PROSPECT CAPITAL CORP
Form 497
November 10, 2014
PROSPECTUS SUPPLEMENT Filed pursuant to Rule 497
(To Prospectus dated November 4, 2014) File No. 333-198505

Up to 50,000,000 Shares
Common Stock
Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.
We have entered into equity distribution agreements, dated November 7, 2014, with KeyBanc Capital Markets Inc., or "KeyBanc," BB&T Capital Markets, a division of BB&T Securities, LLC, or "BB&T Capital Markets," Goldman, Sachs & Co., RBC Capital Markets, LLC, or "RBC Capital Markets," and Santander Investment Securities Inc., or "Santander," relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. We sometimes refer to KeyBanc, BB&T Capital Markets, Goldman, Sachs & Co., RBC Capital Markets, and Santander individually as a "Sales Manager" and together as the "Sales Managers."
The equity distribution agreements provide that we may offer and sell up to 50,000,000 shares of our common stock from time to time through the Sales Managers, as our agents for the offer and sale of such common stock. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by means of ordinary brokers' transactions on the NASDAQ Global Select Market or that otherwise qualify for delivery of a prospectus to the NASDAQ Global Select Market in accordance with Rule 153 under the Securities Act of 1933, as amended, or the "1933 Act," at market prices prevailing at the time of sale, at prices related to prevailing market prices or negotiated transactions or as otherwise agreed with the applicable Sales Manager.
The Sales Managers will receive from us a commission to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of all shares of common stock sold through them as Sales Managers under the equity distribution agreements. The Sales Managers are not required to sell any specific number or dollar amount of common stock, but each will use its commercially reasonable efforts to sell the common stock offered by this prospectus supplement and the accompanying prospectus. See "Plan of Distribution" on page S-55 of this prospectus supplement.
These shares of common stock may be offered at a discount from our most recently determined net asset value, or "NAV," per share pursuant to authority granted by our stockholders at the 2013 annual meeting of stockholders held on December 6, 2013. Sales of common stock at prices below NAV per share dilute the interests of existing stockholders, have the effect of reducing our NAV per share and may reduce our market price per share. See "Risk Factors" beginning on page S-10 and "Recent Sales of Common Stock Below Net Asset Value" beginning on page S-43 of this prospectus supplement and "Sales of Common Stock Below Net Asset Value" beginning on page 124 of the accompanying prospectus.
Our common stock is listed on The Nasdaq Global Select Market under the symbol "PSEC." The last reported sale price of our common stock on November 6, 2014 was $9.34 per share. Our most recently estimated NAV per share is $10.46 on an as adjusted basis solely to give effect to our issuance of 138,721 shares of common stock since September 30, 2014 in connection with our dividend reinvestment plan and our issuance of 3,954,195 shares of common stock during the period from October 1, 2014 to November 3, 2014 under our at-the-market offering program, $0.01 lower than the $10.47 determined by us as of September 30, 2014.
This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 42nd Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is

www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-10 of this prospectus supplement and on page 10 of the accompanying prospectus.

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

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KeyBanc Capital Markets	BB&T Capital Markets	Goldman, Sachs & Co.	RBC Capital Markets	Santander

Prospectus Supplement dated November 7, 2014

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FORWARD-LOOKING STATEMENTS

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

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

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

Factors" and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not place undue reliance on these forward-looking statements, which apply

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

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

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

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PROSPECTUS SUPPLEMENT

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PROSPECTUS SUMMARY

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

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

The Company

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 incorporated in Maryland. We have elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). As a BDC, we have elected to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986 (the "Internal Revenue Code" or the "Code"). We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

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

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

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

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

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

Investments in Structured Credit – We make investments in collateralized loan obligations ("CLOs"), generally taking a significant position in the subordinated interests (equity) of the CLOs. The CLOs include a diversified portfolio of

broadly syndicated loans and do not have direct exposure to real estate, mortgages, sub-prime debt, or consumer based debt. The CLOs in which we invest are managed by top-tier collateral managers that have been thoroughly diligenced prior to investment. This strategy has comprised approximately 10%-20% of our business.
Real Estate Investments – We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts ("REITs"), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, "our REITs"). Our real estate investments are in various classes of fully developed and occupied real estate

properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs partner with established property managers with experience in managing the property type to manage such properties after acquisition. This is a more recent investment strategy that has comprised approximately 5%-10% of our business.

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

Aircraft Leasing – We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1.5% of our business in the fiscal year ended June 30, 2014 and less than 1% as of September 30, 2014.

Online Lending – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) originators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the originators of the loans. This strategy comprised approximately 1% of our business in the fiscal year ended June 30, 2014 and less than 1% as of September 30, 2014.

Typically, we concentrate on making investments in companies with annual revenues of less than $750 million and enterprise values of less than $1 billion. Our typical investment involves a secured loan of less than $250 million. We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as "target" or "middle market" companies and these investments as "middle market investments."

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments.

We are constantly pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of September 30, 2014, we had investments in 140 portfolio companies. The aggregate fair value as of September 30, 2014 of investments in these portfolio companies held on that date is approximately $6.3 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 11.9% as of September 30, 2014.

Recent Developments

Investment Transactions

On October 3, 2014, we sold our $35.0 million investment in Babson CLO Ltd. 2011-I and realized a loss on the sale.

On October 6, 2014, we made a $35.2 million follow-on investment in Onyx Payments to fund an acquisition.

On October 7, 2014, Grocery Outlet, Inc. repaid the $14.5 million loan receivable to us.

On October 8, 2014, we made a $65.0 million secured debt investment in Capstone Logistics, LLC, a logistics services portfolio company.

On October 9, 2014, we made an investment of $50.7 million to purchase 83.60% of the subordinated notes in Babson CLO Ltd. 2014-III in a co-investment transaction with Priority Income Fund, Inc.

On October 10, 2014, Ajax Rolled Ring & Machine, LLC repaid the $19.3 million loan receivable to us.

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On October 17, 2014, we made an investment of $49.0 million to purchase 90.54% of the subordinated notes in Symphony CLO XV, Ltd.

On October 20, 2014, we sold our $22.0 million investment in Galaxy XII CLO, Ltd. and realized a loss on the sale.

On October 21, 2014, we made a $22.5 million secured debt investment in Hollander Sleep Products, a manufacturer of bed pillows and mattress pads in the United States.

In addition to the transactions noted above, during the period from October 1, 2014 through November 6, 2014, we made seven follow-on investments in National Property REIT Corp. ("NPRC") totaling $55.0 million to support the online lending initiative. We invested $8.2 million of equity through NPH Property Holdings, LLC ("NPH") and $46.8 million of debt directly to NPRC. In addition, during this period, we received a partial repayment of $11.0 million of the NPRC loan previously outstanding and $1.9 million as a return of capital on the equity investment in NPRC.

Debt and Equity

On November 4, 2014, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $5.0 billion of additional debt and equity securities in the public market.

Common Stock Issuances

On October 22, 2014, we issued 138,721 shares of our common stock in connection with the dividend reinvestment plan.

During the period from September 26, 2014 through October 29, 2014 (with settlement dates of October 1, 2014 to November 3, 2014), we sold 3,954,195 shares of our common stock at an average price of $9.76 per share, and raised $38.6 million of gross proceeds, under our at-the-market program (the "ATM Program"). Net proceeds were $38.4 million after commissions to the broker-dealer on shares sold and offering costs.

Spin-Offs of Certain Business Strategies

On November 6, 2014, we announced that we intend to spin off certain "pure play" business strategies to our shareholders. We initially intend on focusing our spinoff efforts on three separate companies consisting of portions of our (i) collateralized loan obligation ("CLO") structured credit business, (ii) online lending business, and (iii) real estate business. The size and likelihood of such spinoffs, which may be partial rather than complete spinoffs, remain to be determined. We may seek to file non-registered investment company spinoffs with confidential treatment with parallel registration progress to be made in the coming weeks toward the goal of consummating these initial spinoffs in early 2015. The consummation of any of the spin-offs depend upon, among other things: market conditions, regulatory and exchange listing approval, and sufficient investor interest, and there can be no guarantee that we will consummate any of these spin-offs.

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The Offering

Common stock offered by us	Up to 50,000,000 shares
Common stock outstanding as of the date of this prospectus supplement	352,597,291 shares
Use of Proceeds	We expect to use the net proceeds from this offering 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'' in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk Factors	See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current Distribution Rate	On May 6, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates: • $0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014; • $0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and • $0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015. On September 24, 2014, we announced the declaration of a monthly dividend in the following amount and with the following date: • $0.110625 per share for January 2015 to holders of record on January 30, 2015 with a payment date of February 19, 2015. Based on the October 2014 distribution of $0.110550, this represents an annualized yield of approximately 14.2% based on our November 6, 2014 closing stock price of $9.34 per share. Such distributions are expected to be payable out of earnings. Our distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

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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 $810.0 million under our credit facility, which is the maximum amount available under the credit facility, in addition to our other indebtedness of $2.7 billion and a maximum sales load pursuant to the equity distribution agreements. 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)	2.00	%
Offering expenses borne by the Company (as a percentage of offering price)(2)	0.07	%
Dividend reinvestment plan expenses(3)	None	
Total stockholder transaction expenses (as a percentage of offering price)	2.07	%
Annual expenses (as a percentage of net assets attributable to common stock)(4):		
Management fees(5)	3.96	%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.59	%
Total advisory fees	6.55	%
Total interest expense(7)	4.56	%
Acquired Fund Fees and Expenses(8)	0.01	%
Other expenses(9)	1.28	%
Total annual expenses(6)(9)	12.40	%

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 have borrowed all $810.0 million available under our line of credit, in addition to our other indebtedness of $2.7 billion and 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. We do not anticipate increasing the leverage percentage to a level higher than that which would be indicated after the borrowing of the entire available balance of the credit facility. Any future debt issuances would be dependent on future equity issuances and we do not anticipate any significant change in the borrowing costs as a percentage of net assets attributable to common stock.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return*	$116.82	$295.31	$457.04	$798.02
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return**	$126.61	$323.00	$500.54	$872.90

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* Assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation.

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

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

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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.

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(1) Represents the estimated commission with respect to the shares of common stock being sold in this offering. The Sales Managers will be entitled to compensation up to 2.00% of the gross proceeds of the sale of any shares of our common stock under the equity distribution agreements, with the exact amount of such compensation to be mutually agreed upon by the Company and the Sales Managers from time to time. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

(2) The offering expenses of this offering are estimated to be approximately to be approximately $350,000.

(3) The expenses of the dividend reinvestment plan are included in "other expenses." See "Capitalization" in this prospectus supplement.

(4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at September 30, 2014.

(5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non-investment purposes, for which purpose we have not and have no intention of borrowing). Although we have no intent to borrow the entire amount available under our line of credit, assuming that we had total borrowings of $3.5 billion, the 2% management fee of gross assets would equal approximately 3.97% of net assets. Based on our borrowings as of November 6, 2014 of $2.7 billion, the 2% management fee of gross assets would equal approximately 3.53% of net assets including costs of the undrawn credit facility. See "Business— Management Services—Investment Advisory Agreement" and footnote 5 below.

(6) Based on the incentive fee paid during our most recently completed quarter ended September 30, 2014, all of which consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre-incentive fee income. The incentive fee has two parts. The first part, the income incentive fee, which is payable quarterly in arrears, will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate, subject to a "catch up" provision measured as of the end of each calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a "hurdle rate" of 1.75% per quarter (7% annualized). The "catch-up" provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The catch-up provision is meant to provide Prospect Capital Management with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of

such year. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services—Investment Advisory Agreement" in the accompanying prospectus.

(7) As of November 6, 2014, Prospect has $2.7 billion outstanding of its Unsecured Notes (as defined below) in various maturities, ranging from December 15, 2015 to October 15, 2043, and interest rates, ranging from 3.23% to 7.0%, some of which are convertible into shares of Prospect common stock at various conversion rates. Interest on borrowings under our credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least thirty-five percent of the credit facility is drawn or 100 basis points otherwise. Please see ‘‘Business of Prospect—General’’ and ‘‘Risks Related to Prospect—Risks Relating to Prospect’s Business’’ below for more detail on the Unsecured Notes.

(8) 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 September 30, 2014. When applicable, fees and expenses are based on historic fees and expenses for the investment

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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 $3.6 billion as of September 30, 2014.

(9) "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents the estimated annualized expenses during the three months ended September 30, 2014 representing all of our 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 is based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business—Management Services—Administration Agreement" in the accompanying prospectus.

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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 supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2014, 2013, 2012, 2011 and 2010 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three month period ended September 30, 2014 and 2013 has been derived from unaudited financial data. Interim results for the three months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending June 30, 2015. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-11 for more information.

	For the Three Months Ended September 30,		For the Year Ended June 30,				
	2014	2013	2014	2013	2012	2011	2010
	(in thousands except data relating to shares, per share and number of portfolio companies)						
Performance Data:							
Interest income	$184,140	$138,421	$613,741	$435,455	$219,536	$134,454	$86,518
Dividend income	2,225	7,089	26,837	82,705	64,881	15,092	15,366
Other income	15,656	15,524	71,713	58,176	36,493	19,930	12,675
Total investment income	202,021	161,034	712,291	576,336	320,910	169,476	114,559
Interest and credit facility expenses	(42,914)	(27,407)	(130,103)	(76,341)	(38,534)	(17,598)	(8,382)
Investment advisory expense	(56,781)	(43,629)	(198,296)	(151,031)	(82,507)	(46,051)	(30,727)
Other expenses	(7,863)	(7,661)	(26,669)	(24,040)	(13,185)	(11,606)	(8,260)
Total expenses	(107,558)	(78,697)	(355,068)	(251,412)	(134,226)	(75,255)	(47,369)
Net investment income	94,463	82,337	357,223	324,924	186,684	94,221	67,190
Realized and unrealized (losses) gains	(10,355)	(2,437)	(38,203)	(104,068)	4,220	24,017	(47,565)
Net increase in net assets from operations	$84,108	$79,900	$319,020	$220,856	$190,904	$118,238	$19,625
Per Share Data:							
Net increase in net assets from operations(1)	$0.24	$0.31	$1.06	$1.07	$1.67	$1.38	$0.33
Distributions declared per share	$(0.33)	$(0.33)	$(1.32)	$(1.28)	$(1.22)	$(1.21)	$(1.33)
Average weighted	343,359,061	258,084,153	300,283,941	207,069,971	114,394,554	85,978,757	59,429,222

shares outstanding for the period							
Assets and Liabilities Data:							
Investments	$6,253,493	$4,553,136	$6,253,739	$4,172,852	$2,094,221	$1,463,010	$748,483
Other assets	579,572	230,435	223,530	275,365	161,033	86,307	84,212
Total assets	6,833,065	4,783,571	6,477,269	4,448,217	2,255,254	1,549,317	832,695
Amount drawn on credit facility	411,000	69,000	92,000	124,000	96,000	84,200	100,300
Convertible notes	1,247,500	847,500	1,247,500	847,500	447,500	322,500	—
Public notes	647,950	347,762	647,881	347,725	100,000	—	—
InterNotes®	784,305	461,977	785,670	363,777	20,638	—	—
Amount owed to Prospect Administration and Prospect Capital Management	6,187	1,789	2,211	6,690	8,571	7,918	9,300
Other liabilities	88,364	145,788	83,825	102,031	70,571	20,342	11,671
Total liabilities	3,185,306	1,873,816	2,859,087	1,791,723	743,280	434,960	121,271
Net assets	$3,647,759	$2,909,755	$3,618,182	$2,656,494	$1,511,974	$1,114,357	$711,424
Investment Activity Data:							
No. of portfolio companies at period end	140	129	142	124	85	72	58
Acquisitions	$887,205	$556,843	$2,952,456	$3,103,217	$1,120,659	$953,337	$ 364,788(2)
Sales, repayments, and other disposals	$863,144	$164,167	$787,069	$931,534	$500,952	$285,562	$136,221
Total return based on market value(3)	(3.94)%	6.49%	10.9%	6.2%	27.2%	17.2%	17.7%
Total return based on net asset value(3)	2.24%	2.96%	11.0%	10.9%	18.0%	12.5%	(6.8)%
Weighted average yield at end of period(4)	11.9%	12.5%	12.1%	13.6%	13.9%	12.8%	16.2%

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(1) Per share data is based on average weighted shares for the period.
(2) Includes $207,126 of acquired portfolio investments from Patriot Capital Funding, Inc.
(3) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. For periods less than a year, the return is not annualized.
(4) Excludes equity investments and non-performing loans.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and in the accompanying prospectus on page 10, together with all of the other information included in this prospectus supplement and in the accompanying prospectus, before you decide whether to make an investment in our common stock. The risks set forth below and in the accompanying prospectus are not the only risks we face. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV and the trading price of our common stock could decline, we could reduce or eliminate our dividend and you could lose all or part of your investment.

Our most recent NAV was calculated on September 30, 2014 and our NAV when calculated effective December 31, 2014 may be higher or lower.

Our most recently estimated NAV per share is $10.46 on an as adjusted basis solely to give effect to our issuance of 138,721 shares of common stock since September 30, 2014 in connection with our dividend reinvestment plan and our issuance of 3,954,195 shares of common stock during the period from October 1, 2014 to November 3, 2014 under the ATM Program, $0.01 lower than the $10.47 determined by us as of September 30, 2014. NAV per share as of December 31, 2014, may be higher or lower than $10.46 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to September 30, 2014. 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.

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

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

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

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

Overview

In this report, the terms “Prospect,” “we,” “us” and “our” mean Prospect Capital Corporation and its subsidiaries unless the context specifically requires otherwise.

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 incorporated in Maryland. We have elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). As a BDC, we have elected to be treated as a regulated investment company ("RIC"), under Subchapter M of the Internal Revenue Code of 1986 (the "Code"). We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

On May 15, 2007, we formed a wholly-owned subsidiary Prospect Capital Funding LLC (“PCF”), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the revolving credit facility at PCF. Our wholly-owned subsidiary Prospect Small Business Lending, LLC (“PSBL”) was formed on January 27, 2014 and purchases a series of small business whole loans on a recurring basis, which are originated by OnDeck Capital, Inc. (“OnDeck”) and Direct Capital Corporation ("Direct Capital"), online small business lenders. Both of these subsidiaries have been consolidated since their formation.

Effective July 1, 2014, we began consolidating certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. As of and for the three months ended September 30, 2014, the following companies are included in our consolidated financial statements: AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC; Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. We collectively refer to these entities as the "Consolidated Holding Companies."

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

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

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

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

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

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

Real Estate Investments – We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts ("REITs"), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, "our REITs"). Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs partner with established property managers with experience in managing the property type to manage such properties after acquisition. This is a more recent investment strategy that has comprised approximately 5%-10% of our business.

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

Aircraft Leasing – We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1.5% of our business in the fiscal year ended June 30, 2014 and less than 1% as of September 30, 2014.

Online Lending – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) originators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the originators of the loans. This strategy comprised approximately 1% of our business in the fiscal year ended June 30, 2014 and less than 1% as of September 30, 2014.

We invest primarily in first and second lien secured loans and unsecured debt, which in some cases includes an equity component. First and second lien secured loans generally are senior debt instruments that rank ahead of unsecured debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Our investments in CLOs are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B.

We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment in the holding company, generally as equity, its equity investment in the operating company and along with any debt from us directly to the operating company

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structure represents our total exposure for the investment. As of September 30, 2014, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies is $1,721,493 and $1,659,997, respectively. This structure gives rise to several of the risks described in our public documents and highlighted in Part I, Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2014. On July 1, 2014, we began consolidating all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There were no significant effects of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

We seek to be a long-term investor with our portfolio companies. The aggregate fair value of our portfolio investments was $6,253,493 and $6,253,739 as of September 30, 2014 and June 30, 2014, respectively. During the three months ended September 30, 2014, our net cost of investments decreased by $12,802, or 0.2%, as a result of the following: six new investments, several follow-on investments, and three revolver advances totaling $881,318 (including structuring fees of $10,515); payment-in-kind interest of $5,887; net amortization of discounts and premiums of $13,952; and full repayments on eight investments, sale of four investments, and several partial prepayments and amortization payments totaling $863,144, net of realized losses totaling $22,911.

Compared to the end of last fiscal year (ended June 30, 2014), net assets increased by $29,577, or 0.8%, during the three months ended September 30, 2014, from $3,618,182 to $3,647,759. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $56,095, dividend reinvestments of $3,640, and $84,108 from operations. These increases, in turn, were offset by $114,266 in dividend distributions to our stockholders. The $84,108 from operations is net of the following: net investment income of $94,463, net realized loss on investments of $22,911, and net change in unrealized appreciation on investments of $12,556.

First Quarter Highlights

Investment Transactions

During the three months ended September 30, 2014, we acquired $457,383 of new investments, completed follow-on investments in existing portfolio companies totaling approximately $414,935, funded $9,000 of revolver advances, and recorded PIK interest of $5,887, resulting in gross investment originations of $887,205. During the three months ended September 30, 2014, we received full repayments on eight investments, sold four investments, and received several partial prepayments and amortization payments totaling $863,144. The more significant of these transactions are discussed in "Portfolio Investment Activity."

Equity Issuance

During the three months ended September 30, 2014, we sold 5,536,780 shares of our common stock at an average price of $10.22 per share, and raised $56,575 of gross proceeds, under our at-the-market offering program (the "ATM Program"). Net proceeds were $56,095 after commissions to the broker-dealer on shares sold and offering costs.

On July 24, 2014, August 21, 2014 and September 18, 2014, we issued 98,503, 129,435 and 113,020 shares of our common stock in connection with the dividend reinvestment plan, respectively.

Dividend

On September 24, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.110625 per share for January 2015 to holders of record on January 30, 2015 with a payment date of February 19, 2015.

Revolving Credit Facility

On July 11, 2014 and July 23, 2014, we increased total commitments to the 2012 Facility by $10,000 and $10,000, respectively. On August 29, 2014, we renegotiated the 2012 Facility (as defined below) and closed an expanded five and a half year $800,000 revolving credit facility (the "2014 Facility"). On September 30, 2014, we increased total commitments to the 2014 Facility by $10,000. The lenders have extended total commitments of $810,000 as of September 30, 2014.

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Investment Holdings

As of September 30, 2014, we continue to pursue our investment strategy. At September 30, 2014, approximately $6,253,493, or 171.4%, of our net assets are invested in 140 long-term portfolio investments and CLOs.

During the three months ended September 30, 2014, we originated $887,205 of new investments, primarily composed of $715,014 of debt and equity financing to non-controlled investments, $133,086 of debt and equity financing to controlled investments, and $39,105 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending to non-control investments to reduce the risk in the portfolio by investing primarily in first lien loans, though we also continue to close select junior debt and equity investments. Our annualized current yield was 12.1% and 11.9% as of June 30, 2014 and September 30, 2014, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily the result of originations at lower rates than our average existing portfolio yield. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of September 30, 2014, we own controlling interests in the following portfolio companies: American Property REIT Corp.; Arctic Energy Services, LLC; ARRM Services, Inc.; CCPI Inc.; Change Clean Energy Company, LLC; Coalbed, LLC; CP Energy Services Inc.; Credit Central Loan Company, LLC; Echelon Aviation LLC; First Tower Finance Company LLC; Freedom Marine Solutions, LLC; Gulf Coast Machine & Supply Company; Harbortouch Payments, LLC.; The Healing Staff, Inc.; Manx Energy, Inc.; MITY, Inc.; National Property REIT Corp.; Nationwide Acceptance LLC; NMMB, Inc.; R-V Industries, Inc.; United Property REIT Corp.; Valley Electric Company, Inc.; Wolf Energy, LLC; and Yatesville Coal Company, LLC. We also own an affiliated interest in BNN Holdings Corp.

The following shows the composition of our investment portfolio by level of control as of September 30, 2014 and June 30, 2014:

	September 30, 2014						June 30, 2014					
Level of Control	Cost	% of Portfolio		Fair Value	% of Portfolio		Cost	% of Portfolio		Fair Value	% of Portfolio	
Control Investments	$1,721,493	27.1	%	$1,659,997	26.6	%	$1,719,242	27.0	%	$1,640,454	26.2	%
Affiliate Investments	46,659	0.7	%	46,456	0.7	%	31,829	0.5	%	32,121	0.5	%
Non-Control/Non-Affiliate Investments	4,590,568	72.2	%	4,547,040	72.7	%	4,620,451	72.5	%	4,581,164	73.3	%
Total Investments	$6,358,720	100.0	%	$6,253,493	100.0	%	$6,371,522	100.0	%	$6,253,739	100.0	%

The following shows the composition of our investment portfolio by type of investment as of September 30, 2014 and June 30, 2014:

Type of Investment	September 30, 2014 Cost	% of Portfolio	Fair Value	% of Portfolio	June 30, 2014 Cost	% of Portfolio	Fair Value	% of Portfolio
Revolving Line of Credit	$11,350	0.2 %	$11,350	0.2 %	$3,445	0.1 %	$2,786	— %
Senior Secured Debt	3,460,788	54.4 %	3,406,566	54.5 %	3,578,339	56.2 %	3,514,198	56.2 %
Subordinated Secured Debt	1,333,038	21.0 %	1,259,671	20.1 %	1,272,275	20.0 %	1,200,221	19.2 %
Subordinated Unsecured Debt	92,665	1.5 %	92,665	1.5 %	85,531	1.3 %	85,531	1.4 %
Small Business Whole Loans	11,760	0.2 %	12,539	0.2 %	4,637	0.1 %	4,252	0.1 %
CLO Debt	28,239	0.4 %	33,219	0.5 %	28,118	0.4 %	33,199	0.5 %
CLO Residual Interest	1,069,203	16.8 %	1,123,282	18.0 %	1,044,656	16.4 %	1,093,985	17.5 %
Preferred Stock	70,176	1.1 %	13,255	0.2 %	80,096	1.3 %	10,696	0.2 %
Common Stock	256,397	4.0 %	272,056	4.3 %	84,768	1.3 %	80,153	1.3 %
Membership Interest	17,541	0.3 %	16,841	0.3 %	187,384	2.9 %	217,763	3.5 %
Net Profits Interest	—	— %	29	— %	—	— %	213	— %
Escrow Receivable	5,881	0.1 %	5,094	0.1 %	—	— %	1,589	— %
Warrants	1,682	— %	6,926	0.1 %	2,273	— %	9,153	0.1 %
Total Investments	$6,358,720	100.0 %	$6,253,493	100.0 %	$6,371,522	100.0 %	$6,253,739	100.0 %

The following shows our investments in interest bearing securities by type of investment as of September 30, 2014 and June 30, 2014:

Type of Investment	September 30, 2014 Cost	% of Portfolio	Fair Value	% of Portfolio	June 30, 2014 Cost	% of Portfolio	Fair Value	% of Portfolio
First Lien	$3,472,138	57.8 %	$3,417,916	57.5 %	$3,581,784	59.5 %	$3,516,984	59.3 %
Second Lien	1,333,038	22.2 %	1,259,671	21.2 %	1,272,275	21.1 %	1,200,221	20.2 %
Unsecured	92,665	1.5 %	92,665	1.6 %	85,531	1.4 %	85,531	1.4 %
Small Business Whole Loans	11,760	0.2 %	12,539	0.2 %	4,637	0.1 %	4,252	0.1 %
CLO Debt	28,239	0.5 %	33,219	0.6 %	28,118	0.5 %	33,199	0.6 %
CLO Residual Interest	1,069,203	17.8 %	1,123,282	18.9 %	1,044,656	17.4 %	1,093,985	18.4 %
Total Debt Investments	$6,007,043	100.0 %	$5,939,292	100.0 %	$6,017,001	100.0 %	$5,934,172	100.0 %

The following shows the composition of our investment portfolio by geographic location as of September 30, 2014 and June 30, 2014:

Geographic Location	September 30, 2014 Cost	% of Portfolio	Fair Value	% of Portfolio	June 30, 2014 Cost	% of Portfolio	Fair Value	% of Portfolio
Canada	$15,000	0.2 %	$15,000	0.2 %	$15,000	0.2 %	$15,000	0.2 %
Cayman Islands	1,097,442	17.3 %	1,156,501	18.5 %	1,072,774	16.8 %	1,127,184	18.0 %
France	10,157	0.2 %	10,157	0.2 %	10,170	0.2 %	10,339	0.2 %
Midwest US	772,675	12.2 %	739,698	11.8 %	787,482	12.4 %	753,543	12.0 %
Northeast US	1,136,753	17.9 %	1,098,319	17.6 %	1,224,403	19.2 %	1,181,533	18.9 %
Puerto Rico	41,208	0.6 %	36,478	0.6 %	41,307	0.7 %	36,452	0.6 %
Southeast US	1,834,134	28.8 %	1,801,460	28.8 %	1,491,554	23.4 %	1,461,516	23.4 %
Southwest US	778,033	12.2 %	757,940	12.1 %	759,630	11.9 %	737,271	11.8 %
Western US	673,318	10.6 %	637,940	10.2 %	969,202	15.2 %	930,901	14.9 %
Total Investments	$6,358,720	100.0 %	$6,253,493	100.0 %	$6,371,522	100.0 %	$6,253,739	100.0 %

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The following shows the composition of our investment portfolio by industry as of September 30, 2014 and June 30, 2014:

Industry	September 30, 2014 Cost	% of Portfolio	Fair Value	% of Portfolio	June 30, 2014 Cost	% of Portfolio	Fair Value	% of Portfolio
Aerospace & Defense	$70,877	1.1 %	$61,861	1.0 %	$102,803	1.6 %	$102,967	1.6 %
Auto Finance	—	— %	—	— %	11,139	0.2 %	11,139	0.2 %
Automobile	12,356	0.2 %	12,500	0.2 %	22,296	0.4 %	22,452	0.4 %
Business Services	622,117	9.8 %	638,120	10.2 %	598,940	9.4 %	611,286	9.8 %
Chemicals	19,663	0.3 %	20,000	0.3 %	19,648	0.3 %	19,713	0.3 %
Commercial Services	110,588	1.7 %	103,974	1.7 %	301,610	4.7 %	301,610	4.8 %
Construction & Engineering	57,286	0.9 %	29,431	0.5 %	56,860	0.9 %	33,556	0.5 %
Consumer Finance	419,280	6.6 %	428,382	6.9 %	425,497	6.7 %	434,348	6.9 %
Consumer Services	210,286	3.3 %	212,000	3.4 %	502,862	7.9 %	504,647	8.1 %
Contracting	3,832	0.1 %	—	— %	3,831	0.1 %	—	— %
Diversified Financial Services(1)	100,366	1.6 %	101,145	1.6 %	42,574	0.7 %	42,189	0.7 %
Durable Consumer Products	377,252	5.9 %	377,207	6.0 %	377,205	5.9 %	375,329	6.0 %
Energy	76,662	1.2 %	70,311	1.1 %	77,379	1.2 %	67,637	1.1 %
Food Products	372,332	5.9 %	372,332	6.0 %	173,375	2.7 %	174,603	2.8 %
Healthcare	293,786	4.6 %	289,198	4.6 %	329,408	5.2 %	326,142	5.2 %
Hotels, Restaurants & Leisure	170,484	2.7 %	170,685	2.7 %	132,193	2.1 %	132,401	2.1 %
Machinery	396	— %	616	— %	396	— %	621	— %
Manufacturing	203,223	3.2 %	171,629	2.7 %	204,394	3.2 %	171,577	2.7 %
Media	361,776	5.7 %	342,695	5.5 %	362,738	5.7 %	344,278	5.5 %
Metal Services & Minerals	48,405	0.8 %	52,518	0.8 %	48,402	0.8 %	51,977	0.8 %
Oil & Gas Production	281,951	4.4 %	246,362	4.0 %	283,490	4.4 %	248,494	4.0 %
Personal & Nondurable Consumer Products	211,841	3.3 %	212,168	3.4 %	10,604	0.2 %	11,034	0.2 %
Pharmaceuticals	77,388	1.2 %	75,174	1.2 %	78,069	1.2 %	73,690	1.2 %
Property Management	5,881	0.1 %	3,601	0.1 %	57,500	0.9 %	45,284	0.7 %
Real Estate	449,922	7.1 %	444,153	7.1 %	353,506	5.5 %	355,236	5.7 %
Retail	14,242	0.2 %	14,905	0.2 %	14,231	0.2 %	14,625	0.2 %
Software & Computer Services	237,505	3.7 %	238,270	3.8 %	240,469	3.8 %	241,260	3.9 %
Telecommunication Services	79,630	1.3 %	79,654	1.3 %	79,630	1.2 %	79,654	1.3 %
Textiles, Apparel & Luxury Goods	256,275	4.0 %	256,275	4.1 %	275,023	4.3 %	259,690	4.2 %
Transportation	115,676	1.8 %	71,826	1.1 %	112,676	1.8 %	69,116	1.1 %
Subtotal	$5,261,278	82.7 %	$5,096,992	81.5 %	$5,298,748	83.2 %	$5,126,555	82.0 %
CLO Investments(1)	1,097,442	17.3 %	1,156,501	18.5 %	1,072,774	16.8 %	1,127,184	18.0 %
Total Investments	$6,358,720	100.0 %	$6,253,493	100.0 %	$6,371,522	100.0 %	$6,253,739	100.0 %

(1) Although designated as Diversified Financial Services within our Schedules of Investments in Item 1 of this report, our CLO investments do not have industry concentrations and as such have been separated in the table above.

Portfolio Investment Activity

During the three months ended September 30, 2014, we acquired $457,383 of new investments, completed follow-on investments in existing portfolio companies totaling approximately $414,935, funded $9,000 of revolver advances, and recorded PIK interest of $5,887, resulting in gross investment originations of $887,205. The more significant of these transactions are briefly described below.

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On July 17, 2014, we restructured our investments in BXC Company, Inc. ("BXC") and Boxercraft Incorporated ("Boxercraft"), a wholly-owned subsidiary of BXC. The existing Senior Secured Term Loan A and a portion of the existing Senior Secured Term Loan B were replaced with a new Senior Secured Term Loan A to Boxercraft. The remainder of the existing Senior Secured Term Loan B and the existing Senior Secured Term Loan C, Senior Secured Term Loan D, and Senior Secured Term Loan E were replaced with a new Senior Secured Term Loan B to Boxercraft. The existing Senior Secured Term Loan to Boxercraft was converted into Series D Preferred Stock in BXC.

On August 5, 2014, we made an investment of $39,105 to purchase 70.94% of the subordinated notes in CIFC Funding 2014-IV, Ltd.

On August 13, 2014, we provided $210,000 of senior secured financing, of which $200,000 was funded at closing, to support the recapitalization of Trinity Services Group, Inc. ("Trinity"), a leading food services company in the H.I.G. Capital portfolio. The $100,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.5% and has a final maturity of August 13, 2019. The $100,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.5% and has a final maturity of August 13, 2019. The $10,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 9.0% or Libor plus 8.0% and has a final maturity of February 13, 2015.

On August 19, 2014 and August 27, 2014, we made a combined $11,046 investment in UPRC (as defined below) to acquire Michigan Storage, LLC, a portfolio of seven self-storage facilities located in Michigan. We invested $1,657 of equity through UPH Property Holdings, LLC and $9,389 of debt directly to UPRC. The senior secured note bears interest at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019.

On August 29, 2014, we made a $44,000 follow-on investment in BNN Holdings Corp. ("Biotronic") in connection with a corporate recapitalization. As part of the recapitalization, we received repayment of the $28,950 loan previously outstanding. The $22,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.5% and has a final maturity of August 29, 2019. The $22,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.5% and has a final maturity of August 29, 2019.

On September 10, 2014, we made a $55,869 follow-on investment in Onyx Payments, of which $50,869 was funded at closing, to fund an acquisition. The $25,028 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.5% and has a final maturity of September 10, 2019. The $25,841 Term Loan B note bears interest in cash at the greater of 13.5% or Libor plus 12.5% and has a final maturity of September 10, 2019. The $5,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.75% and has a final maturity of September 10, 2015.

On September 26, 2014, we provided $215,000 of senior secured financing, of which $202,500 was funded at closing, to Pacific World Corporation ("Pacific World"), a supplier of nail and beauty care products to food, drug, mass, and value retail channels worldwide. The $200,000 Term Loan bears interest in cash at the greater of 8.0% or Libor plus 7.0% and has a final maturity of September 26, 2020. The $15,000 senior secured revolver, of which $2,500 was funded at closing, bears interest in cash at the greater of 8.0% or Libor plus 7.0% and has a final maturity of September 26, 2020.

On September 29, 2014, we made a secured second lien investment of $144,000 to support the recapitalization of Progrexion Holdings, Inc. ("Progrexion"). As part of the recapitalization, we received repayment of the $436,647 loan previously outstanding. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of September 29, 2021.

On September 29, 2014, we made a $22,618 follow-on investment in UPRC to acquire Canterbury Green Apartment Holdings, LLC, a multi-family property located in Fort Wayne, Indiana. We invested $3,393 of equity through UPH and $19,225 of debt directly to UPRC. The senior secured note bears interest at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019.

On September 30, 2014, we made a $26,431 follow-on investment in Harbortouch Payments, LLC ("Harbortouch") to support an acquisition. The senior secured Term Loan C bears interest in cash at the greater of 13.0% or Libor plus 9.0% and has a final maturity of September 29, 2018.

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On September 30, 2014, we made a $42,200 follow-on investment in PrimeSport, Inc. ("PrimeSport") to fund a dividend recapitalization. The $21,100 Term Loan A note bears interest in cash at the greater of 7.5% or Libor plus 6.5% and has a final maturity of December 23, 2019. The $21,100 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.5% and has a final maturity of December 23, 2019.

On September 30, 2014, we made a $22,216 follow-on investment in UPRC to acquire Columbus OH Apartment Holdco, LLC, a portfolio of seven multi-family residential properties located in Ohio. We invested $3,316 of equity through UPH and $18,900 of debt directly to UPRC. The senior secured note bears interest at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019.

In addition to the purchases noted above, during the three months ended September 30, 2014, we made nine follow-on investments in NPRC (as defined below) totaling $37,500 to support the online lending initiative. We invested $5,625 of equity through NPH Property Holdings, LLC and $31,875 of debt directly to NPRC. Additionally, during the three months ended September 30, 2014, our wholly-owned subsidiary PSBL purchased a series of small business whole loans originated by OnDeck Capital, Inc. and Direct Capital Corporation, online small business lenders, totaling $12,651.

During the three months ended September 30, 2014, we received full repayments on eight investments, sold four investments investments, and received several partial prepayments and amortization payments totaling totaling $863,144. The more significant of these transactions are briefly described below.

On July 22, 2014, Injured Workers Pharmacy, LLC repaid the $22,678 loan receivable to us.

On July 23, 2014, Correctional Healthcare Holding Company, Inc. repaid the $27,100 loan receivable to us.

On July 28, 2014, Tectum Holdings, Inc. repaid the $10,000 loan receivable to us.

On August 1, 2014, we sold our investments in Airmall Inc. ("Airmall") for net proceeds of $51,379 and realized a loss of $3,473 on the sale. In addition, there is $6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as an additional realized loss if it is not received.

On August 20, 2014, we sold the assets of Borga, Inc. ("Borga"), a wholly-owned subsidiary of STI Holding, Inc., for net proceeds of $382 and realized a loss of $2,589 on the sale.

On August 22, 2014, Byrider Systems Acquisition Corp. repaid the $11,177 loan receivable to us.

On August 22, 2014, Capstone Logistics, LLC repaid the $189,941 loans receivable to us.

On August 22, 2014, TriMark USA, LLC repaid the $10,000 loan receivable to us.

On August 25, 2014, we sold Boxercraft, a wholly-owned subsidiary of BXC, for net proceeds of $750 and realized a net loss of $16,949 on the sale.

On September 15, 2014, Echelon Aviation LLC ("Echelon") repaid $37,313 of the $78,121 loan receivable to us.

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The following table provides a summary of our investment activity for each quarter within the three years ending June 30, 2015:

Quarter Ended	Acquisitions(1)	Dispositions(2)
September 30, 2012	747,937	158,123
December 31, 2012	772,125	349,269
March 31, 2013	784,395	102,527
June 30, 2013	798,760	321,615
September 30, 2013	556,843	164,167
December 31, 2013	608,153	255,238
March 31, 2014	1,343,356	198,047
June 30, 2014	444,104	169,617
September 30, 2014	887,205	863,144

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

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

Investment Valuation

In determining the fair value of our portfolio investments at September 30, 2014, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of $6,041,476 to $6,418,563, excluding money market investments.

In determining the range of value for debt instruments except CLOs, management and the independent valuation firm generally estimate corporate and security credit ratings and identify corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine range of value. For non-traded equity investments, the enterprise value was determined by applying EBITDA multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared.

In determining the range of value for our investments in CLOs, management and the independent valuation firm used a discounted cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. A waterfall engine is used to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analyses, applied to each investment, was a total valuation of $6,253,493.

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

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American Property REIT Corp.

American Property REIT Corp. (“APRC”) is a Maryland corporation and a qualified REIT for federal income tax purposes. APRC was formed to acquire, operate, finance, lease, manage and sell a portfolio of real estate assets. As of September 30, 2014, we own 100% of the fully-diluted common equity of APRC.

During the three months ended September 30, 2014, we did not provide any additional financing to APRC for the acquisition of real estate properties. As of September 30, 2014, our investment in APRC had an amortized cost of $204,517 and a fair value of $197,689.

As of September 30, 2014, APRC’s real estate portfolio was comprised of fourteen multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by APRC as of September 30, 2014.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	1557 Terrell Mill Road, LLC	Marietta, GA	12/28/2012	$23,500	$15,275
2	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	39,600
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	16,965
4	Vista Palma Sola, LLC	Bradenton, FL	4/30/2013	27,000	17,550
5	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
6	APH Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	157,500
7	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	9,026
8	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	11,488
9	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	19,400
10	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	13,622
11	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	11,817
12	Verandas at Rocky Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
13	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	5,038
14	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	5,016
15	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
				$512,099	$342,152

The Board of Directors set the fair value of our investment in APRC at $197,689 as of September 30, 2014, a discount of $6,828 from its amortized cost, compared to the $3,392 unrealized appreciation recorded at June 30, 2014

Ajax Rolled Ring & Machine, LLC

Ajax Rolled Ring & Machine, LLC ("Ajax") forges large seamless steel rings on two forging mills in Ajax’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.

On April 4, 2008, we acquired a controlling equity interest in ARRM Services, Inc. ("ARRM"), which owns 100% of Ajax, the operating company. 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. During the quarter ended December 31, 2012, we funded an additional $3,600 of unsecured debt to refinance first lien debt held by Wells Fargo.

On April 1, 2013, we refinanced our existing $38,472 senior loans to Ajax, increasing the size of our debt investment to $38,537. Concurrent with the refinancing, we received repayment of the $18,635 loans that were previously outstanding. On October 11, 2013, we provided $25,000 in preferred equity for the recapitalization of Ajax. After the financing, we received repayment of the $20,008 subordinated unsecured loan previously outstanding. As of September 30, 2014, we control 79.53% of the fully-diluted common and preferred equity.

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Due to the anticipated sale of Ajax, the Board of Directors increased the fair value of our investment in Ajax to $28,736 as of September 30, 2014, a discount of $17,814 from its amortized cost, compared to the $21,014 unrealized depreciation recorded at June 30, 2014.

First Tower Finance Company LLC

We own 80.1% of First Tower Finance Company LLC (“First Tower Finance”), which owns 100% of First Tower, LLC (“First Tower”), the operating company. First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 170 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower businesses 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. 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. As part of the transaction, we received $4,038 in structuring fee income from First Tower. On October 18, 2012, we funded an additional $20,000 of senior secured debt to support seasonally high demand during the holiday season. On December 30, 2013, we funded an additional $10,000 to again support seasonal demand and received $8,000 of structuring fees related to the renegotiation and expansion of First Tower’s revolver with a third party which was recognized as other income. As of September 30, 2014, First Tower had total assets of approximately $623,056 including $411,901 of finance receivables net of unearned charges. As of September 30, 2014, First Tower’s total debt outstanding to parties senior to us was $269,774.

The Board of Directors decreased the fair value of our investment in First Tower to $324,975 as of September 30, 2014, a premium of $9,185 from its amortized cost, compared to the $7,134 unrealized appreciation recorded at June 30, 2014.

Harbortouch Payments, LLC

Harbortouch Payments, LLC ("Harbortouch") is a merchant processor headquartered in Allentown, Pennsylvania. The company offers a range of payment processing equipment and services that facilitate the exchange of goods and services provided by small to medium-sized merchants located in the United States for payments made by credit, debit, prepaid, electronic gift, and loyalty cards. Harbortouch provides point-of-sale equipment free of cost to merchants and then manages the process whereby transaction information is sent to a consumer’s bank from the point-of-sale (front-end processing), and then funds are transferred from the consumer’s account to the merchant’s account (back-end processing).

On March 31, 2014, we acquired a controlling interest in Harbortouch for $147,898 in cash and 2,306,294 unregistered shares of our common stock. We funded $130,796 of senior secured term debt, $123,000 of subordinated term debt and $24,898 of equity at closing. As part of the transaction, we received $7,536 of structuring fee income from Harbortouch. On April 1, 2014, we restructured our investment in Harbortouch and $14,226 of equity was converted into additional debt investment. On September 30, 2014, we made a $26,431 follow-on investment in Harbortouch to support an acquisition. As part of the transaction, we received $530 of structuring fee income and $50 of amendment fee income from Harbortouch. As of September 30, 2014, we own 100% of the Class C voting units of Harbortouch, which provide for a 53.5% residual profits allocation.

Due to improved operating results, the Board of Directors increased the fair value of our investment in Harbortouch to $318,251 as of September 30, 2014, a premium of $16,516 from its amortized cost, compared to the $12,620 unrealized appreciation recorded at June 30, 2014.

National Property REIT Corp.

National Property REIT Corp. (“NPRC”) is a Maryland corporation and a qualified REIT for federal income tax purposes. NPRC was formed to acquire, operate, finance, lease, manage and sell a portfolio of real estate assets. Additionally, through its wholly-owned subsidiaries, NPRC invests in peer-to-peer consumer loans. As of September 30, 2014, we own 100% of the fully-diluted common equity of NPRC.

During the three months ended September 30, 2014, we provided $31,875 and $5,625 of debt and equity financing, respectively, to NPRC to invest in peer-to-peer consumer loans. As of September 30, 2014, our investment in NPRC had an amortized cost of $165,280 and a fair value of $166,830.

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NPRC's peer-to-peer consumer loan investments are unsecured obligations of individual borrowers that are issued in amounts ranging from $1,000 to $35,000, with fixed interest rates and original maturities of three or five years. As of September 30, 2014, NPRC's investment in peer-to-peer lending had a fair value of $91,252. The average individual loan balance is $12 and the loans mature on dates ranging from October 31, 2016 to October 2, 2019 with fixed terms of either 36 or 60 months. Fixed interest rates range from 6.1% to 28.5% with a weighted-average current interest rate of 16.4%.

As of September 30, 2014, NPRC's real estate portfolio was comprised of nine multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by NPRC as of September 30, 2014.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway, LLC	Forest Park, GA	10/24/2012	$7,400	$—
2	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	22,330
3	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	17,571
4	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	18,533
5	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	26,640
6	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	27,471
7	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	36,148
8	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	53,863
9	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	28,500
10	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	9,013
				$327,630	$240,069

The Board of Directors set the fair value of our investment in NPRC at $166,830 as of September 30, 2014, a premium of $1,550 from its amortized cost, compared to the $2,088 unrealized depreciation recorded at June 30, 2014.

United Property REIT Corp.

United Property REIT Corp. ("UPRC") is a Delaware limited liability company and a qualified REIT for federal income tax purposes. UPRC was formed to acquire, operate, finance, lease, manage and sell a portfolio of real estate assets.

As of September 30, 2014, we own 100% of the fully-diluted common equity of UPRC.

During the three months ended September 30, 2014, we provided $47,515 and $8,365 of debt and equity financing, respectively, to UPRC for the acquisition of certain properties. As of September 30, 2014, our investment in UPRC had an amortized cost of $80,125 and a fair value of $79,634.

As of September 30, 2014, UPRC's real estate portfolio was comprised of fourteen multi-families properties and eight commercial properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by UPRC as of September 30, 2014.

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No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	$25,957	$19,785
2	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	9,193
3	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	3,619
4	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	10,180
5	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	11,141
6	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	13,575
7	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
8	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
9	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
10	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
11	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
12	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
13	Ann Arbor Kalamazoo Self Storage, LLC	Scio, MI	8/29/2014	8,927	6,695
14	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
15	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	65,825
16	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	10,440
17	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	11,000
18	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	20,142
19	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	10,080
20	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	10,480
21	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	15,480
22	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	12,240
				$318,997	$251,885

The Board of Directors set the fair value of our investment in UPRC at $79,634 as of September 30, 2014, a discount of $491 from its amortized cost, compared to the $426 unrealized appreciation recorded at June 30, 2014.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric Company, Inc. (“Valley Electric”) as of September 30, 2014. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. (“Valley”). Valley Electric is a leading provider of specialty electrical services in the state of Washington and is among the top 50 electrical contractors in the U.S. The company, with its headquarters in Everett, Washington, offers a comprehensive array of contracting services, primarily for commercial, industrial, and transportation infrastructure applications, including new installation, engineering and design, design-build, traffic lighting and signalization, low to medium voltage power distribution, construction management, energy management and control systems, 24-hour electrical maintenance and testing, as well as special projects and tenant improvement services. Valley Electric was founded in 1982 by the Ward family, who held the company until the end of 2012.

On December 31, 2012, we acquired 100% of the outstanding shares of Valley. We funded the recapitalization of Valley with $42,572 of debt and $9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley for $7,449 in cash and 4,141,547 unregistered shares of our common stock. As of September 30, 2014, we control 96.3% of the common equity.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Valley Electric to $29,431 as of September 30, 2014, a discount of $27,855 from its amortized cost, compared to the $23,304 unrealized depreciation recorded at June 30, 2014.

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. Seven of our controlled companies, APRC, Credit Central Loan Company, LLC ("Credit Central"), Echelon, Gulf Coast Machine & Supply Company ("Gulf Coast"), Valley Electric, R-V Industries, Inc. ("R-V") and Wolf Energy, LLC ("Wolf Energy"), experienced such volatility and experienced fluctuations in valuations during the three months ended September 30, 2014. See above for discussion regarding the fluctuations in APRC and Valley Electric.

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During the three months ended September 30, 2014, the value of Credit Central decreased by $1,513 due to a decline in future expectations; Echelon decreased by $9,011 due to declines in future expectations; Gulf Coast decreased by $2,785 due to a decline in operating results; R-V decreased by $1,521 due to a decline in operating results; and Wolf Energy decreased by $1,972 due to a decrease in the value of the company's assets. Four of the other controlled investments have been valued at discounts to the original investment. Thirteen of the control investments are valued at the original investment amounts or higher. Overall, at September 30, 2014, control investments are valued at $61,496 below their amortized cost.

We hold one affiliate investment at September 30, 2014. Our affiliate portfolio company did not experience a significant change in valuation during the three months ended September 30, 2014.

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan's par value, plus any prepayment 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. Non-control/non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. Two of our Non-control/non-affiliate investments, Stryker Energy, LLC ("Stryker") and Wind River Resources Corporation ("Wind River"), are valued at a discount to amortized cost due to a decline in the operating results of the operating companies from those originally underwritten. In June 2014, New Century Transportation, Inc. ("NCT") filed for bankruptcy. As we hold a second lien position and do not expect liquidation proceeds to exceed the first lien liability, we decreased the fair value of our debt investment to zero. Overall, at September 30, 2014, other non-control/non-affiliate investments are valued at $47,832 above their amortized cost, excluding our investments in NCT, Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt as of September 30, 2014 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in May 2012, March 2013 and April 2014; and Prospect Capital InterNotes® which we may issue from time to time. Our equity capital is comprised entirely of common equity.

The following table shows the maximum draw amounts and outstanding borrowings of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of September 30, 2014 and June 30, 2014.

	September 30, 2014		June 30, 2014	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	$810,000	$411,000	$857,500	$92,000
Convertible Notes	1,247,500	1,247,500	1,247,500	1,247,500
Public Notes	647,950	647,950	647,881	647,881
Prospect Capital InterNotes®	784,305	784,305	785,670	785,670
Total	$3,489,755	$3,090,755	$3,538,551	$2,773,051

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of September 30, 2014.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	$411,000	$—	$—	$—	$411,000
Convertible Notes	1,247,500	—	317,500	530,000	400,000
Public Notes	647,950	—	—	300,000	347,950

Prospect Capital InterNotes®	784,305	—	8,859	334,078	441,368
Total Contractual Obligations	$3,090,755	$—	$326,359	$1,164,078	$1,600,318

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The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2014.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	$92,000	$—	$92,000	$—	$—
Convertible Notes	1,247,500	—	317,500	530,000	400,000
Public Notes	647,881	—	—	—	647,881
Prospect Capital InterNotes®	785,670	—	8,859	261,456	515,355
Total Contractual Obligations	$2,773,051	$—	$418,359	$791,456	$1,563,236

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, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to $5,000,000 less issuances to date. As of September 30, 2014, we can issue up to $3,635,217 of additional debt and equity securities in the public market under this shelf registration. On November 4, 2014, our updated shelf registration was declared effective and we can issue up to $5,000,000 of additional debt and equity securities in the public market. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

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

Revolving Credit Facility

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

On August 29, 2014, we renegotiated the 2012 Facility and closed an expanded five and a half year $800,000 revolving credit facility (the "2014 Facility" and collectively with the 2012 Facility, the "Revolving Credit Facility"). The lenders have extended commitments of $810,000 under the 2014 Facility as of September 30, 2014. The 2014 Facility includes an accordion feature which allows commitments to be increased up to $1,500,000 in the aggregate. The revolving period of the 2014 Facility extends through March 2019, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due, if required by the lenders.

The 2014 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2014 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2014 Facility. The 2014 Facility also requires the maintenance of a minimum liquidity requirement. As of September 30, 2014, we were in compliance with the applicable covenants.

Interest on borrowings under the 2014 Facility is one-month Libor plus 225 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2014 Facility equal to either 50 basis points, if at least 35% of the credit facility is drawn, or 100 basis points otherwise. The 2014 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

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As of September 30, 2014 and June 30, 2014, we had $627,712 and $780,620, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was $411,000 and $92,000, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of $810,000. As of September 30, 2014, the investments used as collateral for the Revolving Credit Facility had an aggregate fair value of $1,443,687, which represents 21.7% of our total investments and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred $7,422 of new fees and $3,539 of fees carried over for continuing participants from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, Debt Modifications and Extinguishments, of which $10,663 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2014. $332 of fees were expensed relating to credit providers in the 2012 Facility who did not commit to the 2014 Facility.

During the three months ended September 30, 2014 and September 30, 2013, we recorded $4,011 and $2,476, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Convertible Notes

On December 21, 2010, we issued $150,000 aggregate principal amount of convertible notes that mature on December 15, 2015 (the “2015 Notes”), unless previously converted or repurchased in accordance with their terms. The 2015 Notes bear interest at a rate of 6.25% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were $145,200.

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

On April 16, 2012, we issued $130,000 aggregate principal amount of convertible notes that mature on October 15, 2017 (the “2017 Notes”), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were $126,035.

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

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

On April 11, 2014, we issued $400,000 aggregate principal amount of convertible notes that mature on April 15, 2020 (the “2020 Notes”), unless previously converted or repurchased in accordance with their terms. The 2020 Notes bear interest at a rate of 4.75% per year, payable semi-annually on April 15 and October 15 each year, beginning October

15, 2014. Total proceeds from the issuance of the 2020 Notes, net of underwriting discounts and offering costs, were $387,500.

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Certain key terms related to the convertible features for the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2020 Notes (collectively, the "Convertible Notes") are listed below.

	2015 Notes	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	88.0902	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	$ 11.35	$ 12.76	$ 11.65	$ 12.14	$ 12.54	$ 12.40
Conversion rate at September 30, 2014(1)(2)	89.0157	79.3176	86.9426	83.6661	79.7865	80.6647
Conversion price at September 30, 2014(2)(3)	$ 11.23	$ 12.61	$ 11.50	$ 11.95	$ 12.53	$ 12.40
Last conversion price calculation date	12/21/2013	2/18/2014	4/16/2014	8/14/2014	12/21/2013	4/11/2014
Dividend threshold amount (per share)(4)	$ 0.101125	$ 0.101150	$ 0.101500	$ 0.101600	$ 0.110025	$ 0.110525

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

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

(3) The conversion price in effect at September 30, 2014 was calculated on the last anniversary of the issuance and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

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 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 Convertible Notes.

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

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

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In connection with the issuance of the Convertible Notes, we incurred $39,385 of fees which are being amortized over the terms of the notes, of which $26,019 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2014.

During the three months ended September 30, 2014 and September 30, 2013, we recorded $18,589 and $13,310, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Public Notes

On May 1, 2012, we issued $100,000 aggregate principal amount of unsecured notes that mature on November 15, 2022 (the “2022 Notes”). The 2022 Notes bear interest at a rate of 6.95% per year, payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2012. Total proceeds from the issuance of the 2022 Notes, net of underwriting discounts and offering costs, were $97,000.

On March 15, 2013, we issued $250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the “2023 Notes”). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were $245,885.

On April 7, 2014, we issued $300,000 aggregate principal amount of unsecured notes that mature on July 15, 2019 (the “5.00% 2019 Notes”). Included in the issuance is $45,000 of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were $250,775.

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

In connection with the issuance of the Public Notes, we incurred $11,366 of fees which are being amortized over the term of the notes, of which $10,075 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2014.

During the three months ended September 30, 2014 and September 30, 2013, we recorded $9,458 and $5,577, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

Prospect Capital InterNotes®

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

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

During the three months ended September 30, 2014, we did not issue any Prospect Capital InterNotes®.

During the three months ended September 30, 2013, we issued $98,255 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $96,189. These notes were issued with stated interest rates ranging from 4.75% to 6.75% with a weighted average interest rate of 5.48%. These notes mature between July 15, 2018 and September 15, 2043. The following table summarizes the Prospect Capital InterNotes® issued during the three months ended September 30, 2013.

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Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate		Maturity Date Range
5	$51,537	4.75%–5.00%	4.99	%	July 15, 2018 – September 15, 2018
5.5	3,820	5.00%	5.00	%	February 15, 2019
6.5	1,800	5.50%	5.50	%	February 15, 2020
7	14,399	5.50%–5.75%	5.59	%	July 15, 2020 – September 15, 2020
7.5	1,996	5.75%	5.75	%	February 15, 2021
15	940	6.00%	6.00	%	August 15, 2028
18	4,062	6.00%–6.25%	6.21	%	July 15, 2031 – August 15, 2031
20	1,127	6.00%	6.00	%	September 15, 2033
25	3,372	6.50%	6.50	%	August 15, 2038
30	15,202	6.50%–6.75%	6.63	%	July 15, 2043 – September 15, 2043
	$98,255				

During the three months ended September 30, 2014, we repaid $1,365 aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor’s Option, as defined in the InterNotes® Offering prospectus. The following table summarizes the Prospect Capital InterNotes® outstanding as of September 30, 2014.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate		Maturity Date Range
3	$5,710	4.00%	4.00	%	October 15, 2016
3.5	3,149	4.00%	4.00	%	April 15, 2017
4	45,751	3.75%–4.00%	3.92	%	November 15, 2017 – May 15, 2018
5	212,905	4.25%–5.00%	4.91	%	July 15, 2018 – August 15, 2019
5.5	3,820	5.00%	5.00	%	February 15, 2019
6.5	1,800	5.50%	5.50	%	February 15, 2020
7	256,724	4.00%–6.55%	5.39	%	June 15, 2019 – May 15, 2021
7.5	1,996	5.75%	5.75	%	February 15, 2021
10	41,867	3.24%–7.00%	6.19	%	March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00	%	November 15, 2025 – December 15, 2025
15	17,465	5.00%–6.00%	5.14	%	May 15, 2028 – November 15, 2028
18	25,274	4.125%–6.25%	5.49	%	December 15, 2030 – August 15, 2031
20	5,817	5.625%–6.00%	5.85	%	November 15, 2032 – October 15, 2033
25	34,823	6.25%–6.50%	6.39	%	August 15, 2038 – May 15, 2039
30	124,226	5.50%–6.75%	6.23	%	November 15, 2042 – October 15, 2043
	$784,305				

During the three months ended September 30, 2013, we repaid $55 aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor’s Option, as defined in the InterNotes® Offering prospectus. During the year ended June 30, 2014, we repaid $6,869 aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor’s Option, as defined in the InterNotes® Offering prospectus. In connection with the issuance of the 5.00% 2019 Notes, $45,000 of previously-issued Prospect Capital InterNotes® were exchanged for the 5.00% 2019 Notes. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2014.

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Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate		Maturity Date Range
3	$5,710	4.00%	4.00	%	October 15, 2016
3.5	3,149	4.00%	4.00	%	April 15, 2017
4	45,751	3.75%–4.00%	3.92	%	November 15, 2017 – May 15, 2018
5	212,915	4.25%–5.00%	4.91	%	July 15, 2018 – August 15, 2019
5.5	3,820	5.00%	5.00	%	February 15, 2019
6.5	1,800	5.50%	5.50	%	February 15, 2020
7	256,903	4.00%–6.55%	5.39	%	June 15, 2019 – May 15, 2021
7.5	1,996	5.75%	5.75	%	February 15, 2021
10	41,952	3.23%–7.00%	6.18	%	March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00	%	November 15, 2025 – December 15, 2025
15	17,465	5.00%–6.00%	5.14	%	May 15, 2028 – November 15, 2028
18	25,435	4.125%–6.25%	5.49	%	December 15, 2030 – August 15, 2031
20	5,847	5.625%–6.00%	5.85	%	November 15, 2032 – October 15, 2033
25	34,886	6.25%–6.50%	6.39	%	August 15, 2038 – May 15, 2039
30	125,063	5.50%–6.75%	6.22	%	November 15, 2042 – October 15, 2043
	$785,670				

In connection with the issuance of the Prospect Capital InterNotes®, we incurred $20,259 of fees which are being amortized over the term of the notes, of which $18,616 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2014.

During the three months ended September 30, 2014 and September 30, 2013, we recorded $10,856 and $6,044, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Net Asset Value

During the three months ended September 30, 2014, we issued $59,735 of additional equity, net of underwriting and offering costs, by issuing 5,877,738 shares of our common stock. During the three months ended September 30, 2014, we sold 5,536,780 shares of our common stock at an average price of $10.22 per share, and raised $56,575 of gross proceeds, under our ATM Program. Net proceeds were $56,095 after commissions to the broker-dealer on shares sold and offering costs. On July 24, 2014, August 21, 2014 and September 18, 2014, we issued 98,503, 129,435 and 113,020 shares of our common stock in connection with the dividend reinvestment plan, respectively. The following table shows the calculation of net asset value per share as of September 30, 2014 and June 30, 2014.

	September 30, 2014	June 30, 2014
Net assets	$3,647,759	$3,618,182
Shares of common stock issued and outstanding	348,504,375	342,626,637
Net asset value per share	$10.47	$10.56

Results of Operations

Net increase in net assets resulting from operations for the three months ended September 30, 2014 and September 30, 2013 was $84,108 and $79,900, respectively. During the three months ended September 30, 2014, the $4,208 increase is due to a $12,126 increase in net investment income driven by a larger asset producing portfolio partially offset by an increase in interest expense due to additional debt financing. This increase is partially offset by a $7.918 unfavorable increase in net realized and unrealized gains and losses on investments. (See "Net Realized (Loss) Gain" and "Net Changes in Unrealized Appreciation (Depreciation)" for further discussion.)

Net increase in net assets resulting from operations for the three months ended September 30, 2014 and September 30, 2013 was $0.24 and $0.31 per weighted average share, respectively. During the three months ended September 30, 2014, the decrease is primarily due to a $0.03 per weighted average share decrease in dividend income received from our investment in Airmall and a $0.03 per weighted average share unfavorable increase in net realized and unrealized gains and losses on investments. (See "Net Realized (Loss) Gain" and "Net Changes in Unrealized Appreciation (Depreciation)" for further discussion.)

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

Investment Income

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was $202,021 and $161,034 for the three months ended September 30, 2014 and September 30, 2013, respectively. During the three months ended September 30, 2014, the increase in investment income is primarily the result of a larger income producing portfolio.

The following table describes the various components of investment income and the related levels of debt investments:

	Three Months Ended September 30,	
	2014	2013
Interest income	$184,140	$138,421
Dividend income	2,225	7,089
Other income	15,656	15,524
Total investment income	$202,021	$161,034
Average debt principal of performing investments	$5,998,511	$4,179,192
Weighted average interest rate earned on performing assets	12.01 %	12.96 %

Average interest income producing assets have increased from $4,179,192 for the three months ended September 30, 2013 to $5,998,511 for the three months ended September 30, 2014. The average earned on interest bearing performing assets decreased from 13.0% for the three months ended September 30, 2013 to 12.6% for the year ended June 30, 2014 to 12.0% for the three months ended September 30, 2014. The decrease in returns during the comparable period is primarily due to originations at lower rates than our average existing portfolio yield.

Investment income is also generated from dividends and other income. Dividend income decreased from $7,089 for the three months ended September 30, 2013 to $2,225 for the three months ended September 30, 2014. The decrease in dividend income is primarily attributed to a $7,000 decrease in the level of dividends received from our investment in Airmall. We received dividends of $7,000 from Airmall during the three months ended September 30, 2013. No such dividends were received during the three months ended September 30, 2014 related to our investment in Airmall. The decrease in dividend income was partially offset by dividends of $1,430 and $671 received from our investments in Biotronic and Nationwide, respectively, during the three months ended September 30, 2014. The dividends received from Biotronic and Nationwide include distributions as part of follow-on financings in August and September 2014, as discussed above. No dividends were received from Biotronic or Nationwide during the three months ended September 30, 2013.

Other income has come primarily from structuring fees, royalty interests, and settlement of net profits interests. Income from other sources increased from $15,524 for the three months ended September 30, 2013 to $15,656 for the three months ended September 30, 2014. The slight increase is primarily due to a $5,498 increase in structuring fees.

These fees are primarily generated from originations and will fluctuate as levels of originations fluctuate. During the three months ended September 30, 2014 and September 30, 2013, we recognized structuring fees of $14,158 and $8,660, respectively, from new originations, restructurings and follow-on investments. Included within the $14,158 of structuring fees recognized during the three months ended September 30, 2014 is a $3,000 fee from Airmall related to the sale of the operating company for which a fee was received in August 2014. The remaining $11,158 of structuring fees recognized during the three months ended September 30,

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2014 resulted from follow-on investments and new originations, primarily from our investments in Pacific World, Trinity and UPRC, as discussed above. The increase in other income was partially offset by a decrease in miscellaneous income due to the receipt of $5,000 of legal cost reimbursement from a litigation settlement during the three months ended September 30, 2013 which had been expensed in prior years. No such income was received during the three months ended September 30, 2014.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate Prospect Capital Management (the “Investment Adviser”) for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were $107,558 and $78,697 for the three months ended September 30, 2014 and September 30, 2013, respectively.

The base management fee was $33,165 and $23,045 for the three months ended September 30, 2014 and September 30, 2013, respectively. The increase is directly related to our growth in total assets. For the three months ended September 30, 2014 and September 30, 2013, we incurred $23,616 and $20,584 of income incentive fees, respectively. This increase was driven by a corresponding increase in pre-incentive fee net investment income from $102,921 for the three months ended September 30, 2013 to $118,079 for the three months ended September 30, 2014, primarily due to an increase in interest income from a larger asset base. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended September 30, 2014 and September 30, 2013, we incurred $42,914 and $27,407, respectively, of expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Notes"). These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken in those periods. The table below describes the various expenses of our Notes and the related indicators of leveraging capacity and indebtedness during these periods.

	Three Months Ended September 30,	
	2014	2013
Interest on borrowings	$37,010	$23,524
Amortization of deferred financing costs	3,829	2,435
Accretion of discount on Public Notes	69	36
Facility commitment fees	2,006	1,412
Total interest and credit facility expenses	$42,914	$27,407
Average principal debt outstanding	$2,731,720	$1,615,894
Weighted average stated interest rate on borrowings(1)	5.30 %	5.70 %
Weighted average interest rate on borrowings(2)	5.85 %	6.29 %
Revolving Credit Facility amount at beginning of year	$857,500	$552,500

(1) Includes only the stated interest expense.

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

The increase in interest expense for the three months ended September 30, 2014 is primarily due to the issuance of additional Prospect Capital InterNotes® during the final three quarters of the prior fiscal year, the 5.00% 2019 Notes, and the 2020 Notes for which we incurred an incremental $13,842 of collective interest expense. The weighted average interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.70% for the three months ended September 30, 2013 to 5.30% for the three months ended September 30, 2014. This decrease is primarily due to issuances of debt at lower coupon rates. For example, the weighted average interest rate on our Prospect Capital InterNotes® decreased from 5.62% as of September 30, 2013 to 5.38% as of September 30, 2014.

The allocation of overhead expense from Prospect Administration was $2,416 and $3,986 for the three months ended September 30, 2014 and September 30, 2013, respectively. During the three months ended September 30, 2014 and September 30, 2013, Prospect Administration received payments of $1,055 and $1,078, respectively, directly from our portfolio companies for legal, tax and portfolio level accounting services. We were given a credit for these payments as a reduction of the

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administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts.

Excise tax decreased from an expense of $1,000 for the three months ended September 30, 2013 to zero for the three months ended September 30, 2014. As of June 30, 2013, we accrued $5,000 as an estimate of the excise tax due for continuing to retain a portion of our annual taxable income for the calendar year ended December 31, 2013. We previously paid $4,500 for the undistributed ordinary income retained at December 31, 2012. During the year ended June 30, 2014, we amended our excise tax returns resulting in the $4,200 reversal of previously recognized expense and we recorded a $2,200 prepaid asset for the amount our $4,500 excise tax payment exceeded the excise tax liability estimated through June 30, 2014. There was no excise tax expense for the three months ended September 30, 2014.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration and excise tax ("Other Operating Expenses") were $5,447 and $2,675 for the three months ended September 30, 2014 and September 30, 2013, respectively. The increase of $2,772 during the three months ended September 30, 2014 is primarily due to an increase in our legal fees related to the discussions with the SEC regarding consolidation.

Net Investment Income

Net investment income was $94,463 and $82,337 for the three months ended September 30, 2014 and September 30, 2013, respectively ($0.28 and $0.32 per weighted average share, respectively). The $12,126 increase during the three months ended September 30, 2014 is primarily the result of a $40,987 increase in investment income partially offset by a $28,861 increase in operating expenses. The $0.04 per weighted average share decrease in net investment income for the three months ended September 30, 2014 is primarily due to a $0.01 per weighted average share decrease in other income primarily due to legal costs recovered during the three months ended September 30, 2013 and, to a lesser extent, a decrease in dividend income due to a decline in the level of dividends received from our investment in Airmall. (Refer to "Investment Income" and "Operating Expenses" above for further discussion.)

Net Realized (Loss) Gain

Net realized (loss) gain was $(22,911) and $3,789 for the three months ended September 30, 2014 and September 30, 2013, respectively. The net realized loss during the three months ended September 30, 2014 was primarily due to the sale of our investments in Airmall, Borga and BXC for which we recognized total realized losses of $23,011, as discussed above. During the three months ended September 30, 2014, we determined that the impairment of Appalachian Energy LLC ("AEH") was other-than-temporary and recorded a realized loss of $2,042 for the amount that the amortized cost exceeded the fair value. These losses were partially offset by net realized gains from the proceeds collected on warrants redeemed from Snacks Parent Corporation, litigation settlements and the release of escrowed amounts due to us from several portfolio companies for which we recognized total realized gains of of $2,142.

Net Change in Unrealized Appreciation (Depreciation)

Net change in unrealized appreciation (depreciation) was $12,556 and $(6,226) for the three months ended September 30, 2014 and September 30, 2013, respectively. The variability in results is primarily due to the valuation of equity positions in our portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the three months ended September 30, 2014, the $12,556 net change in unrealized appreciation was driven by the sale of our investments in Airmall, Borga and BXC for which we eliminated the unrealized depreciation balances related to these investments. We also experienced significant write-ups in our investments in Ajax, Harbortouch, MITY and NPRC. These instances of unrealized appreciation were partially offset by unrealized depreciation related to APRC, Echelon, Gulf Coast, Valley Electric and our CLO equity investments.

Financial Condition, Liquidity and Capital Resources

For the three months ended September 30, 2014 and September 30, 2013, our operating activities used $97,411 and $236,715 of cash, respectively. There were no investing activities for the three months ended September 30, 2014 and September 30, 2013. Financing activities provided $256,470 and $195,873 of cash during the three months ended September 30, 2014 and September 30, 2013, respectively, which included dividend payments of $109,951 and $80,064, respectively.

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

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Our primary sources of funds have been issuances of debt and equity. We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the three months ended September 30, 2014, we borrowed $547,000 and made repayments totaling $228,000 under our Revolving Credit Facility. As of September 30, 2014, we had $411,000 outstanding on our Revolving Credit Facility, $1,247,500 outstanding on our Convertible Notes, Public Notes with a carrying value of $647,950 and $784,305 outstanding on our Prospect Capital InterNotes®. (See "Capitalization" above.)

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of September 30, 2014 and June 30, 2014, we had $202,963 and $143,597, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.

Our Board of Directors, pursuant to the Maryland General Corporation Law, executed Articles of Amendment to increase the number of shares authorized for issuance from 500,000,000 to 1,000,000,000 in the aggregate. The amendment became effective May 6, 2014.

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $3,635,217 of additional debt and equity securities in the public market as of September 30, 2014. See "Recent Developments" for updates to our Registration Statement subsequent to September 30, 2014.

We also continue to generate liquidity through public and private stock offerings.

On August 29, 2014, we entered into an ATM Program with BB&T Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from September 8, 2014 through September 25, 2014 (with settlement dates of September 11, 2014 to September 30, 2014), we sold 5,536,780 shares of our common stock at an average price of $10.22 per share, and raised $56,575 of gross proceeds, under the ATM Program. Net proceeds were $56,095 after commissions to the broker-dealer on shares sold and offering costs. See "Recent Developments" for issuances under the ATM Program subsequent to September 30, 2014.

Off-Balance Sheet Arrangements

As of September 30, 2014, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

During the period from September 26, 2014 through October 29, 2014 (with settlement dates of October 1, 2014 to November 3, 2014), we sold 3,954,195 shares of our common stock at an average price of $9.76 per share, and raised $38,574 of gross proceeds, under the ATM Program. Net proceeds were $38,377 after commissions to the broker-dealer on shares sold and offering costs.

On October 3, 2014, we sold our $35,000 investment in Babson CLO Ltd. 2011-I and realized a loss on the sale.

On October 6, 2014, we made a $35,221 follow-on investment in Onyx Payments to fund an acquisition.

On October 7, 2014, Grocery Outlet, Inc. repaid the $14,457 loan receivable to us.

On October 8, 2014, we made a $65,000 secured debt investment in Capstone Logistics, LLC, a logistics services portfolio company.

On October 9, 2014, we made an investment of $50,743 to purchase 83.60% of the subordinated notes in Babson CLO Ltd. 2014-III in a co-investment transaction with Priority Income Fund, Inc.

On October 10, 2014, Ajax Rolled Ring & Machine, LLC repaid the $19,337 loan receivable to us.

On October 17, 2014, we made an investment of $48,994 to purchase 90.54% of the subordinated notes in Symphony CLO XV, Ltd.

On October 20, 2014, we sold our $22,000 investment in Galaxy XII CLO, Ltd. and realized a loss on the sale.

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On October 21, 2014, we made a $22,500 secured debt investment in Hollander Sleep Products, a manufacturer of bed pillows and mattress pads in the United States.

On October 22, 2014, we issued 138,721 shares of our common stock in connection with the dividend reinvestment plan.

On November 4, 2014, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $5,000,000 of additional debt and equity securities in the public market.

In addition to the transactions noted above, during the period from October 1, 2014 through November 6, 2014, we made seven follow-on investments in NPRC totaling $55,000 to support the online lending initiative. We invested $8,250 of equity through NPH and $46,750 of debt directly to NPRC. In addition, during this period, we received a partial repayment of $10,965 of the NPRC loan previously outstanding and $1,935 as a return of capital on the equity investment in NPRC.

Critical Accounting Policies and Estimates

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) pursuant to the requirements for reporting on Form 10-Q, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 6 and 10 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us.

Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include funds deposited with financial institutions and short-term, highly-liquid overnight investments in money market funds. Cash and cash equivalents are carried at cost which approximates fair value.

Investment Classification

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

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

Investment Risks

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

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Market Risk

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

Credit Risk

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

Liquidity Risk

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

Interest Rate Risk

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

Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making the security less likely to be an income producing instrument.

Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.
2. The independent valuation firms conduct independent valuations and make their own independent assessments.

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3. The Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of Prospect Capital Management LLC (the “Investment Adviser”) and that of the independent valuation firms.
4. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

Investments are valued utilizing a yield analysis, enterprise value (“EV”) analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market multiples approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The liquidation analysis is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow analysis uses valuation techniques to convert future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

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

Our investments in CLOs are classified as ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

Valuation of Other Financial Assets and Financial Liabilities

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

Convertible Notes

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

Revenue Recognition

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or amortization of premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. (“Patriot”) was determined based on the difference between par value and fair value as of December 2, 2009, and continued to accrete until maturity or repayment of the respective loans. As of March 31, 2014, the purchase discount for the assets acquired from Patriot had been fully accreted. See Note 3 for further discussion.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of September 30, 2014, less than 0.1% of our total assets are in non-accrual status.

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

Dividend income is recorded on the ex-dividend date.

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

Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of September 30, 2014, we had a deposit with the IRS for excise taxes as we have made estimated excise tax payments in excess of our expected excise tax liability for the calendar year ending December 31, 2014.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

We follow ASC 740, Income Taxes ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of

September 30, 2014 and for the three months then ended, we did not have a liability for any unrecognized tax benefits, respectively. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2010 remain subject to examination by the Internal Revenue Service.

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Dividends and Distributions

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

Financing Costs

We record origination expenses related to our Revolving Credit Facility and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Unsecured Notes") as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Unsecured Notes over the respective expected life or maturity.

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid assets are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed.

Guarantees and Indemnification Agreements

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

Per Share Information

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

Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. Earlier adoption is permitted. The adoption of the amended guidance in ASU 2014-15 is not expected to have a significant effect on our consolidated financial statements and disclosures.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. Some of the loans in our portfolio have floating interest rates.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended September 30, 2014, we did not engage in hedging activities.

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USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by means of ordinary brokers' transactions on the NASDAQ Global Select Market or that otherwise qualify for delivery of a prospectus to the NASDAQ Global Select Market in accordance with Rule 153 under the 1933 Act, at market prices prevailing at the time of sale, at prices related to prevailing market prices or negotiated transactions or as otherwise agreed with the Sales Managers. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale, and may be for prices below our most recently determined net asset value per share. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all 50,000,000 shares of common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of $9.34 per share for our common stock on the NASDAQ Global Select Market as of November 6, 2014, we estimate that the net proceeds of this offering will be approximately $457.3 million after deducting the estimated Sales Managers' commissions and our estimated offering expenses.

We expect to use the net proceeds from this offering 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. We anticipate that substantially all of the net proceeds from this offering will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

On August 29, 2014, we completed a first closing on an expanded five-and-one-half year $1.5 billion revolving credit facility (the "Facility") for Prospect Capital Funding LLC with reduced pricing. The new Facility, for which twenty lenders have closed on $810 million to date, includes an accordion feature that allows the Facility, at our discretion, to accept up to a total of $1.5 billion of commitments, an objective we target reaching with additional lenders. The Facility matures in March 2020 and is substantially similar to the terms of the prior revolving credit facility. It includes a revolving period that extends through March 2019, followed by an additional one-year amortization period, with distributions allowed to us after the completion of the revolving period. Pricing for the Facility is one-month Libor plus 2.25%, achieving 50 basis point reduction in pricing from the previous five-year facility pricing of Libor plus 2.75%. The new Facility has an investment grade Moody's rating of Aa3.

As of November 6, 2014, we had $20.2 million of borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately $668.7 million was available to us for borrowing under our credit facility. Affiliates of the Sales Managers that are lenders under our credit facility may receive a portion of the net proceeds from offerings made pursuant to this prospectus supplement and the accompanying prospectus through the repayment of any borrowings. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least 35% of the credit facility is used or 100 basis points otherwise.

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CAPITALIZATION

The equity distribution agreements provide that we may offer and sell up to 50,000,000 shares of our common stock from time to time through the Sales Managers, as our agents for the offer and sale of such common stock. The table below assumes that we will sell all of the 50,000,000 shares at a price of $9.34 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on November 6, 2014), but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than $9.34, depending on the market price of our common stock at the time of any such sale and whether such sale is made at a discount to our most recently determined net asset value per share. The following table sets forth our capitalization as of September 30, 2014:

- on an actual basis;
- on an as adjusted basis giving effect to the issuance of 138,721 shares in connection with the Company's dividend reinvestment plan since September 30, 2014, our issuance of 3,954,195 shares of common stock during the period from October 1, 2014 to November 3, 2014 under our at-the-market offering program, our redemption of certain Prospect Capital Internotes in accordance with the survivors option, and our repayment of $390.8 million under our credit facility; and
- on an as further adjusted basis giving effect to the transactions noted above, the assumed sale of 50,000,000 shares of our common stock at a price of $9.34 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on November 6, 2014) less commissions and expenses.

This table should be read in conjunction with "Use of Proceeds" and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus. The adjusted information is illustrative only.

	As of September 30, 2014				
	Actual	As Adjusted for Stock Issuances and Borrowings After September 30, 2014		As further Adjusted for this Offering	
	(In thousands, except shares and per share data) (Unaudited)				
Long-term debt, including current maturities:					
Borrowings under senior credit facility	$411,000	$20,200		$20,200	
Convertible Notes	1,247,500	1,247,500		1,247,500	
Public Notes	647,950	647,950		647,950	
Prospect Capital InterNotes®	784,305	783,466		783,466	
Amount owed to affiliates	6,187	6,187		6,187	
Total long-term debt	3,096,942	2,705,303		2,705,303	
Stockholders' equity:					
Common stock, par value $0.001 per share (1,000,000,000 common shares authorized; 348,504,375 shares outstanding actual, 352,597,291 shares outstanding as adjusted and 402,597,291 shares outstanding as further adjusted)	349	353	(1)	403	
Paid-in capital in excess of par value	3,883,527	3,923,245	(1)	4,380,505	
Undistributed net investment income	17,966	17,966		17,966	
Accumulated realized losses on investments	(148,856)	(148,856)		(148,856)	

Net unrealized depreciation on investments	(105,227)	(105,227)	(105,227)
Total stockholders' equity	3,647,759	3,687,481	4,144,791
Total capitalization	$6,744,701	$6,392,784	$6,850,094

(1) Includes 138,721 shares of Prospect's common stock issued on October 22, 2014 in connection with its dividend reinvestment plan.

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RECENT SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2009, 2010, 2011, 2012 and 2013 annual meeting of stockholders, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount to NAV per share during the twelve-month period following such approval. Accordingly, we may make offerings of our common stock without any limitation on the total amount of dilution to stockholders. See "Sales of Common Stock Below Net Asset Value" in this prospectus supplement and in the accompanying prospectus. Pursuant to this authority and the approval of our Board of Directors, we have made the following offerings:

Date of Offering	Price Per Share to Investors	Shares Issued	Estimated Net Asset Value per Share(1)	Percentage Dilution	
June 21, 2010 to June 25, 2010(2)	$10.01 - $10.67	1,072,500	$10.39 - 10.40	0.06	%
June 28, 2010 to July 16, 2010(2)	$9.47 - $10.04	2,748,600	$10.31 - 10.34	0.29	%
July 19, 2010 to August 19, 2010(2)	$9.28 - $10.04	3,814,528	$10.26 - 10.36	0.39	%
September 7, 2010 to September 23, 2010(2)	$9.47 - $9.98	2,185,472	$10.22 - 10.25	0.18	%
September 24, 2010 to September 27, 2010(2)	$9.74 - $9.92	302,400	$10.25 - 10.26	0.02	%
September 28, 2010 to October 29, 2010(2)	$9.65 - $10.09	4,929,556	$10.13 - 10.27	0.32	%
November 11, 2010 to December 10, 2010(2)	$9.70 - $10.54	4,513,920	$10.18 - 10.28	0.22	%
June 24, 2011	$10.15	10,000,000	$10.48	0.41	%
July 18, 2011(3)	$10.15	1,500,000	$10.41	0.05	%
September 8, 2014 to October 29, 2014(2)	$9.70 - $10.46	9,490,975	$10.45 - $10.60	0.15	%

(1) The data for sales of shares below NAV pursuant to our previous equity distribution agreements are an estimate based on the last reported NAV adjusted and capital events occurring during the period since the last calculated NAV. All amounts presented are approximations based on the best available data at the time of issuance. Overall, the dilution from the issuance of shares below NAV in connection with the ATM Program is estimated to be less than 1.5%.

(2) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later than the sale dates.

(3) On July 18, 2011, the underwriter exercised its option to purchase an additional 1,500,000 shares at $10.15.

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SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of September 30, 2014.

Credit Facility	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
Fiscal 2015 (as of September 30, 2014, unaudited)	$411,000	$16,395	—	—
Fiscal 2014 (as of June 30, 2014)	92,000	69,470	—	—
Fiscal 2013 (as of June 30, 2013)	124,000	34,996	—	—
Fiscal 2012 (as of June 30, 2012)	96,000	22,668	—	—
Fiscal 2011 (as of June 30, 2011)	84,200	18,065	—	—
Fiscal 2010 (as of June 30, 2010)	100,300	8,093	—	—
Fiscal 2009 (as of June 30, 2009)	124,800	5,268	—	—
Fiscal 2008 (as of June 30, 2008)	91,167	5,712	—	—
Fiscal 2007 (as of June 30, 2007)	—	N/A	—	—
Fiscal 2006 (as of June 30, 2006)	28,500	4,799	—	—
Fiscal 2005 (as of June 30, 2005)	—	N/A	—	—
Fiscal 2004 (as of June 30, 2004)	—	N/A	—	—
2015 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$150,000	$44,923	—	—
Fiscal 2014 (as of June 30, 2014)	150,000	42,608	—	—
Fiscal 2013 (as of June 30, 2013)	150,000	28,930	—	—
Fiscal 2012 (as of June 30, 2012)	150,000	14,507	—	—
Fiscal 2011 (as of June 30, 2011)	150,000	10,140	—	—
2016 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$167,500	$40,230	—	—
Fiscal 2014 (as of June 30, 2014)	167,500	38,157	—	—
Fiscal 2013 (as of June 30, 2013)	167,500	25,907	—	—
Fiscal 2012 (as of June 30, 2012)	167,500	12,992	—	—
Fiscal 2011 (as of June 30, 2011)	172,500	8,818	—	—
2017 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$130,000	$51,835	—	—
Fiscal 2014 (as of June 30, 2014)	130,000	49,163	—	—
Fiscal 2013 (as of June 30, 2013)	130,000	33,381	—	—
Fiscal 2012 (as of June 30, 2012)	130,000	16,739	—	—
2018 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$200,000	$33,693	—	—
Fiscal 2014 (as of June 30, 2014)	200,000	31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—

2019 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$200,000	$33,693	—	—
Fiscal 2014 (as of June 30, 2014)	200,000	31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
5.00% 2019 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$300,000	$22,462	—	—
Fiscal 2014 (as of June 30, 2014)	300,000	21,304	—	—

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Credit Facility	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
2020 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$400,000	$16,846	—	—
Fiscal 2014 (as of June 30, 2014)	400,000	15,978	—	—
2022 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$100,000	$67,385	—	$102,560
Fiscal 2014 (as of June 30, 2014)	100,000	63,912	—	103,920
Fiscal 2013 (as of June 30, 2013)	100,000	43,395	—	101,800
Fiscal 2012 (as of June 30, 2012)	100,000	21,761	—	99,560
2023 Notes				
Fiscal 2015 (as of September 30, 2014, unaudited)	$247,950	$27,177	—	—
Fiscal 2014 (as of June 30, 2014)	247,881	25,783	—	—
Fiscal 2013 (as of June 30, 2013)	247,725	17,517	—	—
Prospect Capital InterNotes®				
Fiscal 2015 (as of September 30, 2014, unaudited)	$784,305	$8,592	—	—
Fiscal 2014 (as of June 30, 2014)	785,670	8,135	—	—
Fiscal 2013 (as of June 30, 2013)	363,777	11,929	—	—
Fiscal 2012 (as of June 30, 2012)	20,638	105,442	—	—
All Senior Securities				
Fiscal 2015 (as of September 30, 2014, unaudited)	$3,090,755	$2,180	—	—
Fiscal 2014 (as of June 30, 2014)	2,773,051	2,305	—	—
Fiscal 2013 (as of June 30, 2013)	1,683,002	2,578	—	—
Fiscal 2012 (as of June 30, 2012)	664,138	3,277	—	—
Fiscal 2011 (as of June 30, 2011)	406,700	3,740	—	—

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

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

(3) This column is inapplicable.

(4) This column is inapplicable, except for the 2022 Notes. The average market value per unit is presented in thousands.

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DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

We have paid and intend to continue to distribute monthly distributions to our stockholders out of assets legally available for distribution. Our distributions, if any, will be determined by our Board of Directors. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the period as a result of our deliberate planning or by accounting reclassifications.

In order to maintain RIC tax treatment, 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, out of the assets legally available for distribution. In order to avoid certain excise taxes imposed on RICs, we are required to distribute with respect to each calendar year by January 31 of the following year an amount at least equal to the sum of

- 98% of our ordinary income for the calendar year,
- 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and
- any ordinary income and net capital gains for preceding years that were not distributed during such years.

As of September 30, 2014, we had a deposit with the IRS for excise taxes as we have made estimated excise tax payments in excess of our expected excise tax liability for the calendar year ending December 31, 2014. Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the calendar year.

In addition, although we currently intend to distribute realized net capital gains (which we define as net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may decide in the future to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution (as discussed above), stockholders’ cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. Stockholders who receive distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. Stockholders are advised to consult with their brokers or financial institutions, as appropriate, with respect to the administration of their dividends and related instructions.

With respect to the distributions paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies were treated as taxable income and accordingly, distributed to stockholders. For the fiscal year ended June 30, 2012, we recorded total distributions of approximately $141.4 million. For the fiscal year ended June 30, 2013, we recorded total distributions of approximately $271.5 million. For the fiscal year ended June 30, 2014, we recorded total distributions of approximately $403.2 million. For the three months ended September 30, 2014, we recorded distributions of approximately $114.3 million.

Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the year. Our ability to pay distributions could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PSEC." The following table sets forth, for the periods indicated, our NAV per share of common stock and the high and low sales prices per share of our common stock as reported on the NASDAQ Global Select Market. Our common stock historically trades at prices both above and below its NAV per share. There can be no assurance, however, that such premium or discount, as applicable, to NAV per share will be maintained. Common stock of business development companies, like that of closed-end investment companies, frequently trades at a discount to current NAV per share. In the past, our common stock has traded at a discount to our NAV per share. The risk that our common stock may continue to trade at a discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline.

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	NAV(1)	Stock Price High(2)	Stock Price Low(2)	Premium (Discount) of High to NAV	Premium (Discount) of Low to NAV	Dividends Declared
Twelve Months Ending June 30, 2013						
First quarter	$10.88	$12.21	$10.83	12.2 %	(0.5)%	$0.304800
Second quarter	10.81	11.98	9.89	10.8 %	(8.5)%	0.313325
Third quarter	10.71	11.49	10.91	7.3 %	1.9 %	0.330150
Fourth quarter	10.72	11.11	10.08	3.6 %	(6.0)%	0.330375
Twelve Months Ending June 30, 2014						
First quarter	$10.72	$11.61	$10.76	8.3 %	0.4 %	$0.330600
Second quarter	10.73	11.48	10.80	7.0 %	0.7 %	0.330825
Third quarter	10.68	11.39	10.73	6.6 %	0.5 %	0.331050
Fourth quarter	10.56	10.99	9.64	4.1 %	(8.7)%	0.331275
Twelve Months Ending June 30, 2015						
First quarter	$10.47	$11.00	$9.90	5.1 %	(5.4)%	$0.331500
Second quarter (through November 6, 2014)	(3)(4)	$9.92	$9.08	(4)	(4)	$0.331725 (5)

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high or low sales price. The NAVs shown are based on outstanding shares of our common stock at the end of each period.

(2) The High/Low Stock Price is calculated as of the closing price on a given day in the applicable quarter.

(3) Our most recently estimated NAV per share is $10.46 on an as adjusted basis solely to give effect to our issuance of 138,721 shares of common stock since September 30, 2014 in connection with our dividend reinvestment plan and our issuance of 3,954,195 shares of common stock during the period from October 1, 2014 to November 3, 2014 under our ATM program, $0.01 lower than the $10.47 determined by us as of September 30, 2014. NAV per share as of December 31, 2014, may be higher or lower than $10.46 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended.

(4) NAV has not yet been finally determined for any day after September 30, 2014.

(5) On May 6, 2014, Prospect announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014;
- $0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and
- $0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.

On September 24, 2014, Prospect announced the declaration of a monthly dividend in the following amount and with the following date:

- $0.110625 per share for January 2015 to holders of record on January 30, 2015 with a payment date of February 19, 2015.

On November 6, 2014, the last reported sales price of our common stock was $9.34 per share.

As of November 6, 2014, we had approximately 123 stockholders of record.

The below table sets forth each class of our outstanding securities as of November 6, 2014.

Title of Class	Amount Authorized	Amount Held by Registrant or for its Account	Amount Outstanding
Common Stock	1,000,000,000	—	352,591,291

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SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2013 annual meeting of stockholders held on December 6, 2013, our stockholders approved our ability 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 our common stock at any level of discount from NAV per share during the twelve-month period following such approval. This authority does not apply to any shares offered pursuant hereto, as none of the shares offered pursuant to this registration statement are offered by us. In order to sell shares pursuant to this authorization, a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, 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 of common stock, 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.

We may make sales of our common stock at prices below our most recently determined NAV per share. Pursuant to the approval of our Board of Directors, we have made such sales in the past and we may continue to do so under this prospectus.

In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our Board of Directors considers a variety of factors including matters such as:

- The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;
- The relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;
- Whether the estimated offering price would closely approximate the market value of our shares;
- The potential market impact of being able to raise capital during the current financial market difficulties;
- The nature of any new investors anticipated to acquire shares of common stock in the offering;
- The anticipated rate of return on and quality, type and availability of investments; and
- The leverage available to us.

Our Board of Directors also considers the fact that sales of common stock at a discount will benefit our Investment Advisor as the Investment Advisor will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at premium to NAV per share.

We will not sell shares of common stock under a prospectus supplement to a registration statement (the "current registration statement") if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV per share at the time of the first offering is $10.46 and we have 352.5 million shares of common stock outstanding, sale of 70.0 million shares of common stock at net proceeds to us of $5.23 per share (an approximately 50% discount) would produce dilution of 8.28%. If we subsequently determined that our NAV per share increased back to $9.80 on the then 422.5 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 65.5 million shares of common stock at net proceeds to us of $4.90 per share, which would produce dilution of 6.72%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

Sales by us of our common stock at a discount from NAV per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than NAV per share on three different set of investors:

- existing shareholders who do not purchase any shares of common stock in the offering;
- existing shareholders who purchase a relatively small amount of shares of common stock in the offering or a relatively large amount of shares of common stock in the offering; and
- new investors who become shareholders by purchasing shares of common stock in the offering.

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NAV per share used in the tables below is based on Prospect's most recently determined NAV per share as of June 30, 2014, as adjusted to give effect to issuances of Prospect common stock since June 30, 2014. The NAV per share used for purposes of providing information in the table below is thus an estimate and does not necessarily reflect actual NAV per share at the time sales are made. Actual NAV per share may be higher or lower based on potential changes in valuations of Prospect's portfolio securities, accruals of income, expenses and distributions declared and thus may be higher or lower at the assumed sales prices than shown below.

The tables below provide hypothetical examples of the impact that an offering at a price less than NAV per share may have on the NAV per share of shareholders and investors who do and do not participate in such an offering. However, the tables below do not show and are not intended to show any potential changes in market price that may occur from an offering at a price less than NAV per share and it is not possible to predict any potential market price change that may occur from such an offering.

Impact On Existing Stockholders Who Do Not Participate in the Offering

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares of common stock in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares of common stock they hold and their NAV per share. 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 will experience in our assets, potential earning power and voting interests due to the offering. These stockholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share. It is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

The examples assume that the issuer has 352.5 million common shares outstanding, $6,887,150,000 in total assets and $3,200,000,000 in total liabilities. The current NAV and NAV per share are thus $3,687,150,000 and $10.46. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 17,625,000 shares of common stock (5% of the outstanding shares of common stock) at $9.94 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 35,250,000 shares of common stock (10% of the outstanding shares of common stock) at $9.41 per share after offering expenses and commissions (a 10% discount from NAV), (3) an offering of 88,125,000 shares of common stock (25% of the outstanding shares of common stock) at $7.85 per share after offering expenses and commissions (a 25% discount from NAV), and (4) an offering of 88,125,000 shares of common stock (25% of the outstanding shares of common stock) at $0.00 per share after offering expenses and commissions (a 100% discount from NAV).

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	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	% Change	Example 2 10% Offering at 10% Discount Following Sale	% Change	Example 3 25% Offering at 25% Discount Following Sale	% Change	Example 4 25% Offering at 100% Discount Following Sale	% Cha
Offering Price									
Price per Share to Public		$10.37		$9.82		$8.18		$—	
Net Proceeds per Share to Issuer		$9.94		$9.41		$7.85		$—	
Decrease to NAV									
Total Shares Outstanding	352,500,000	370,125,000	5.00 %	387,750,000	10.00 %	440,625,000	25.00 %	440,625,000	25.0
NAV per Share	$10.46	$10.44	(0.24)%	$10.36	(0.91)%	$9.94	(5.00)%	$8.37	(20.
Dilution to Nonparticipating Stockholder									
Shares Held by Stockholder A	352,500	352,500	— %	352,500	— %	352,500	— %	352,500	—
Percentage Held by Stockholder A	0.10 %	0.10 %	(4.76)%	0.09 %	(9.09)%	0.08 %	(20.00)%	0.08 %	(20.
Total NAV Held by Stockholder A	$3,687,150	$3,678,371	(0.24)%	$3,653,630	(0.91)%	$3,502,793	(5.00)%	$2,949,720	(20.
Total Investment by Stockholder A (Assumed to be $10.46 per Share on Shares Held Prior to Sale)		$3,687,150		$3,687,150		$3,687,150		$3,687,150	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		$(8,779)		$(33,520)		$(184,357)		$(737,430)	
NAV per Share Held by Stockholder A		$10.44		$10.36		$9.94		$8.37	
Investment per Share Held by Stockholder A (Assumed to be $10.46 per Share on Shares Held Prior to Sale)	$10.46	$10.46		$10.46		$10.46		$10.46	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment		$0.02		$(0.10)		$(0.52)		$(2.09)	

per Share)				
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)	(0.24)%	(0.91)%	(5.00)%	(20.

Impact On Existing Stockholders Who Do Participate in the Offering

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares of common stock in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares of common stock immediately prior to the offering. The level of NAV dilution will decrease as the number of shares of common stock such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution on their existing shares but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in average NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of common stock such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These shareholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

The following chart illustrates the level of dilution and accretion in the hypothetical 25% discount offering from the prior chart (Example 3) for a stockholder that acquires shares of common stock equal to (1) 50% of its proportionate share of the offering (i.e., 44,063 shares of common stock, which is 0.05% of an offering of 88,125,000 shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e., 132,188 shares of common stock, which is 0.15% of an offering of 88,125,000 shares of common stock rather than its 0.10% proportionate share). It is not possible to predict the level

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of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

	Prior to Sale Below NAV	50% Participation Following Sale	50% Participation % Change	150% Participation Following Sale	150% Participation % Change
Offering Price					
Price per Share to Public		$8.18		$8.18	
Net Proceeds per Share to Issuer		$7.85		$7.85	
Decrease to NAV					
Total Shares Outstanding	352,500,000	440,625,000	25.00 %	440,625,000	25.00 %
NAV per Share	$10.46	$9.94	(5.00)%	$9.94	(5.00)%
Dilution to Nonparticipating Stockholder					
Shares Held by Stockholder A	352,500	396,563	12.50 %	484,688	37.50 %
Percentage Held by Stockholder A	0.10 %	0.09 %	(10.00)%	0.11 %	10.00 %
Total NAV Held by Stockholder A	$10.46	$3,940,642	6.88 %	$4,816,340	30.63 %
Total Investment by Stockholder A (Assumed to be $10.46 per Share on Shares Held Prior to Sale)		$4,047,406		$4,767,917	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		$(106,764)		$48,423	
NAV per Share Held by Stockholder A		$9.94		$9.94	
Investment per Share Held by Stockholder A (Assumed to be $10.46 per Share on Shares Held Prior to Sale)		$10.21		$9.84	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		$(0.27)		$0.10	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(2.64)%		1.02 %

Impact On New Investors

Investors who are not currently stockholders and who participate in an offering below NAV but whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by the issuer will experience an immediate decrease, albeit small, in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share due to selling compensation and expenses paid by the issuer being significantly less than the discount per share will experience an immediate increase in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical 5%, 10% and 25% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (0.10%) of the shares of common stock in the offering as Stockholder A in the prior examples held immediately prior to the offering. It is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

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	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	% Change	Example 2 10% Offering at 10% Discount Following Sale	% Change	Example 3 25% Offering at 25% Discount Following Sale	% Change
Offering Price							
Price per Share to Public		$10.37		$9.82		$8.18	
Net Proceeds per Share to Issuer		$9.94		$9.41		$7.85	
Decrease to NAV							
Total Shares Outstanding	352,500,000	370,125,000	5.00 %	387,750,000	10.00 %	440,625,000	25.00 %
NAV per Share	$10.46	$10.44	(0.24)%	$10.36	(0.91)%	$9.94	(5.00)%
Dilution to Nonparticipating Stockholder							
Shares Held by Stockholder A	—	17,625		35,250		88,125	
Percentage Held by Stockholder A	— %	— %		0.01 %		0.02 %	
Total NAV Held by Stockholder A	$—	$183,919		$365,363		$875,698	
Total investment by Stockholder A		$182,802		$346,035		$720,511	
Total Dilution to Stockholder A (Total NAV Less Total investment)		$1,117		$19,328		$155,187	
NAV per Share Held by Stockholder A		$10.44		$10.36		$9.94	
Investment per Share Held by Stockholder A		$10.37		$9.82		$8.18	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		$0.07		$0.54		$1.76	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			0.61 %		5.58 %		21.54 %

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PLAN OF DISTRIBUTION

Upon written instructions from the Company, KeyBanc, BB&T Capital Markets, Goldman, Sachs & Co., RBC Capital Markets, and Santander as applicable, will each use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, the common stock under the terms and subject to the conditions set forth in each Sales Manager's equity distribution agreement. We will instruct each Sales Manager as to the amount of common stock to be sold by such Sales Manager; provided, however, that, subject to the terms of the equity distribution agreements, any sales of common stock pursuant to the equity distribution agreements will only be effected by or through only one of KeyBanc, BB&T Capital Markets, Goldman, Sachs & Co., RBC Capital Markets, and Santander on any single given day, but in no event by more than one Sales Manager. We may instruct the Sales Managers not to sell common stock if the sales cannot be effected at or above the price designated by the Company in any instruction. We or the Sales Managers may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by means of ordinary brokers' transactions on the NASDAQ Global Select Market or that otherwise qualify for delivery of a prospectus to the NASDAQ Global Select Market in accordance with Rule 153 under the 1933 Act, at market prices prevailing at the time of sale, at prices related to prevailing market prices or negotiated transactions or as otherwise agreed with each Sales Manager.

Each Sales Manager will provide written confirmation of a sale to us no later than the opening of the trading day on the NASDAQ Global Select Market following each trading day in which shares of our common stock are sold under the applicable equity distribution agreement. Each confirmation will include the number of shares of common stock sold on the preceding day, the net proceeds to us and the compensation payable by us to the applicable Sales Manager in connection with the sales.

Each Sales Manager will receive from us a commission to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of all shares of common stock sold through it as Sales Manager under the applicable equity distribution agreement. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Managers under the terms of the equity distribution agreement, will be approximately $350,000. This estimate includes the reimbursement by the Company of the reasonable fees and expenses of each Sales Manager and its counsel in connection with the transactions contemplated by the equity distribution agreement, provided that such fees and expenses will not exceed an aggregate amount of $15,000 on a quarterly basis.

Settlement for sales of shares of common stock will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by the Company and the applicable Sales Manager in connection with a particular transaction, in return for payment of the net proceeds to the Company. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

In connection with the sale of the common stock on our behalf, each Sales Manager may be deemed to be an "underwriter" within the meaning of the 1933 Act, and the compensation of such Sales Manager may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to each Sales Manager against certain civil liabilities, including liabilities under the 1933 Act.

The offering of our shares of common stock pursuant to the equity distribution agreements will terminate upon the earlier of (i) the sale of all common stock subject to the equity distribution agreements or (ii) the termination of the equity distribution agreements. Each equity distribution agreement may be terminated by the Company in our sole discretion under the circumstances specified in the equity distribution agreement by giving notice to the applicable Sales Manager. In addition, each Sales Manager may terminate such equity distribution agreement under the circumstances specified in such equity distribution agreement by giving notice to the Company.

The Sales Managers and their respective affiliates may perform commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The Sales Managers and their respective affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business. In addition, in the ordinary course of their business activities, the Sales Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The Sales Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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The principal business address of KeyBanc Capital Markets Inc. is 127 Public Square, 4th Floor, Cleveland, Ohio 44114; the principal business address of BB&T Capital Markets, a division of BB&T Securities, LLC, is 901 East Byrd Street, Suite 410, Richmond, Virginia 23219; the principal business address of Goldman, Sachs & Co. is 200 West Street, New York, New York 10282; the principal business address of RBC Capital Markets, LLC is Three World Financial Center, 200 Vesey Street, 8th Floor, New York, New York 10281; and the principal business address of Santander Investment Securities Inc. is 45 East 53rd Street, New York, New York 10022.

LEGAL MATTERS

Certain legal matters regarding the common stock offered hereby will be passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden, Arps"), New York, New York, and Venable LLP, as special Maryland counsel, Baltimore, Maryland, will pass on certain matters for the Company. Troutman Sanders LLP will pass on certain matters for the Sales Managers. Skadden, Arps and Venable LLP each have from time to time acted as counsel for us and our subsidiaries and may do so in the future.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO USA, LLP is the independent registered public accounting firm for the Company.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the shares of common stock offered by this prospectus supplement and accompanying prospectus. The registration statement contains additional information about us and the shares of common stock being registered by this prospectus supplement and accompanying prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2014, are available free of charge by contacting us at 10 East 40th Street, 42nd floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at http://www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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

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Financial Statements

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

	September 30, 2014 (Unaudited)	June 30, 2014 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of $1,721,493 and $1,719,242, respectively)	$1,659,997	$1,640,454
Affiliate investments (amortized cost of $46,659 and $31,829, respectively)	46,456	32,121
Non-control/non-affiliate investments (amortized cost of $4,590,568 and $4,620,451, respectively)	4,547,040	4,581,164
Total investments at fair value (amortized cost of $6,358,720 and $6,371,522, respectively)	6,253,493	6,253,739
Cash and cash equivalents	488,106	134,225
Receivables for:		
Interest, net	20,523	21,997
Other	2,765	2,587
Prepaid expenses	2,805	2,828
Deferred financing costs	65,373	61,893
Total Assets	6,833,065	6,477,269
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	411,000	92,000
Convertible Notes (Notes 5 and 8)	1,247,500	1,247,500
Public Notes (Notes 6 and 8)	647,950	647,881
Prospect Capital InterNotes® (Notes 7 and 8)	784,305	785,670
Due to broker	1,787	—
Dividends payable	38,518	37,843
Due to Prospect Administration (Note 13)	2,272	2,208
Due to Prospect Capital Management (Note 13)	3,915	3
Accrued expenses	5,877	4,790
Interest payable	35,950	37,459
Other liabilities	6,232	3,733
Total Liabilities	3,185,306	2,859,087
Net Assets	$3,647,759	$3,618,182
Components of Net Assets		
Common stock, par value $0.001 per share (1,000,000,000 common shares authorized; 348,504,375 and 342,626,637 issued and outstanding, respectively) (Note 9)	$349	$343
Paid-in capital in excess of par (Note 9)	3,883,527	3,814,634
Undistributed net investment income	17,966	42,086
Accumulated realized losses on investments	(148,856)	(121,098)
Unrealized depreciation on investments	(105,227)	(117,783)
Net Assets	$3,647,759	$3,618,182
Net Asset Value Per Share (Note 16)	$10.47	$10.56

See notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2014	2013
Investment Income		
Interest income:		
Control investments	$45,128	$32,633
Affiliate investments	837	1,496
Non-control/non-affiliate investments	98,778	78,112
CLO fund securities	39,397	26,180
Total interest income	184,140	138,421
Dividend income:		
Control investments	759	7,075
Affiliate investments	1,429	—
Non-control/non-affiliate investments	22	3
Money market funds	15	11
Total dividend income	2,225	7,089
Other income:		
Control investments	5,663	9,221
Affiliate investments	226	2
Non-control/non-affiliate investments	9,767	6,301
Total other income (Note 10)	15,656	15,524
Total Investment Income	202,021	161,034
Operating Expenses		
Investment advisory fees:		
Base management fee (Note 13)	33,165	23,045
Income incentive fee (Note 13)	23,616	20,584
Total investment advisory fees	56,781	43,629
Interest and credit facility expenses	42,914	27,407
Legal fees	1,163	219
Valuation services	450	439
Audit, compliance and tax related fees	667	623
Allocation of overhead from Prospect Administration (Note 13)	2,416	3,986
Insurance expense	131	93
Directors' fees	94	75
Excise tax	—	1,000
Other general and administrative expenses	2,942	1,226
Total Operating Expenses	107,558	78,697
Net Investment Income	94,463	82,337
Net realized (loss) gain on investments	(22,911)	3,789
Net change in unrealized appreciation (depreciation) on investments	12,556	(6,226)
Net Increase in Net Assets Resulting from Operations	$84,108	$79,900
Net increase in net assets resulting from operations per share	$0.24	$0.31
Dividends declared per share	$(0.33)	$(0.33)

See notes to consolidated financial statements.

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

	Three Months Ended September 30, 2014	2013
Operations		
Net investment income	$94,463	$82,337
Net realized (loss) gain on investments	(22,911)	3,789
Net change in unrealized appreciation (depreciation) on investments	12,556	(6,226)
Net Increase in Net Assets Resulting from Operations	84,108	79,900
Distributions to Shareholders		
Distribution from net investment income	(114,266)	(86,676)
Distribution of return of capital	—	—
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(114,266)	(86,676)
Common Stock Transactions		
Issuance of common stock, net of underwriting costs	56,305	235,830
Less: Offering costs from issuance of common stock	(210)	(793)
Value of shares issued to acquire controlled investments	—	21,006
Value of shares issued through reinvestment of dividends	3,640	3,994
Net Increase in Net Assets Resulting from Common Stock Transactions	59,735	260,037
Total Increase in Net Assets	29,577	253,261
Net assets at beginning of period	3,618,182	2,656,494
Net Assets at End of Period	$3,647,759	$2,909,755
Common Stock Activity		
Shares sold	5,536,780	21,293,338
Shares issued to acquire controlled investments	—	1,918,342
Shares issued through reinvestment of dividends	340,958	355,644
Total shares issued due to common stock activity	5,877,738	23,567,324
Shares issued and outstanding at beginning of period	342,626,637	247,836,965
Shares Issued and Outstanding at End of Period	348,504,375	271,404,289

See notes to consolidated financial statements.

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

	Three Months Ended September 30, 2014	2013
Operating Activities		
Net increase in net assets resulting from operations	$84,108	$79,900
Net realized loss (gain) on investments	22,911	(3,789)
Net change in unrealized (appreciation) depreciation on investments	(12,556)	6,226
Amortization of discounts and premiums, net	13,952	9,954
Accretion of discount on Public Notes (Note 6)	69	36
Amortization of deferred financing costs	3,829	2,435
Payment-in-kind interest	(5,887)	(4,581)
Structuring fees	(10,515)	(8,660)
Change in operating assets and liabilities:		
Payments for purchases of investments	(870,803)	(522,595)
Proceeds from sale of investments and collection of investment principal	863,144	164,167
Decrease in interest receivable, net	1,474	1,393
(Increase) decrease in other receivables	(178)	2,402
Decrease in prepaid expenses	23	158
Increase in due to broker	1,787	44,074
Increase (decrease) in due to Prospect Administration	64	(1,311)
Increase (decrease) in due to Prospect Capital Management	3,912	(3,590)
Increase in accrued expenses	1,087	655
Decrease in interest payable	(1,509)	(5,697)
Increase in other liabilities	2,499	2,108
Net Cash Used in Operating Activities	97,411	(236,715)
Financing Activities		
Borrowings under Revolving Credit Facility (Note 4)	547,000	96,000
Principal payments under Revolving Credit Facility (Note 4)	(228,000)	(151,000)
Issuance of Prospect Capital InterNotes® (Note 7)	—	98,255
Redemptions of Prospect Capital InterNotes® (Note 7)	(1,365)	(55)
Financing costs paid and deferred	(7,309)	(2,300)
Proceeds from issuance of common stock, net of underwriting costs	56,305	235,830
Offering costs from issuance of common stock	(210)	(793)
Dividends paid	(109,951)	(80,064)
Net Cash Provided by Financing Activities	256,470	195,873
Total Increase (Decrease) in Cash and Cash Equivalents	353,881	(40,842)
Cash and cash equivalents at beginning of period	134,225	203,236
Cash and Cash Equivalents at End of Period	$488,106	$162,394
Supplemental Disclosures		
Cash paid for interest	$40,524	$30,165
Non-Cash Financing Activities		
Value of shares issued through reinvestment of dividends	$3,640	$3,994

Value of shares issued to acquire controlled investments	$—	$21,006

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Portfolio Company	Locale / Industry	Investments(1)	September 30, 2014 (Unaudited) Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(44)						
American Property REIT Corp.(32)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	$169,511	$169,511	$169,511	4.6%
		Common Stock (272,116 shares)		35,006	28,178	0.8%
				204,517	197,689	5.4%
Arctic Energy Services, LLC(30)	Wyoming / Oil & Gas Production	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)(3)(4)	31,640	31,640	31,640	0.9%
		Senior Subordinated Term Loan (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)(3)(4)	20,230	20,230	20,230	0.5%
		Class A Units (700 units)		9,006	9,505	0.3%
				60,876	61,375	1.7%
ARRM Services, Inc.(42)	South Carolina / Manufacturing	Senior Secured Note to Ajax Rolled Ring & Machine, LLC (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(4)	19,337	19,337	19,337	0.5%
		Series B Preferred Stock (25,000 shares)		21,156	9,399	0.3%
		Series A Convertible Preferred Stock (6,142.60 shares)		6,057	—	—%
		Common Stock (6.00 shares)		—	—	—%
				46,550	28,736	0.8%
CCPI Inc.(33)	Ohio / Manufacturing	Senior Secured Term Loan A (10.00%, due 12/31/2017)(3)	17,100	17,100	17,100	0.5%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)	8,390	8,390	8,390	0.2%
		Common Stock (14,857 shares)		8,553	7,143	0.2%
				34,043	32,633	0.9%
Change Clean Energy Company, LLC(8)	Maine / Energy	Membership Interest (100%)		—	—	—%
				—	—	—%
Coalbed, LLC(12)	Tennessee / Oil & Gas Production	Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	8,771	5,991	—	—%
		Membership Interest (100%)		—	—	—%

				5,991	—	—%
CP Energy Services Inc.(38)	Oklahoma / Oil & Gas Production	Senior Secured Term Loan A to CP Well Testing, LLC (7.00% (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)(4)	11,035	11,035	11,035	0.3%
		Senior Secured Term Loan B to CP Well Testing, LLC (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(4)	72,238	72,238	72,238	2.0%
		Second Lien Term Loan to CP Well Testing, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 4/1/2019)(4)	15,000	15,000	15,000	0.4%
		Common Stock (2,924 shares)		15,227	30,913	0.8%
				113,500	129,186	3.5%
Credit Central Loan Company, LLC(22)(34)	Ohio / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)	36,333	36,333	36,333	1.0%
		Class A Shares (7,500,000 shares)		11,632	10,548	0.3%
				47,965	46,881	1.3%
Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Revolving Credit Facility – $150,000 Commitment (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(4)(25)	40,808	40,808	40,808	1.1%
		Class A Shares (11,335,318 shares)		19,907	10,896	0.3%
				60,715	51,704	1.4%

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LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(44)						
First Tower Finance Company LLC(22)(29)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)	$251,246	$251,246	$251,246	6.9%
		Class A Shares (83,729,323 shares)		64,544	73,729	2.0%
				315,790	324,975	8.9%
Freedom Marine Solutions, LLC(8)	Louisiana / Energy	Senior Secured Note to Vessel Company, LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.1%
		Senior Secured Note to Vessel Company II, LLC (13.00%, due 11/25/2018)	13,000	12,504	12,504	0.3%
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	16,000	16,000	16,000	0.4%
		Membership Interest (100%)		7,807	2,905	0.1%
				39,811	34,909	0.9%
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(4)	19,500	19,500	13,674	0.4%
		Series A Convertible Preferred Stock (99,900 shares)		25,950	—	—%
				45,450	13,674	0.4%
Harbortouch Payments, LLC(43)	Pennsylvania / Business Services	Senior Secured Term Loan A (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)(4)	130,589	130,589	130,589	3.6%
		Senior Secured Term Loan B (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)(4)	137,226	137,226	137,226	3.8%
		Senior Secured Term Loan C (13.00% (LIBOR + 9.00% with 4.00% LIBOR floor), due 9/29/2018)(4)	26,431	26,431	26,431	0.7%
		Class A Shares (535 shares)		7,489	24,005	0.6%
				301,735	318,251	8.7%
The Healing Staff, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes to The Healing Staff, Inc. and Vets Securing America, Inc. (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,687	—	—%

		Senior Demand Note to The Healing Staff, Inc. (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170	—	—%
		Common Stock of The Healing Staff, Inc. (1,000 shares)		—	—	—%
		Common Stock of Vets Securing America, Inc. (1 share)		975	—	—%
				3,832	—	—%
Manx Energy, Inc.(6)(12)	Kansas / Oil & Gas Production	Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)	50	50	—	—%
		Series A-1 Preferred Stock (6,635 shares)		—	—	—%
		Common Stock (17,082 shares)		—	—	—%
				50	—	—%
MITY, Inc.(17)	Utah / Durable Consumer Products	Revolving Line of Credit – $7,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 12/23/2014)(4)(25)	500	500	500	—%
		Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)	18,250	18,250	18,250	0.5%
		Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(4)	15,769	15,769	15,769	0.4%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)	6,593	6,593	6,593	0.2%
		Common Stock (42,053 shares)		7,456	11,415	0.3%
				48,568	52,527	1.4%

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Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(44)						
National Property REIT Corp.(40)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	$138,367	$138,367	$138,367	3.8%
		Common Stock (84,567 shares)		26,913	28,463	0.8%
				165,280	166,830	4.6%
Nationwide Acceptance LLC(22)(36)	Illinois / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/18/2019)	14,820	14,820	14,820	0.4%
		Class A Shares (24,029,326 shares)		12,248	13,012	0.4%
				27,068	27,832	0.8%
NMMB, Inc.(24)	New York / Media	Senior Secured Note (14.00%, due 5/6/2016)	3,714	3,714	1,864	0.1%
		Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2016)	7,000	7,000	3,514	0.1%
		Series A Preferred Stock (7,200 shares)		12,486	—	—%
				23,200	5,378	0.2%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)	30,411	30,411	30,411	0.8%
		Common Stock (545,107 shares)		5,087	18,876	0.5%
		Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017)		1,682	6,926	0.2%
				37,180	56,213	1.5%
United Property REIT Corp.(41)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	66,704	66,704	66,704	1.8%
		Common Stock (70,689 shares)		13,421	12,930	0.4%
				80,125	79,634	2.2%
Valley Electric Company, Inc.(35)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)	10,146	10,146	10,146	0.3%
		Senior Secured Note (10.00% plus 8.50% PIK, due 12/31/2018)	20,935	20,935	19,285	0.5%
		Common Stock (50,000 shares)		26,205	—	—%

				57,286	29,431	0.8%
Wolf Energy, LLC(12)	Kansas / Oil & Gas Production	Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)(37)	26,966	—	2,110	0.1%
		Membership Interest (100%)		512	—	—%
		Net Profits Interest (8% of Equity Distributions)(7)		—	29	—%
				512	2,139	0.1%
Yatesville Coal Company, LLC(8)	Kentucky / Energy	Senior Secured Note (in non-accrual status effective 1/1/2009)	1,449	1,449	—	—%
		Membership Interest (100%)		—	—	—%
				1,449	—	—%
Total Control Investments				$1,721,493	$1,659,997	45.5%
Affiliate Investments (5.00% to 24.99% voting control)(45)						
BNN Holdings Corp.	Michigan / Healthcare	Senior Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 8/29/2019)(3)(4)	21,835	21,835	21,835	0.6%
		Senior Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 8/29/2019)(3)(4)	21,945	21,945	21,945	0.6%
		Series A Preferred Stock (9,925.455 shares)(13)		2,879	2,676	0.1%
		Series B Preferred Stock (1,753.636 shares)(13)		—	—	—%
				46,659	46,456	1.3%
Total Affiliate Investments				$46,659	$46,456	1.3%

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LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Aderant North America, Inc.(16)	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)	$7,000	$6,917	$7,000	0.2%
				6,917	7,000	0.2%
AFI Shareholder, LLC (f/k/a Aircraft Fasteners International, LLC)	California / Machinery	Class A Units (32,500 units)		396	498	—%
				396	498	—%
Airmall Inc.(27)	Pennsylvania / Property Management	Escrow Receivable		5,881	3,601	0.1%
				5,881	3,601	0.1%
ALG USA Holdings, LLC(16)	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)	12,000	11,799	12,000	0.3%
				11,799	12,000	0.3%
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		5	—	—%
				5	—	—%
American Broadband Holding Company and Cameron Holdings of NC, Inc.	North Carolina / Telecommunication Services	Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)	74,654	74,654	74,654	2.0%
				74,654	74,654	2.0%
American Gilsonite Company	Utah / Metal Services & Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)	38,500	38,500	38,500	1.1%
		Membership Interest (99.9999%)(15)		—	4,018	0.1%
				38,500	42,518	1.2%
Apidos CLO IX(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 17.90%)(11)	20,525	18,324	19,659	0.5%
				18,324	19,659	0.5%
Apidos CLO XI(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.79%)(11)	38,340	33,440	36,790	1.0%

				33,440	36,790	1.0%
Apidos CLO XII(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 16.16%)(11)	44,063	40,964	42,344	1.2%
				40,964	42,344	1.2%
Apidos CLO XV(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.43%)(11)	36,515	36,403	36,496	1.0%
				36,403	36,496	1.0%
Arctic Glacier U.S.A., Inc.	Minnesota / Food Products	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(4)	150,000	150,000	150,000	4.1%
				150,000	150,000	4.1%
Ark-La-Tex Wireline Services, LLC	Louisiana / Oil and Gas Production	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	26,831	26,831	26,831	0.7%
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	26,831	26,831	26,831	0.7%
		Delayed Draw Term Loan – $5,000 Commitment (due 4/8/2019)(25)	—	—	—	—%
				53,662	53,662	1.4%

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LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Armor Holding II LLC(16)	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(4)	$7,000	$6,878	$6,878	0.2%
				6,878	6,878	0.2%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit – $4,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2015)(4)(25)(26)	2,350	2,350	2,350	0.1%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)	38,858	38,858	34,128	0.9%
				41,208	36,478	1.0%
Babson CLO Ltd. 2011-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 5.76%)(11)	35,000	34,541	31,433	0.9%
				34,541	31,433	0.9%
Babson CLO Ltd. 2012-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 13.60%)(11)	29,075	22,950	25,167	0.7%
				22,950	25,167	0.7%
Babson CLO Ltd. 2012-II(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 11.71%)(11)	27,850	26,329	27,113	0.7%
				26,329	27,113	0.7%
Blue Coat Systems, Inc.(16)	Massachusetts / Software & Computer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3)(4)	11,000	10,905	11,000	0.3%
				10,905	11,000	0.3%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)(3)(4)	256,275	256,275	256,275	7.0%
				256,275	256,275	7.0%

Brookside Mill CLO Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 19.56%)(11)	26,000	22,677	25,139	0.7%
				22,677	25,139	0.7%
Caleel + Hayden, LLC(14)(31)	Colorado / Personal & Nondurable Consumer Products	Membership Interest		—	183	—%
				—	183	—%
Cent CLO 17 Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 10.40%)(11)	24,870	21,569	23,720	0.7%
				21,569	23,720	0.7%
Cent CLO 20 Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 10.90%)(11)	40,275	38,140	39,310	1.1%
				38,140	39,310	1.1%
Cent CLO 21 Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.07%)(11)	48,528	47,070	46,287	1.3%
				47,070	46,287	1.3%
CIFC Funding 2011-I, Ltd.(22)	Cayman Islands / Diversified Financial Services	Class D Senior Secured Notes (5.32% (LIBOR + 5.00%, due 1/19/2023)(4)	19,000	15,377	18,048	0.5%
		Class E Subordinated Notes (7.32% (LIBOR + 7.00%, due 1/19/2023)(4)	15,400	12,862	15,171	0.4%
				28,239	33,219	0.9%

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LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
CIFC Funding 2013-III, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 13.96%)(11)	$44,100	$38,415	$42,745	1.2%
				38,415	42,745	1.2%
CIFC Funding 2013-IV, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 12.66%)(11)	45,500	39,150	40,625	1.1%
				39,150	40,625	1.1%
CIFC Funding 2014-IV Investor, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 13.98%)(11)	41,500	39,505	39,222	1.1%
				39,505	39,222	1.1%
Cinedigm DC Holdings, LLC	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(4)	68,975	68,925	68,975	1.9%
				68,925	68,975	1.9%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable		—	117	—%
				—	117	—%
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4)	50,888	50,888	50,888	