense on time deposits increased $294,000 due to an increase in average balances of time deposits from $1.19 billion during the three months ended March 31, 2015, to $1.32 billion during the three months ended March 31, 2016. Interest expense on time deposits increased $295,000 as a result of an increase in average rates of interest from 0.83% during the three months ended March 31, 2015, to 0.92% during the three months ended March 31, 2016. A large portion of the Company's certificate of deposit portfolio matures within six to eighteen months and therefore reprices fairly quickly; this is consistent with the portfolio over the past several years. The increase in average balances of time deposits was primarily a result of increased balances of brokered deposits and time deposits opened through the Company's internet deposit acquisition channels.

Interest Expense – FHLBank Advances, Short-term Borrowings and Repurchase Agreements and Subordinated Debentures Issued to Capital Trusts

During the three months ended March 31, 2016 compared to the three months ended March 31, 2015, interest expense on FHLBank advances decreased due to lower average balances, partially offset by higher average rates of interest. Interest expense on FHLBank advances decreased $63,000 due to a decrease in average balances from $207.8 million during the three months ended March 31, 2015, to $179.7 million during the three months ended March 31, 2016. This decrease was primarily due to the replacement of short-term FHLBank advances with overnight fed funds borrowings from the FHLBank. Partially offsetting the decrease due to average balances was an increase in interest expense of $54,000 due to an increase in average interest rates from 0.87% in the three months ended March 31, 2015, to 0.98% in the three months ended March 31, 2016. The increase in the average rate was due to a change in the mix of the advances compared to the prior year period. Short-term advances with very low interest rates were slightly lower than in the prior year period, which caused the overall average rate to increase.

Interest expense on short-term borrowings and repurchase agreements increased $62,000 due to average rates that increased from 0.04% in the three months ended March 31, 2015, to 0.16% in the three months ended March 31, 2016. The increase was due to a change in the mix of borrowings in the current period, during which overnight fed funds borrowings from the FHLBank were increased, which are at a higher interest rate than repurchase agreements. Interest expense on short-term borrowings and repurchase agreements decreased $2,000 due to a decrease in average balances from $224.7 million during the three months ended March 31, 2015, to $204.9 million during the three months ended March 31, 2016, which is due to a decrease in repurchase agreements, partially offset by an increase in short-term borrowings.

During the three months ended March 31, 2016, compared to the three months ended March 31, 2015, interest expense on subordinated debentures issued to capital trusts increased $51,000 due to higher average interest rates. The average interest rate was 1.98% in the three months ended March 31, 2015, compared to 2.71% in the three months ended March 31, 2016. The increase in the interest rate resulted from the amortization of the cost of interest rate caps the Company purchased in 2013 to limit the interest rate risk from rising LIBOR rates related to the Company's subordinated debentures issued to capital trusts. Interest expense on subordinated debentures issued to capital trusts decreased $28,000 due to a decrease in average balances from $30.9 million for the three months ended March 31, 2015 to $25.8 million during the three months ended March 31, 2016. The average balance decreased because the Company redeemed $5.0 million of its subordinated debentures during the three months ended September 30, 2015. The remaining debentures are variable-rate debentures which bear interest at an average rate of three-month LIBOR plus 1.60%, adjusting quarterly. The average interest rate will continue to be higher than this until the third quarter of 2017 as a result of the amortization of the cost of the interest rate cap.

Net Interest Income

Net interest income for the three months ended March 31, 2016 decreased $3.0 million to $41.1 million compared to $44.1 million for the three months ended March 31, 2015. Net interest margin was 4.26% in the three months ended March 31, 2016, compared to 4.82% in the three months ended March 31, 2015, a decrease of 56 basis points, or 11.6%. In both three month periods, the Company's margin was positively impacted by the increases in expected cash flows to be received from the FDIC-acquired loan pools and the resulting increase to accretable yield which were previously discussed in Note 7 of the Notes to Consolidated Financial Statements. The positive impact of these changes in the three months ended March 31, 2016 and 2015 were increases in interest income of $5.4 million and $9.0 million, respectively, and increases in net interest margin of 56 basis points and 98 basis points, respectively. Excluding the positive impact of the additional yield accretion, net interest margin decreased 14 basis points when compared to the year-ago quarter. The decrease was primarily due to the prior year three month period interest recovery discussed above, as well as a decrease in the average interest rate on loans (primarily due to decreased interest income on loans acquired in FDIC-assisted transactions) and an increase in the average interest rate on deposits and other borrowings.

The Company's overall average interest rate spread decreased 57 basis points, or 12.0%, from 4.73% during the three months ended March 31, 2015, to 4.16% during the three months ended March 31, 2016. The decrease was due to a 49 basis point decrease in the weighted average yield on interest-earning assets and an eight basis point increase in the weighted average rate paid on interest-bearing liabilities. In comparing the two periods, the yield on loans decreased 87 basis points while the yield on investment securities and other interest-earning assets increased 60 basis points. The rate paid on deposits increased eight basis points, the rate paid on FHLBank advances increased 11 basis points, the rate paid on short-term borrowings and repurchase agreements increased 12 basis points, and the rate paid on subordinated debentures issued to capital trusts increased 73 basis points.

For additional information on net interest income components, refer to the "Average Balances, Interest Rates and Yields" table in this Quarterly Report on Form 10-Q.

Provision for Loan Losses and Allowance for Loan Losses

Management records a provision for loan losses in an amount it believes sufficient to result in an allowance for loan losses that will cover current net charge-offs as well as risks believed to be inherent in the Company’s loan portfolio. The amount of provision charged against current income is based on several factors, including, but not limited to, past loss experience, current portfolio mix, actual and potential losses identified in the loan portfolio, economic conditions, and internal as well as external reviews. However, the levels of non-performing assets, potential problem loans, loan loss provisions and net charge-offs fluctuate from period to period and are difficult to predict.

Weak economic conditions, higher inflation or interest rates, or other factors may lead to increased losses in the portfolio and/or requirements for an increase in loan loss provision expense. Management maintains various controls in an attempt to limit future losses, such as a watch list of possible problem loans, documented loan administration policies and a loan review staff to review the quality and anticipated collectability of the portfolio. Additional procedures provide for frequent management review of the loan portfolio based on loan size, loan type, delinquencies, on-going correspondence with borrowers and problem loan work-outs. Management determines which loans are potentially uncollectible, or represent a greater risk of loss, and makes additional provisions to expense, if necessary, to maintain the allowance at a satisfactory level.

The provision for loan losses for the three months ended March 31, 2016, increased $801,000 to $2.1 million when compared with the three months ended March 31, 2015. At March 31, 2016, the allowance for loan losses was $37.0 million, a decrease of $1.1 million from December 31, 2015. Total net charge-offs were $3.2 million and $664,000 for the three months ended March 31, 2016, and 2015, respectively. Four relationships make up $2.2 million of the net charge-off total for the three months ended March 31, 2016, and such amount was substantially provided for in the allowance for loan losses at December 31, 2015. General market conditions and unique circumstances related to individual borrowers and projects also contributed to the level of provisions and charge-offs. As properties were categorized as potential problem loans, non-performing loans or foreclosed assets, evaluations were made of the values of these assets with corresponding charge-offs as appropriate.

At March 31, 2016, except for those loans acquired in the TeamBank and Vantus Bank transactions for which the loss sharing agreements had then ended (i.e., non-single family real estate loans), loans acquired in the 2009, 2011 and 2012 FDIC-assisted transactions were covered by loss sharing agreements between the FDIC and Great Southern Bank which afford Great Southern Bank at least 80% protection from losses in the acquired portfolio of loans. The FDIC loss sharing agreements are subject to limitations on the types of losses covered and the length of time losses are covered and are conditioned upon the Bank complying with its requirements in the agreements with the FDIC. These limitations are described in detail in Note 7 of the accompanying Notes to the Financial Statements. These acquired loans were grouped into pools based on common characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition dates. These loan pools are systematically reviewed by the Company to determine the risk of losses that may exceed those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to those used to determine the risk of loss for the legacy Great Southern Bank portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics. Review of the acquired loan portfolio also includes meetings with customers, review of financial information and collateral valuations to determine if any additional losses are apparent. Former Valley Bank loans, which were also acquired in an FDIC-assisted transaction, are accounted for in pools and were recorded at their fair value at the time of the acquisition; therefore, these loan pools are analyzed rather than the individual loans.

The allowance for loan losses as a percentage of total loans, excluding loans covered by the FDIC loss sharing agreements, was 1.10% and 1.20% at March 31, 2016 and December 31, 2015, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Company's loan portfolio at March 31, 2016, based on recent reviews of the Company's loan portfolio and current economic conditions. If economic conditions were to deteriorate or management's assessment of the loan portfolio were to change, it is possible that additional loan loss provisions would be required, thereby adversely affecting future results of operations and financial condition.

Non-performing Assets

Former TeamBank, Vantus Bank, Sun Security Bank and InterBank non-performing assets, including foreclosed assets and potential problem loans, are not included in the totals or in the discussion of non-performing loans, potential problem loans and foreclosed assets below as they are, or were, subject to loss sharing agreements with the FDIC, which cover at least 80% of principal losses that may be incurred in these portfolios for the applicable terms under the agreements. At March 31, 2016, there were no material non-performing assets that were previously covered, and are now not covered, under the TeamBank or Vantus Bank non-single-family loss sharing agreements. In addition, FDIC-supported TeamBank, Vantus Bank, Sun Security Bank and InterBank assets were initially recorded at their estimated fair values as of their acquisition dates of March 20, 2009, September 4, 2009, October 7, 2011 and April 27, 2012, respectively. The overall performance of the FDIC-covered loan pools acquired in 2009, 2011 and 2012 has been better than original expectations as of the acquisition dates. Former Valley Bank loans are also excluded from the totals and the discussion of non-performing loans, potential problem loans and foreclosed assets below, although they are not covered by a loss sharing agreement. Former Valley Bank loans are accounted for in pools and were recorded at their fair value at the time of the acquisition; therefore, these loan pools are analyzed rather than the individual loans.

The loss sharing agreement for the non-single-family portion of the loans acquired in the TeamBank transaction ended on March 31, 2014. Any additional losses in that non-single-family portfolio are not eligible for loss sharing coverage. At this time, the Company does not expect any material losses in this non-single-family loan portfolio, which totaled $15.3 million, net of discounts, at March 31, 2016.

The loss sharing agreement for the non-single-family portion of the loans acquired in the Vantus Bank transaction ended on September 30, 2014. Any additional losses in that non-single-family portfolio are not eligible for loss sharing coverage. At this time, the Company does not expect any material losses in this non-single-family loan portfolio, which totaled $16.4 million, net of discounts, at March 31, 2016.

Loss sharing coverage for the single family portion of the loans acquired in the Tame Bank and Vantus Bank transaction ended on April 26, 2016 pursuant to the agreement entered into with the FDIC on that date to termination the loss sharing agreements for the Team Bank, Vantus Bank and Sun Security Bank transactions.

As a result of changes in balances and composition of the loan portfolio, changes in economic and market conditions that occur from time to time and other factors specific to a borrower's circumstances, the level of non-performing assets will fluctuate.

Non-performing assets, excluding FDIC-covered non-performing assets and other FDIC-assisted acquired assets, at March 31, 2016, were $43.0 million, a decrease of $963,000 from $44.0 million at December 31, 2015.

Non-performing assets, excluding FDIC-covered non-performing assets and other FDIC-assisted acquired assets, as a percentage of total assets, were 1.00% at March 31, 2016, compared to 1.07% at December 31, 2015.

Compared to December 31, 2015, non-performing loans decreased $3.3 million to $13.3 million at March 31, 2016, and foreclosed assets increased $2.2 million to $29.6 million at March 31, 2016. Non-performing commercial real estate loans comprised $9.8 million, or 73.3%, of the total $13.3 million of non-performing loans at March 31, 2016, a decrease of $3.7 million from December 31, 2015. The majority of the decrease in the commercial real estate category was due to relationships which were transferred to foreclosed assets and relationships which were charged down. These relationships are discussed below. Non-performing one-to four-family residential loans comprised $1.6 million, or 11.7%, of the total non-performing loans at March 31, 2016, an increase of $208,000 from December 31,

2015. Non-performing consumer loans increased $277,000 in the three months ended March 31, 2016, and were $1.6 million, or 11.8%, of total non-performing loans at March 31, 2016.

Non-performing Loans. Activity in the non-performing loans category during the three months ended March 31, 2016 was as follows:

	Beginning Balance, January 1	Additions to Non-Performing	Removed from Non-Performing	Transfers to Potential Problem Loans	Transfers to Foreclosed Assets	Charge-Offs	Payments	Ending Balance, March 31
	(In Thousands)							
One- to four-family construction	$—	$ —	$ —	$ —	$ —	$—	$ —	$—
Subdivision construction	—	143	—	—	—	—	—	143
Land development	139	—	—	—	—	(30)	(3)	106
Commercial construction	—	—	—	—	—	—	—	—
One- to four-family residential	1,357	454	(18)	(44)	(33)	(97)	(54)	1,565
Other residential	—	—	—	—	—	—	—	—
Commercial real estate	13,488	1,674	—	—	(3,466)	(1,917)	—	9,779
Commercial business	288	—	—	(78)	—	—	(29)	181
Consumer	1,297	962	(37)	(13)	(127)	(161)	(347)	1,574
Total	$16,569	$ 3,233	$ (55)	$ (135)	$ (3,626)	$(2,205)	$ (433)	$13,348

At March 31, 2016, the non-performing commercial real estate category included nine loans, two of which were added during the current period, and are part of the one relationship which was transferred from potential problem loans. The largest relationship in this category, which was transferred from potential problem loans to non-performing loans during the three months ended December 31, 2015, totaled $6.5 million, or 66.5% of the total category, and is collateralized by three operating long-term health care facilities in Missouri. A receiver was appointed to manage and stabilize the facilities. Approximately $600,000 in charge-offs were taken on this relationship during the three months ended March 31, 2016. During the period, $3.1 million of the transfers to foreclosed assets in the commercial real estate category and approximately $670,000 of the charge-offs were related to one relationship. The property is in the Branson, Mo., area, and includes a lakefront resort, marina and related amenities, condominiums and lots. The non-performing one- to four-family residential category included 31 loans, 12 of which were added during the current period. The consumer category of non-performing loans increased $277,000 during the period and consists of 122 loans.

Potential Problem Loans. Compared to December 31, 2015, potential problem loans increased $2.0 million, or 15.3%. This increase was due to the addition of $3.7 million of loans to potential problem loans, partially offset by $1.2 million in loans transferred to the non-performing category, $382,000 in charge-offs, $80,000 in loans being removed from potential problem loans due to improvements in the credits and $48,000 in payments from customers. Potential problem loans are loans which management has identified through routine internal review procedures as having possible credit problems that may cause the borrowers difficulty in complying with the current repayment terms. These loans are not reflected in non-performing assets, but are considered in determining the adequacy of the allowance for loan losses. Activity in the potential problem loans category during the three months ended March 31, 2016, was as follows:

Payments

	Beginning Balance, January 1 (In Thousands)	Additions to Potential Problem	Removed from Potential Problem	Transfers to Non-Performing	Transfers to Foreclosed Assets	Charge-Offs		Ending Balance, March 31
One- to four-family construction	$—	$ —	$ —	$ —	$ —	$ —	$ —	$—
Subdivision construction	576	—	—	(143)	—	—	(4)	429
Land development	3,842	—	—	—	—	—	—	3,842
Commercial construction	—	—	—	—	—	—	—	—
One- to four-family residential	844	—	—	(60)	—	—	(8)	776
Other residential	1,956	—	—	—	—	—	(24)	1,932
Commercial real estate	5,286	3,524	—	(1,011)	—	(382)	(6)	7,411
Commercial business	181	78	(80)	—	—	—	(6)	173
Consumer	134	86	—	(2)	—	—	—	218
Total	$12,819	$ 3,688	$ (80)	$ (1,216)	$ —	$ (382)	$ (48)	$14,781

At March 31, 2016, the commercial real estate category of potential problem loans included 10 loans, two of which were added during the current period. The largest relationship in this category, which was made up of five loans which were added during the three months ended December 31, 2015, had a balance of $2.9 million, or 39.8% of the total category, and is collateralized by various properties in the Branson Mo., area, including commercial buildings, commercial land, residential lots and undeveloped land with clubhouse and amenities and entertainment attractions. The second largest relationship in this category, which was added during the current period, totaled $2.2 million, or 30.0% of the category, and is collateralized by a hotel located in the western United States. The charge-offs and the transfers to non-performing in the commercial real estate category were related to one relationship, which was discussed above in the non-performing loans section. The land development category of potential problem loans included one loan, which was added during a previous period and is collateralized by property in the Branson, Mo., area. The other residential category of potential problem loans included one loan which was added in a previous period, and is collateralized by properties located in the Branson, Mo., area. This loan was also to the same borrower that was referenced above in the land development category.

Foreclosed Assets. Of the total $39.5 million of other real estate owned at March 31, 2016, $1.9 million represents the fair value of foreclosed assets covered by FDIC loss sharing agreements, $417,000 represents the fair value of foreclosed assets previously covered by FDIC loss sharing agreements, $1.1 million represents the fair value of foreclosed assets acquired related to Valley Bank and not covered by a loss sharing agreement, $19,000 represents other assets related to acquired loans and $6.5 million represents properties which were not acquired through foreclosure. The loss share covered and non-covered foreclosed and other assets acquired in the FDIC-assisted transactions and the properties not acquired through foreclosure are not included in the following table and discussion of foreclosed assets. Because additions of foreclosed properties were more than sales, total foreclosed assets increased. Activity in foreclosed assets during the three months ended March 31, 2016, was as follows:

	Beginning Balance, January 1	Additions	Sales	Capitalized Costs	Write-Downs	Ending Balance, March 31
	(In Thousands)					
One- to four-family construction	$—	$ —	$—	$ —	$ —	$ —
Subdivision construction	7,016	—	(195)	—	—	6,821
Land development	12,133	—	(656)	—	—	11,477
Commercial construction	—	—	—	—	—	—
One- to four-family residential	1,375	33	(2)	—	—	1,406
Other residential	2,150	—	(188)	—	—	1,962
Commercial real estate	3,608	3,296	—	—	(370)	6,534
Commercial business	—	—	—	—	—	—
Consumer	1,109	2,025	(1,648)	—	(37)	1,449
Total	$27,391	$ 5,354	$(2,689)	$ —	$ (407)	$29,649

At March 31, 2016, the land development category of foreclosed assets included 26 properties, the largest of which was located in northwest Arkansas and had a balance of $1.4 million, or 12.0% of the total category. Of the total dollar amount in the land development category of foreclosed assets, 32.9% and 37.1% was located in northwest Arkansas and in the Branson, Mo., area, respectively, including the largest property previously mentioned. The subdivision construction category of foreclosed assets included 25 properties, the largest of which was located in the

Springfield, Mo. metropolitan area and had a balance of $1.2 million, or 18.1% of the total category. Of the total dollar amount in the subdivision construction category of foreclosed assets, 30.3% and 18.1% is located in Branson, Mo. and Springfield, Mo., respectively. The commercial real estate category of foreclosed assets included 10 properties, two of which were added during the current period. The largest property in the commercial real estate category of foreclosed assets, which was added during the current period, totaled $2.9 million, or 44.4% of the total category. This property is in the Branson, Mo., area, and includes a lakefront resort, marina and related amenities, condominiums and lots, and was included in non-performing loans at December 31, 2015. The second largest property in the commercial real estate category of foreclosed assets, which was located in southeast Missouri and was added during the three months ended March 31, 2015, totaled $2.0 million, or 30.9% of the total category. The other residential category of foreclosed assets included 10 properties, nine of which were part of the same condominium community, located in Branson, Mo. and had a balance of $1.6 million, or 82.2% of the total category. The one-to four-family residential category of foreclosed assets included eight properties, of which the largest relationship, with two properties in the Southwest Missouri area, had a balance of $554,000, or 39.4%

of the total category. Of the total dollar amount in the one-to- four-family category of foreclosed assets, 37.3% is located in Branson, Mo.

Non-interest Income

For the three months ended March 31, 2016, non-interest income increased $5.0 million to $5.0 million when compared to the three months ended March 31, 2016, primarily as a result of the following increases and decreases:

Amortization of income related to business acquisitions: The net amortization expense related to business acquisitions was $3.3 million for the three months ended March 31, 2016, compared to $6.9 million for the three months ended March 31, 2015. The amortization expense for the three months ended March 31, 2016, consisted of the following items: $2.3 million of amortization expense related to the changes in cash flows expected to be collected from the FDIC-covered loan portfolios, $584,000 of impairment to certain indemnification assets and $344,000 of amortization of the clawback liability. The impairment of the indemnification asset was recorded due to the expected loss on the FDIC loss share termination agreements discussed previously. Partially offsetting the expense was income from the accretion of the discount related to the indemnification assets for the Sun Security Bank and InterBank acquisitions of $231,000.

Other income: Other income increased $718,000 compared to the prior year period. The increase was primarily due to a $257,000 gain recognized on the sale of the Thayer, Mo., branch and deposits during the 2016 period and a $110,000 gain recognized on the sale of the Buffalo, Mo., branch and deposits during the 2016 period. In addition, a gain of $238,000 was recognized on sales of fixed assets unrelated to the branch sales.

Service charges and ATM fees: Service charges and ATM fees increased $635,000 compared to the prior year period, primarily due to the additional accounts acquired in the Fifth Third Bank transaction in January 2016, which had high levels of debit card activity.

Late charges and fees on loans: Late charges and fees on loans increased $228,000 compared to the prior year period. The increase was primarily due to increased fees on loan payoffs compared to the prior year period.

Gains on sales of single-family loans: Gains on sales of single-family loans decreased $108,000 compared to the prior year period. This decrease was due to a decrease in originations of fixed-rate loans in the 2016 period compared to the 2015 period. Fixed rate single-family loans originated are generally subsequently sold in the secondary market.

Non-interest Expense

For the three months ended March 31, 2016, non-interest expense increased $3.7 million to $30.9 million when compared to the three months ended March 31, 2015, primarily as a result of the following items:

Fifth Third Bank branch acquisition expenses: The Company incurred approximately $1.3 million of additional expenses during the three months ended March 31, 2016, related to the acquisition of certain branches of Fifth Third Bank. Those expenses included approximately $119,000 of compensation expense, approximately $319,000 of legal, audit and other professional fees expense, approximately $279,000 of computer license and support expense, approximately $436,000 in charges to replace former Fifth Third Bank customer checks with Great Southern Bank checks, and approximately $76,000 of travel, meals and other expenses related to the transaction and similar costs incurred during the quarter.

Salaries and employee benefits: Salaries and employee benefits increased $786,000 over the prior year period. $119,000 of the increase was net salary and retention bonus and other compensation expenses paid as part of the Fifth Third branch acquisition. In addition, salaries increased due to the additional employee costs related to the acquired branches, which is partially offset by the previously announced closure or sale of 16 banking centers. The remaining increase is due to increased staffing due to growth in lending and other operational areas.

Net occupancy expense: Net occupancy expense increased $788,000 in the three months ended March 31, 2016 compared to the same period in 2015. Expenses as part of the Fifth Third banking centers accounted for $279,000 of the increase. In addition, the Company had increased computer license and support costs of $247,000 in the current year quarter. The

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remainder of the increase was approximately $175,000 of additional repair and maintenance expenses and increased depreciation expense.

Expense on foreclosed assets: Expense on foreclosed assets increased $526,000 compared to the prior year period primarily due to valuation write-downs of foreclosed assets during the 2016 period totaling approximately $407,000 primarily on two properties, and other expenses related to the maintenance and resolution of foreclosed properties.

The Company’s efficiency ratio for the three months ended March 31, 2016, was 67.08% compared to 61.82% for the same period in 2015. The increase in the ratio in the 2016 three month period was primarily due to the increase in non-interest expense and the decrease in net interest income, partially offset by the increase in non-interest income. The Company’s ratio of non-interest expense to average assets increased from 2.67% for the three months ended March 31, 2015, to 2.93% for the three months ended March 31, 2016. The increase in the current three month period ratio was due to the increase in non-interest expense, partially offset by the increase in average assets in the 2016 period compared to the 2015 period. Average assets for the three months ended March 31, 2016, increased $151.7 million, or 3.7%, from the three months ended March 31, 2015, primarily due to assets acquired in the Fifth Third Bank transaction and organic loan growth, partially offset by decreases in investment securities and other interest-earning assets.

Provision for Income Taxes

For the three months ended March 31, 2016 and 2015, the Company's effective tax rate was 25.1% and 25.0%, respectively, which was lower than the statutory federal tax rate of 35%, due primarily to the utilization of certain investment tax credits and to tax-exempt investments and tax-exempt loans which reduced the Company’s effective tax rate. In future periods, the Company expects its effective tax rate typically will be 24-26% of pre-tax net income, assuming it continues to maintain or increase its use of investment tax credits. The Company’s effective tax rate may fluctuate as it is impacted by the level and timing of the Company’s utilization of tax credits and the level of tax-exempt investments and loans and the overall level of pretax income.

Average Balances, Interest Rates and Yields

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Average balances of loans receivable include the average balances of non-accrual loans for each period. Interest income on loans includes interest received on non-accrual loans on a cash basis. Interest income on loans includes the amortization of net loan fees which were deferred in accordance with accounting standards. Fees included in interest income were $1.2 million and $953,000 for the three months ended March 31, 2016 and 2015, respectively. Tax-exempt income was not calculated on a tax equivalent basis. The table does not reflect any effect of income taxes.

	March 31, 2016(2) Yield/ Rate		Three Months Ended March 31, 2016 Average Balance	Interest	Yield/ Rate		Three Months Ended March 31, 2015 Average Balance	Interest	Yield/ Rate	
			(Dollars in thousands)							
Interest-earning assets:										
Loans receivable: (1)										
One- to four-family residential	4.25	%	$535,652	$7,604	5.71	%	$462,704	$9,910	8.69	%
Other residential	4.31		442,029	5,676	5.16		425,960	5,629	5.36	
Commercial real estate	4.29		1,078,321	12,613	4.70		1,035,289	12,677	4.97	
Construction	3.67		412,526	4,827	4.71		319,136	3,736	4.75	
Commercial business	4.40		321,666	4,278	5.35		324,153	5,235	6.55	
Other loans	5.46		666,068	8,488	5.13		527,245	8,156	6.27	
Industrial revenue bonds	5.31		40,062	562	5.65		44,079	606	5.58	
Total loans receivable	4.58		3,496,324	44,048	5.07		3,138,566	45,949	5.94	
Investment securities(1)	3.05		272,415	1,559	2.30		370,311	1,883	2.06	
Other interest-earning assets	0.25		109,645	139	0.51		207,043	74	0.15	
Total interest-earning assets	4.35		3,878,384	45,746	4.74		3,715,920	47,906	5.23	
Non-interest-earning assets:										
Cash and cash equivalents			103,918				103,964			
Other non-earning assets			243,586				254,288			
Total assets			$4,225,888				$4,074,172			
Interest-bearing liabilities:										
Interest-bearing demand and savings	0.25		$1,474,103	905	0.25		$1,432,061	722	0.20	
Time deposits	0.94		1,319,434	3,029	0.92		1,189,403	2,440	0.83	
Total deposits	0.56		2,793,537	3,934	0.57		2,621,464	3,162	0.49	
Short-term borrowings and structured repurchase agreements	0.25		204,906	81	0.16		224,708	21	0.04	
Subordinated debentures issued to capital trusts	2.22		25,774	174	2.71		30,929	151	1.98	
FHLBank advances	3.30		179,652	438	0.98		207,784	447	0.87	
Total interest-bearing liabilities	0.57		3,203,869	4,627	0.58		3,084,885	3,781	0.50	
Non-interest-bearing liabilities:										
Demand deposits			589,103				537,651			
Other liabilities			27,499				24,642			
Total liabilities			3,820,471				3,647,178			
Stockholders' equity			405,417				426,994			
Total liabilities and stockholders' equity			$4,225,888				$4,074,172			

Net interest income:

Interest rate spread	3.78 %	$41,119	4.16 %	$44,125	4.73 %
Net interest margin*			4.26 %		4.82 %
Average interest-earning assets to average interest-bearing liabilities	121.1 %		120.5 %		

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*Defined as the Company’s net interest income divided by total interest-earning assets.

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(1) Of the total average balances of investment securities, average tax-exempt investment securities were $75.7 million and $83.8 million for the three months ended March 31, 2016 and 2015, respectively. In addition, average tax-exempt loans and industrial revenue bonds were $34.5 million and $37.0 million for the three months ended March 31, 2016 and 2015, respectively. Interest income on tax-exempt assets included in this table was $1.1 million and $1.3 million for the three months ended March 31, 2016 and 2015, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was $1.0 million and $1.3 million for the three months ended March 31, 2016 and 2015, respectively.

(2) The yield on loans at March 31, 2016 does not include the impact of the accretable yield (income) on loans acquired in the FDIC-assisted transactions. See “Net Interest Income” for a discussion of the effect on results of operations for the three months ended March 31, 2016.

Rate/Volume Analysis

The following tables present the dollar amounts of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the periods shown. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in rate (i.e., changes in rate multiplied by old volume) and (ii) changes in volume (i.e., changes in volume multiplied by old rate). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to volume and rate. Tax-exempt income was not calculated on a tax equivalent basis.

	Three Months Ended March 31, 2016 vs. 2015 Increase (Decrease) Due to		
	Rate	Volume	Total Increase (Decrease)
	(Dollars in thousands)		
Interest-earning assets:			
Loans receivable	$(7,011)	$5,110	$ (1,901)
Investment securities	208	(532)	(324)
Other interest-earning assets	116	(51)	65
Total interest-earning assets	(6,687)	4,527	(2,160)
Interest-bearing liabilities:			
Demand deposits	163	20	183
Time deposits	295	294	589
Total deposits	458	314	772
Short-term borrowings	62	(2)	60
Subordinated debentures issued to capital trust	51	(28)	23
FHLBank advances	54	(63)	(9)
Total interest-bearing liabilities	625	221	846
Net interest income	$(7,312)	$4,306	$ (3,006)

Liquidity

Liquidity is a measure of the Company's ability to generate sufficient cash to meet present and future financial obligations in a timely manner through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. These obligations include the credit needs of customers, funding deposit withdrawals, and the day-to-day operations of the Company. Liquid assets include cash, interest-bearing deposits with financial institutions and certain investment securities and loans. As a result of the Company's management of the ability to generate liquidity primarily through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs. At March 31, 2016, the Company had commitments of approximately $242.1 million to fund loan originations, $596.3 million of unused lines of credit and unadvanced loans, and $32.7 million of outstanding letters of credit.

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The Company's primary sources of funds are customer deposits, FHLBank advances, other borrowings, loan repayments, unpledged securities, proceeds from sales of loans and available-for-sale securities and funds provided from operations. The Company utilizes particular sources of funds based on the comparative costs and availability at the time. The Company has from time to time chosen not to pay rates on deposits as high as the rates paid by certain of its competitors and, when believed to be appropriate, supplements deposits with less expensive alternative sources of funds.

At March 31, 2016, the Company had these available secured lines and on-balance sheet liquidity:

Federal Home Loan Bank line	$512.7 million
Federal Reserve Bank line	$602.9 million
Cash and cash equivalents	$221.7 million
Unpledged securities	$62.9 million

Statements of Cash Flows. During both the three months ended March 31, 2016 and 2015, the Company had positive cash flows from operating activities. Cash flows from investing activities were positive for the three months ended March 31, 2016 and were negative for the three months ended March 31, 2015. Cash flows from financing activities were negative for the three months ended March 31, 2016 and were positive for the three months ended March 31, 2015.

Cash flows from operating activities for the periods covered by the Statements of Cash Flows have been primarily related to changes in accrued and deferred assets, credits and other liabilities, the provision for loan losses, depreciation, impairments of investment securities, gains on sales of investment securities and the amortization of deferred loan origination fees and discounts (premiums) on loans and investments, all of which are non-cash or non-operating adjustments to operating cash flows. Net income adjusted for non-cash and non-operating items and the origination and sale of loans held for sale were the primary source of cash flows from operating activities. Operating activities provided cash flows of $27.6 million and $14.5 million during the three months ended March 31, 2016 and 2015, respectively.

During the three months ended March 31, 2016 investing activities provided cash of $4.2 million, primarily due to the net increase in loans for the three-month period and the repayment and sale of investment securities, and due to the Fifth Third Bank transaction. Investing activities in the 2016 period included cash received of $44.4 million related to business acquisitions. During the three months ended March 31, 2015 investing activities used cash of $51.7 million, primarily due to the net increase in loans for the three-month period and the repayment and sale and investment securities.

Changes in cash flows from financing activities during the periods covered by the Statements of Cash Flows are due to changes in deposits after interest credited, changes in FHLBank advances and changes in short-term borrowings, as well as dividend payments to stockholders and the exercise of common stock options. Financing activities used cash of $9.3 million and provided cash of $96.6 million during the three months ended March 31, 2016 and 2015, respectively. Financing activities in the future are expected to primarily include changes in deposits, changes in FHLBank advances, changes in short-term borrowings and dividend payments to stockholders.

Capital Resources

Management continuously reviews the capital position of the Company and the Bank to ensure compliance with minimum regulatory requirements, as well as to explore ways to increase capital either by retained earnings or other means.

At March 31, 2016, the Company's total stockholders' equity and common stockholders' equity were $405.2 million, or 9.4% of total assets, equivalent to a book value of $29.17 per common share. At December 31, 2015, total stockholders' equity and common stockholders' equity were $398.2 million, or 9.7% of total assets, equivalent to a book value of $28.67 per common share.

At March 31, 2016, the Company's tangible common equity to total assets ratio was 9.1%, compared to 9.6% at December 31, 2015. The Company's tangible common equity to total risk-weighted assets ratio was 10.3% at March 31, 2016, compared to 10.9% at December 31, 2015.

Banks are required to maintain minimum risk-based capital ratios. These ratios compare capital, as defined by the risk-based regulations, to assets adjusted for their relative risk as defined by the regulations. Under current guidelines, which

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became effective January 1, 2015, banks must have a minimum common equity Tier 1 capital ratio of 4.50% (new requirement), a minimum Tier 1 risk-based capital ratio of 6.00% (increased from 4.00%), a minimum total risk-based capital ratio of 8.00%, and a minimum Tier 1 leverage ratio of 4.00%. To be considered "well capitalized," banks must have a minimum common equity Tier 1 capital ratio of 6.50% (new requirement), a minimum Tier 1 risk-based capital ratio of 8.00% (increased from 6.00%), a minimum total risk-based capital ratio of 10.00%, and a minimum Tier 1 leverage ratio of 5.00%. On March 31, 2016, the Bank's common equity Tier 1 capital ratio was 10.5%, its Tier 1 risk-based capital ratio was 10.5%, its total risk-based capital ratio was 11.5% and its Tier 1 leverage ratio was 9.5%. As a result, as of March 31, 2016, the Bank was well capitalized, with capital ratios in excess of those required to qualify as such.

The Federal Reserve Board has established capital regulations for bank holding companies that generally parallel the capital regulations for banks. On March 31, 2016, the Company's common equity Tier 1 capital ratio was 10.4%, its Tier 1 risk-based capital ratio was 11.1%, its total risk-based capital ratio was 12.0% and its Tier 1 leverage ratio was 9.9%. To be considered well capitalized, a bank holding company must have a Tier 1 risk-based capital ratio of at least 6.00% and a total risk-based capital ratio of at least 10.00%. As of March 31, 2016, the Company was considered well capitalized, with capital ratios in excess of those required to qualify as such.

In addition to the minimum common equity Tier 1 capital ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio, the Company and the Bank will have to maintain a capital conservation buffer consisting of additional common equity Tier 1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. The new capital conservation buffer requirement is being phased in beginning on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets is required, which amount will increase each year until the buffer requirement of greater than 2.5% of risk-weighted assets is fully implemented on January 1, 2019.

For additional information, see “Item 1. Business—Government Supervision and Regulation-Capital” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

On August 18, 2011, the Company entered into a Small Business Lending Fund-Securities Purchase Agreement (“Purchase Agreement”) with the Secretary of the Treasury, pursuant to which the Company sold 57,943 shares of the Company’s Senior Non-Cumulative Perpetual Preferred Stock, Series A (the “SBLF Preferred Stock”), to the Secretary of the Treasury for a purchase price of $57,943,000. The SBLF Preferred Stock was issued pursuant to Treasury’s SBLF program, a $30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small businesses by providing Tier 1 capital to qualified community banks and holding companies with assets of less than $10 billion. As required by the SBLF Purchase Agreement, the proceeds from the sale of the SBLF Preferred Stock were used in connection with the redemption of all 58,000 shares of the Company’s preferred stock, issued to the Treasury in December 2008 pursuant to Treasury’s TARP Capital Purchase Program (the “CPP”). The shares of CPP Preferred Stock were redeemed at their liquidation amount of $1,000 per share plus the accrued but unpaid dividends to the redemption date.

The SBLF Preferred Stock qualified as Tier 1 capital. The holders of SBLF Preferred Stock were entitled to receive noncumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1. The dividend rate, as a percentage of the liquidation amount, could fluctuate between one percent (1%) and five percent (5%) per annum on a quarterly basis during the first 10 quarters during which the SBLF Preferred Stock was outstanding, based upon changes in the level of “Qualified Small Business Lending” or “QSBL” (as defined in the SBLF Purchase Agreement) by the Bank over the adjusted baseline level calculated under the terms of the SBLF Preferred Stock $(249.7 million). Based upon the increase in the Bank’s level of QSBL over the adjusted baseline level, the dividend rate had been 1.0%. For the tenth calendar quarter through four and one-half years after issuance, the dividend rate was fixed at between one percent (1%) and seven percent (7%) based upon the level of qualifying loans. The Company's dividend rate was 1.0% during 2015, and was expected to remain at 1% until four and one half years after the issuance, which is March 2016. After four and one half years from issuance, the dividend rate would have increased to 9% (including a quarterly lending incentive fee of 0.5%).

On December 15, 2015, the Company (with the approval of its federal banking regulator) redeemed all 57,943 shares of the SBLF Preferred Stock at their liquidation amount of $1,000 per share plus accrued but unpaid dividends to the redemption date. The redemption of the SBLF Preferred Stock was completed using internally available funds.

Dividends. During the three months ended March 31, 2016, the Company declared a common stock cash dividend of $0.22 per share, or 31% of net income per diluted common share for that three month period, and paid a common stock cash dividend of $0.22 per share (which was declared in December 2015). During the three months ended March 31, 2015, the Company declared a common stock cash dividend of $0.20 per share, or 24% of net income per diluted common share for that three month period, and paid a common stock cash dividend of $0.20 per share (which was declared in December 2014). The Board of Directors meets regularly to consider the level and the timing of dividend payments. The $0.22 per share dividend declared but unpaid as of March 31, 2016, was paid to stockholders in April 2016. In addition, the Company paid preferred dividends as described below in prior periods.

While the SBLF Preferred Stock was outstanding, the terms of the SBLF Preferred Stock limited the ability of the Company to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Stock, no repurchases could be effected, and no dividends could be declared or paid on preferred shares ranking pari passu with the SBLF Preferred Stock, junior preferred shares, or other junior securities (including the common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the SBLF Preferred Stock, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking pari passu may be paid to the extent necessary to avoid any resulting material covenant breach.

Under the terms of the SBLF Preferred Stock, the Company could only declare and pay a dividend on the common stock or other stock junior to the SBLF Preferred Stock, or repurchase shares of any such class or series of stock, if, after payment of such dividend, or after giving effect to such repurchase, (i) the dollar amount of the Company's Tier 1 Capital would be at least equal to the "Tier 1 Dividend Threshold" and (ii) full dividends on all outstanding shares of SBLF Preferred Stock for the most recently completed dividend period have been or are contemporaneously declared and paid. We satisfied this condition through the redemption date of the SBLF Preferred Stock.

Common Stock Repurchases and Issuances. The Company has been in various buy-back programs since May 1990. Our ability to repurchase common stock was limited, but allowed, under the terms of the SBLF preferred stock as noted above, under "-Dividends" and was previously generally precluded due to our participation in the CPP from December 2008 through August 2011. During the three months ended March 31, 2016 and 2015, respectively, the Company did not repurchase any shares of its common stock. During the three months ended March 31, 2016, the Company issued 4,196 shares of stock at an average price of $26.94 per share to cover stock option exercises. During the three months ended March 31, 2015, the Company issued 18,770 shares of stock at an average price of $22.80 per share to cover stock option exercises.

Management has historically utilized stock buy-back programs from time to time as long as management believed that repurchasing the stock would contribute to the overall growth of shareholder value. The number of shares of stock that will be repurchased at any particular time and the prices that will be paid are subject to many factors, several of which are outside of the control of the Company. The primary factors, however, are the number of shares available in the market from sellers at any given time, the price of the stock within the market as determined by the market and the projected impact on the Company's earnings per share and capital.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management and Market Risk

A principal operating objective of the Company is to produce stable earnings by achieving a favorable interest rate spread that can be sustained during fluctuations in prevailing interest rates. The Company has sought to reduce its exposure to adverse changes in interest rates by attempting to achieve a closer match between the periods in which its interest-bearing liabilities and interest-earning assets can be expected to reprice through the origination of adjustable-rate mortgages and loans with shorter terms to maturity and the purchase of other shorter term interest-earning assets.

Our Risk When Interest Rates Change

The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

How We Measure the Risk to Us Associated with Interest Rate Changes

In an attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor Great Southern's interest rate risk. In monitoring interest rate risk we regularly analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities and their sensitivity to actual or potential changes in market interest rates.

The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread that can be sustained despite fluctuations in prevailing interest rates. Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. The difference, or the interest rate repricing "gap," provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities repricing during the same period, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets during the same period. Generally, during a period of rising interest rates, a negative gap within shorter repricing periods would adversely affect net interest income, while a positive gap within shorter repricing periods would result in an increase in net interest income. During a period of falling interest rates, the opposite would be true. As of March 31, 2016, Great Southern's interest rate risk models indicate that, generally, rising interest rates are expected to have a positive impact on the Company's net interest income, while declining interest rates would have a negative impact on net interest income. We model various interest rate scenarios for rising and falling rates, including both parallel and non-parallel shifts in rates. The results of our modeling indicate that net interest income is not likely to be materially affected either positively or negatively in the first twelve months following a rate change, regardless of any changes in interest rates, because our portfolios are relatively well matched in a twelve-month horizon. The effects of interest rate changes, if any, are expected to be more impacting to net interest income in the 12 to 36 months following a rate change.

As discussed under "General-Net Interest Income and Interest Rate Risk Management," at March 31, 2016 and December 31, 2015, there were $425 million and $424 million, respectively, of adjustable rate loans which were tied to a prime rate of interest which had interest rate floors. In addition, Great Southern had elected to leave its "Great Southern Prime Rate" at 5.00% for those loans that are indexed to "Great Southern Prime" rather than a national prime rate of interest. This rate increased to 5.25% in December 2015. At March 31, 2016 and December 31, 2015, there were $95 million and $114 million, respectively, of loans indexed to "Great Southern Prime." While these interest rate floors and, to a lesser extent, the utilization of the "Great Southern Prime" rate have helped keep the rate on our loan portfolio higher in this very low interest rate environment, they also reduce the positive effect to our loan rates when market interest rates, specifically the "prime rate," increase. The interest rate on these loans will not increase until the loan floors are reached. Also, a significant portion of our retail certificates of deposit mature in the next twelve months and we expect that they generally will be replaced with new certificates of deposit at similar or slightly higher interest rates to those that are maturing.

Interest rate risk exposure estimates (the sensitivity gap) are not exact measures of an institution's actual interest rate risk. They are only indicators of interest rate risk exposure produced in a simplified modeling environment designed to allow management to gauge the Bank's sensitivity to changes in interest rates. They do not necessarily indicate the impact of general interest rate movements on the Bank's net interest income because the repricing of certain categories of assets and liabilities is subject to competitive and other factors beyond the Bank's control. As a result, certain assets and liabilities indicated as maturing or otherwise repricing within a stated period may in fact mature or reprice at different times and in different amounts and cause a change, which potentially could be material, in the Bank's interest rate risk.

In order to minimize the potential for adverse effects of material and prolonged increases and decreases in interest rates on Great Southern's results of operations, Great Southern has adopted asset and liability management policies to better match the maturities and repricing terms of Great Southern's interest-earning assets and interest-bearing liabilities. Management recommends and the Board of Directors sets the asset and liability policies of Great Southern which are implemented by the Asset and Liability Committee. The Asset and Liability Committee is chaired by the Chief Financial Officer and is comprised of members of Great Southern's senior management. The purpose of the Asset and Liability Committee is to communicate, coordinate and control asset/liability management consistent with Great Southern's business plan and board-approved policies. The Asset and Liability Committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. The Asset and Liability Committee meets on a monthly basis to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital positions and anticipated changes in the volume and mix of assets and liabilities. At each meeting, the Asset and Liability Committee recommends appropriate strategy changes based on this review. The Chief Financial Officer or his designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the Board of Directors at their monthly meetings.

In order to manage its assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, Great Southern has focused its strategies on originating adjustable rate loans, and managing its deposits and borrowings to establish stable relationships with both retail customers and wholesale funding sources.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, we may determine to increase our interest rate risk position somewhat in order to maintain or increase our net interest margin.

The Asset and Liability Committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the Board of Directors of Great Southern.

In the normal course of business, the Company may use derivative financial instruments (primarily interest rate swaps) from time to time to assist in its interest rate risk management. In the fourth quarter of 2011, the Company began executing interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. Because the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. These interest rate derivatives result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in the Company’s assets or liabilities. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

In 2013, the Company entered into two interest rate cap agreements related to its floating rate debt associated with its trust preferred securities. The agreements provide that the counterparty will reimburse the Company if interest rates rise above a certain threshold, thus creating a cap on the effective interest rate paid by the Company. These agreements are classified as hedging instruments, and the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. During 2015, the Company redeemed $5.0 million of the total $30.0 million of its trust preferred securities. The interest rate cap related to this $5.0 million trust preferred security was terminated and the remaining cost of this interest rate cap was amortized to interest expense in 2015.

For further information on derivatives and hedging activities, see Note 14 of the Notes to Consolidated Financial Statements contained in this report.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures (as defined in Rule 13(a)-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) that is designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate. An evaluation of our disclosure controls and procedures was carried out as of March 31, 2016, under the supervision and with the participation of our principal executive officer, principal financial officer and several other members of our senior management. Our principal executive officer and principal financial officer concluded that, as of March 31, 2016, our disclosure controls and procedures were effective in ensuring that the information we are required to disclose in the reports we file or submit under the Act is (i) accumulated and communicated to our management (including the principal executive officer and principal financial officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in our internal control over financial reporting (as defined in Rule 13(a)-15(f) under the Act) that occurred during the quarter ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We do not expect that our internal control over financial reporting will prevent all errors and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company and its subsidiaries are subject to pending and threatened legal actions, some of which seek substantial relief or damages. While the ultimate outcome of such legal proceedings cannot be predicted with certainty, after reviewing pending and threatened litigation with counsel, management believes at this time that, except as noted below, the outcome of such litigation will not have a material adverse effect on the Company's business, financial condition or results of operations.

On November 22, 2010, a suit was filed against the Bank in the Circuit Court of Greene County, Missouri by a customer alleging that the fees associated with the Bank's automated overdraft program in connection with its debit cards and ATM cards constitute unlawful interest in violation of Missouri's usury laws. The Court has certified a class of Bank customers who have paid overdraft fees on their checking accounts pursuant to the Bank's automated overdraft program. The Bank intends to contest this case vigorously. At this stage of the litigation, it is not possible for management of the Bank to determine the probability of a material adverse outcome or reasonably estimate the amount of any potential loss.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 15, 2006, the Company's Board of Directors authorized management to repurchase up to 700,000 shares of the Company's outstanding common stock, under a program of open market purchases or privately negotiated transactions. The plan does not have an expiration date. From the date we issued our CPP Preferred Stock (December 5, 2008) until the date we redeemed it in connection with our issuance of the SBLF Preferred Stock (August 18, 2011), we were generally precluded from purchasing shares of the Company’s stock without the Treasury's consent. Our participation in the SBLF program did not preclude us from purchasing shares of the Company’s stock, provided that after giving effect to such purchase, (i) the dollar amount of the Company’s Tier 1 capital would be at least equal to the “Tier 1 Dividend Threshold” under the terms of the SBLF Preferred Stock and (ii) full dividends on all outstanding shares of SBLF Preferred Stock for the most recently completed dividend period have been or are contemporaneously declared and paid, as described under “Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources.” The SBLF Preferred Stock was redeemed on December 15, 2015. Any restrictions related to the SBLF Preferred Stock are no longer applicable.

On April 21, 2014, Great Southern reiterated that it will consider repurchasing its shares of common stock, from time to time in the open market or through privately negotiated transactions, pursuant to its existing repurchase plan.

As indicated below, no shares were purchased during the three months ended March 31, 2016.

	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan(1)
January 1, 2016 – January 31, 2016	—	$ —	—	378,562
February 1, 2016 – February 29, 2016	—	—	—	378,562
March 1, 2016 – March 31, 2016	—	—	—	378,562
	—	$ —	—	

(1) Amount represents the number of shares available to be repurchased under the November 2006 plan as of the last calendar day of the month shown.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits and Financial Statement Schedules

a) Exhibits

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Great Southern Bancorp, Inc.
Registrant

Date: May 6, 2016 /s/ Joseph W. Turner
Joseph W. Turner
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 6, 2016 /s/ Rex A. Copeland
Rex A. Copeland
Treasurer
(Principal Financial and Accounting Officer)

Exhibit No.	EXHIBIT INDEX	
(2)	Plan of acquisition, reorganization, arrangement, liquidation, or succession	
	(i)	The Purchase and Assumption Agreement, dated as of March 20, 2009, among Federal Deposit Insurance Corporation, Receiver of TeamBank, N.A., Paola, Kansas, Federal Deposit Insurance Corporation and Great Southern Bank, previously filed with the Commission (File no. 000-18082) as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on March 26, 2011 is incorporated herein by reference as Exhibit 2.1(i).
	(ii)	The Purchase and Assumption Agreement, dated as of September 4, 2009, among Federal Deposit Insurance Corporation, Receiver of Vantus Bank, Sioux City, Iowa, Federal Deposit Insurance Corporation and Great Southern Bank, previously filed with the Commission (File no. 000-18082) as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on September 11, 2011 is incorporated herein by reference as Exhibit 2.1(ii).
	(iii)	The Purchase and Assumption Agreement, dated as of October 7, 2011, among Federal Deposit Insurance Corporation, Receiver of Sun Security Bank, Ellington, Missouri, Federal Deposit Insurance Corporation and Great Southern Bank, previously filed with the Commission (File no. 000-18082) as Exhibit 2.1(iii) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 is incorporated herein by reference as Exhibit 2(iii).
	(iv)	The Purchase and Assumption Agreement, dated as of April 27, 2013, among Federal Deposit Insurance Corporation, Receiver of Inter Savings Bank, FSB, Maple Grove, Minnesota, Federal Deposit Insurance Corporation and Great Southern Bank, previously filed with the Commission (File no. 000-18082) as Exhibit 2.1(iv) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 is incorporated herein by reference as Exhibit 2(iv)
	(v)	The Purchase and Assumption Agreement All Deposits, dated as of June 20, 2014, among Federal Deposit Insurance Corporation, Receiver of Valley Bank, Moline, Illinois, Federal Deposit Insurance Corporation and Great Southern Bank, previously filed with the Commission (File no. 000-18082) as Exhibit 2.1(v) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 is incorporated herein by reference as Exhibit 2(v)
(3)	Articles of incorporation and Bylaws	
	(i)	The Registrant's Charter previously filed with the Commission as Appendix D to the Registrant's Definitive Proxy Statement on Schedule 14A filed on March 31, 2004 (File No. 000-18082), is incorporated herein by reference as Exhibit 3.1.
	(iA)	The Articles Supplementary to the Registrant's Charter setting forth the terms of the Registrant's Senior Non-Cumulative Perpetual Preferred Stock, Series A, previously filed with the Commission (File no. 000-18082) as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 18, 2011, are incorporated herein by reference as Exhibit 3(i).
	(ii)	

The Registrant's Bylaws, previously filed with the Commission (File no. 000-18082) as Exhibit 3(ii) to the Registrant's Current Report on Form 8-K filed on October 23, 2007, is incorporated herein by reference as Exhibit 3.2.

(4) Instruments defining the rights of security holders, including indentures

The Company hereby agrees to furnish the SEC upon request, copies of the instruments defining the rights of the holders of each issue of the Registrant's long-term debt.

(9) Voting trust agreement

Inapplicable.

(10) Material contracts

The Registrant's 1997 Stock Option and Incentive Plan previously filed with the Commission (File no. 000-18082) as Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on September 18, 1997 is incorporated herein by reference as Exhibit 10.1.

The Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission (File No. 000-18082) as Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 14, 2003, is incorporated herein by reference as Exhibit 10.2.

The employment agreement dated September 18, 2002 between the Registrant and William V. Turner previously filed with the Commission

(File no. 000-18082) as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, is incorporated herein by reference as Exhibit 10.3.

The employment agreement dated September 18, 2002 between the Registrant and Joseph W. Turner previously filed with the Commission (File no. 000-18082) as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, is incorporated herein by reference as Exhibit 10.4.

The form of incentive stock option agreement under the Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File no. 000-18082) filed on February 24, 2005 is incorporated herein by reference as Exhibit 10.5.

The form of non-qualified stock option agreement under the Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission as Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File no. 000-18082) filed on February 24, 2005 is incorporated herein by reference as Exhibit 10.6.

A description of the current salary and bonus arrangements for 2015 for the Registrant's named executive officers previously filed with the Commission as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 is incorporated herein by reference as Exhibit 10.7.

A description of the current fee arrangements for the Registrant's directors previously filed with the Commission as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 is incorporated herein by reference as Exhibit 10.8.

Small Business Lending Fund –

Securities Purchase Agreement, dated August 18, 2011, between the Registrant and the Secretary of the United States Department of the Treasury, previously filed with the Commission as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 18, 2011, is incorporated herein by reference as Exhibit 10.9.

The Registrant's 2013 Equity Incentive Plan previously filed with the Commission (File No. 000-18082) as Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 4, 2013, is incorporated herein by reference as Exhibit 10.10.

The form of incentive stock option award agreement under the Registrant's 2013 Equity Incentive Plan previously filed with the Commission as Exhibit 10.2 to the Registrant's Registration Statement on Form S-8 (File no. 333-189497) filed on June 20, 2013 is incorporated herein by reference as Exhibit 10.11.

The form of non-qualified stock option award agreement under the Registrant's 2013 Equity Incentive Plan previously filed with the Commission as Exhibit 10.3 to the Registrant's Registration Statement on Form S-8 (File no. 333-189497) filed on June 20, 2013 is incorporated herein by reference as Exhibit 10.12.

The form of stock appreciation right award agreement under the Registrant's 2013 Equity Incentive Plan previously filed with the Commission as Exhibit 10.4 to the Registrant's Registration Statement on Form S-8 (File no. 333-189497) filed on June 20, 2013 is incorporated herein by reference as Exhibit 10.13.

The form of restricted stock award agreement under the Registrant's 2013 Equity Incentive Plan previously filed with the Commission as Exhibit 10.5 to the Registrant's Registration Statement on Form S-8 (File no. 333-189497) filed on June 20, 2013 is incorporated herein by reference as Exhibit 10.14.

(11)	Statement re computation of per share earnings

Included in Note 4 to the Consolidated Financial Statements.

(15)	Letter re unaudited interim financial information

Inapplicable.

(18)	Letter re change in accounting principles

Inapplicable.

(19)	Report furnished to securityholders.

Inapplicable.

(22)	Published report regarding matters submitted to vote of security holders

Inapplicable.

(23)	Consents of experts and counsel

Inapplicable.

(24)	Power of attorney

None.

(31.1)	Rule 13a-14(a) Certification of Chief Executive Officer

Attached as Exhibit 31.1

(31.2)	Rule 13a-14(a) Certification of Treasurer

Attached as Exhibit 31.2

(32)	Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

Attached as Exhibit 32.

(99)	Additional Exhibits

None.

(101)	Attached as Exhibit 101 are the following financial statements from the Great Southern Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of financial condition, (ii) consolidated statements of income, (iii) consolidated statements of comprehensive income, (iv) consolidated statements of cash flows and (v) notes to consolidated financial statements.