PROSPECT CAPITAL CORP
Form 497
December 29, 2014
The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.
Subject to completion
Preliminary Pricing Supplement dated
December 29, 2014
Prospect Capital Corporation
Prospect Capital InterNotes®
4.250% Senior Notes due 2020 (the "2020 Notes")

Filed under Rule 497, Registration Statement No. 333-198505
Preliminary Pricing Supplement No. 331 —Dated Monday, December 29, 2014
(To: Prospectus Dated November 4, 2014, and Prospectus Supplement Dated November 7, 2014)

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st C Amo
74348YPR6	US74348YPR61	$	100.000%	1.650%	$	Fixed	4.250%	Semi-Annual	7/15/2020	7/15/2015	$22.0

Redemption Information: Callable at 100.000% on 1/15/2016 and every coupon date thereafter.

Trade Date: Monday, January 5, 2015 @ 12:00 PM ET
Settle Date: Thursday, January 8, 2015
Minimum Denomination/Increments: $1,000.00/$1,000.00
Initial trades settle flat and clear SDFS: DTC Book Entry only
The Notes will be issued pursuant to the Indenture, dated as of February 16, 2012, as amended and supplemented by that certain Three Hundred Thirty-First Supplemental Indenture dated as of January 8, 2014.
The date from which interest shall accrue on the Notes is Thursday, January 8, 2014. The "Interest Payment Dates" for the Notes shall be January 15 and July 15 of each year, commencing July 15, 2015; the interest payable on any Interest Payment Date, will be paid to the Person in whose name the Note (or one or more predecessor Notes) is registered at the close of business on the Regular Record Date (as defined in the Indenture) for such interest, which shall be January 1 or July 1, as the case may be, next preceding such Interest Payment Date.
The 2020 Notes will be redeemable in whole or in part at any time or from time to time, at the option of Prospect Capital Corporation, on or after January 1, 2016 at a redemption price of $1,000 per 2020 Note plus accrued and unpaid interest payments otherwise payable for the then-current semi-annual interest period accrued to, but excluding, the date fixed for redemption and upon not less than 30 days nor more that 60 days prior notice to the noteholder and the trustee, as described in the prospectus.
Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.
This preliminary pricing supplement relates only to the securities described in the accompanying prospectus supplement and prospectus, is only a summary of changes and should be read together with the accompanying prospectus supplement and prospectus, including among other things the section entitled "Risk Factors" beginning on page S-8 of such prospectus supplement and page 10 of such prospectus. This preliminary pricing supplement and the accompanying prospectus supplement and 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.

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

Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

InterNotes® is a registered trademark of Incapital Holdings LLC.

Recent Developments:

On November 12, 2014, we provided notice of our intent to redeem $18.2 million aggregate principal amount of our Prospect Capital InterNotes® on December 15, 2014.

On November 17, 2014, we made a $35.0 million follow-on investment in System One Holdings, LLC, of which $23.5 million was funded at closing, to fund a dividend recapitalization.

On November 25, 2014, we made a $127.0 million follow-on investment in InterDent, Inc., of which $120.0 million was funded at closing, as part of an add-on acquisition growth and recapitalization strategy.

On December 4, 2014, we sold our $29.1 million investment in Babson CLO Ltd. 2012-I.

On December 4, 2014, we sold our $27.8 million investment in Babson CLO Ltd. 2012-II.

On December 8, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.08333 per share for February 2015 to holders of record on February 27, 2015 with a payment date of March 19, 2015;
- $0.08333 per share for March 2015 to holders of record on March 31, 2015 with a payment date of April 23, 2015; and
- $0.08333 per share for April 2015 to holders of record on April 30, 2015 with a payment date of May 21, 2015.

On December 12, 2014, we provided notice of our intent to redeem $20,791 aggregate principal amount of our Prospect Capital InterNotes® on January 15, 2015.

On December 19, 2014, we provided a $25.0 million loan to support the growth of Security Alarm Financing Enterprises, L.P., a national security alarm company.

On December 24, 2014, Focus Products Group International, LLC repaid the $19.7 million loan receivable to us.

During the period from November 20, 2014 to December 26, 2014, we issued $21.8 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $21.4 million.

During the period from November 7, 2014 through December 29, 2014, we made three follow-on investments in National Property REIT Corp. (“NPRC”) totaling $17.0 million to support the online lending initiative. We invested $2.6 million of equity through NPH Property Holdings, LLC and $14.4 million of debt directly to NPRC.

During the period from October 1, 2014 through December 29, 2014, our wholly-owned subsidiary Prospect Small Business Lending, LLC purchased $21.3 million of small business whole loans from On Deck Capital, Inc., an online small business lender.

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Filed pursuant to Rule 497
File No. 333-198505

PROSPECTUS SUPPLEMENT
(To Prospectus dated November 4, 2014)
Prospect Capital Corporation
Prospect Capital InterNotes®

- We may offer to sell our Prospect Capital InterNotes® from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest. We may offer other debt securities from time to time other than the notes under our Registration Statement or in private placements.
- We may offer the notes to or through agents for resale. The applicable pricing supplement will specify the purchase price, agent discounts and net proceeds of any particular offering of notes. The agents are not required to sell any specific amount of notes but will use their reasonable best efforts to sell the notes. We also may offer the notes directly. We have not set a date for termination of our offering.
- The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

Investing in the notes involves certain risks, including those described in the "Risk Factors" section beginning on page S-8 of this prospectus supplement and page 10 of the accompanying prospectus.

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.

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

Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

We may sell the notes to or through one or more agents or dealers, including the agents listed below.

Incapital LLC	BofA Merrill Lynch	Citigroup	RBC Capital Markets

Prospectus Supplement dated November 7, 2014.

®InterNotes is a registered trademark of Incapital Holdings LLC

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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, including any pricing supplement included hereto, and the accompanying prospectus. We have not, and the agent(s) or dealer(s) has not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement, including any pricing supplement included hereto, or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the agents are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement, including any pricing supplement included hereto, 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 any 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, including any pricing supplement included hereto, 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 SUMMARY

This section summarizes the legal and financial terms of the notes that are described in more detail in "Description of Notes" beginning on page S-12. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in "Description of Notes." In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.

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.

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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.

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

Issuer	Prospect Capital Corporation
Purchasing Agent	Incapital LLC
Agents	Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC. From time to time, we may sell the notes to or through additional agents.
Title of Notes	Prospect Capital InterNotes®
Amount	We may issue notes from time to time in various offerings up to $1.5 billion, the aggregate principal amount authorized by our board of directors for notes. As of November 6, 2014, $837.5 million aggregate principal amount of notes has been issued. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act and the marginally more restrictive 175% asset coverage requirement under our credit facility.
Denominations	The notes will be issued and sold in denominations of $1,000 and multiples of $1,000 (unless otherwise stated in the pricing supplement).
Status	The notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.
Maturities	Each note will mature 12 months or more from its date of original issuance.
Interest	Notes may be issued with a fixed or floating interest rate; a floating interest rate note will be based on the London Interbank Offered Rate ("LIBOR"). Interest on each fixed or floating interest rate note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repaid prior to its stated maturity in accordance with its terms. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months, often referred to as the 30/360 (ISDA) day count convention.
Principal	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.
Redemption and Repayment	Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.
Survivor's Option	Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or her estate at least six months prior to the request. This feature is referred to as a "Survivor's Option." Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor's Option. If the pricing supplement for your notes provides for the Survivor's Option, your right to exercise the Survivor's Option will be subject to limits

	set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes—Survivor's Option."
Sale and Clearance	We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.
Trustee	The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time.

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Selling Group	The agents and dealers comprising the selling group are broker-dealers and securities firms. Each of the Purchasing Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and RBC Capital Markets, LLC entered into a Fourth Amended and Restated Selling Agent Agreement with us dated November 7, 2014 (as amended, the "Selling Agent Agreement"). Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at info@incapital.com for a list of selling group members.

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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-21 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

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

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

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

As of November 6, 2014, we and our subsidiaries had $20.2 million of secured indebtedness outstanding and approximately $2.7 billion of unsecured senior indebtedness outstanding.

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

- making it more difficult for us to meet our payment and other obligations under the notes and our other outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;
- reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

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

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

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

The notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured indebtedness, including without limitation, the $150.0 million aggregate principal amount of 6.25% Convertible Notes due 2015 (the "2015 Notes"), the $167.5 million aggregate principal amount of 5.50% Convertible Notes due 2016 (the "2016 Notes"), the $130.0 million aggregate principal amount of 5.375% Convertible Notes due 2017 (the "2017 Notes"), the $200.0 million aggregate principal amount of 5.75% Convertible Notes due 2018 (the "2018 Notes"), the $200.0 million aggregate principal amount of 5.875% Convertible Notes due 2019 (the "2019 Notes"), the $300 million aggregate principal amount of 5.00% Notes due 2019 (the "5.00% 2019 Notes"), the $400 million aggregate principal amount of 4.75% Notes due 2020 (the "2020 Notes"), the $100.0 million aggregate principal amount of 6.95% Notes due 2022 (the "2022 Notes") and the $250.0 million aggregate principal amount of 5.875% Notes due 2023 (the "2023 Notes"). As a result, the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the notes. As of November 6, 2014, we had $20.2 million borrowings under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the notes to the extent of the value of such assets.

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Each of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2022 Notes and the 2023 Notes may be due prior to the notes. We do not currently know whether we will be able to replace any of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2022 Notes or the 2023 Notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2022 Notes or the 2023 Notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the notes and our ability to qualify as a regulated investment company, or "RIC."

The indenture and supplemental indentures under which the notes will be issued will contain limited protection for holders of the notes.

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

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;
- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the notes;
- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the notes do not protect holders of the notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

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

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

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

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

Survivor's Option may be limited in amount.

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in any calendar year to an amount equal to the greater of $2,000,000 or 2% of the outstanding principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to $250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no
assurance can be given that exercise of the Survivor's Option for the desired amount will be permitted in any single calendar year.

We cannot assure that a trading market for your notes will ever develop or be maintained.

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect the trading market for and market value of your notes. Those factors include, without limitation:

- the method of calculating the principal and interest for the notes;
- the time remaining to the stated maturity of the notes;
- the outstanding amount of the notes;
- the redemption or repayment features of the notes; and
- the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

Changes in banks' inter-bank lending rate reporting practices or the method pursuant to which the LIBOR rates are determined may adversely affect the value of your floating rate notes.

Beginning in 2008, concerns have been raised that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of daily LIBOR rates may have been under-reporting the inter-bank lending rate applicable to them in order to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may result from reporting higher inter-bank lending rates. Inquiries remain ongoing, including investigations by regulators and governmental authorities in various jurisdictions, and if such under-reporting occurred, it may have resulted in the LIBOR rate being artificially low. If any such under-reporting still exists and some or all of the member banks discontinue such practice, there may be a resulting sudden or prolonged upward movement in LIBOR rates. In addition, in August 2008 the BBA announced that it was changing the LIBOR rate-fixing process by increasing the number of banks surveyed to set the LIBOR rate. The BBA has taken steps intended to strengthen the oversight of the process and review biannually the composition of the panels of banks surveyed to set the LIBOR rate. In addition, the final report of the Wheatley Review of LIBOR, published in September 2012, set forth recommendations relating to the setting and administration of LIBOR, and the UK government has announced that it intends to incorporate these recommendations in new legislation. At the present time it is uncertain what changes, if any, may be made by the UK government or other governmental or regulatory authorities in the method for determining LIBOR or whether these changes would cause any decrease or increase in LIBOR rates. Any changes in the method pursuant to which the LIBOR rates are determined, or the development of a widespread market view that LIBOR rates have been or are being manipulated by members of the bank panel, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments and the value of the floating rate notes may be adversely affected. If your floating rate notes are subject to a maximum rate specified in your pricing supplement, you may not benefit from any such increase in LIBOR rates because the interest on your floating rate notes will be subject to the maximum rate. As a result, the amount of interest payable for your floating rate notes may be significantly less than it would have been had you invested in a similar investment instrument not subject to such a maximum interest rate.

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Your investment in the floating rate notes will involve certain risks not associated with an investment in conventional debt securities. You should consider carefully the following discussion of risks before you decide that an investment in the floating rate notes is suitable for you.

Floating rate notes present different investment considerations than fixed rate notes. For notes with only floating rates, the rate of interest paid by us on the notes for each applicable interest period is not fixed, but will vary depending on LIBOR and accordingly could be substantially less than the rates of interest we would pay on fixed rate notes of the same maturity. Additionally, the notes may change the interest rate or interest rate formula in relation to LIBOR at one or more points during the term of such notes (often referred to as a "step up" feature) or may switch from floating to fixed rate or from a fixed to a floating rate during the term of the notes. Consequently, the return on the notes may be less than returns otherwise payable on fixed rate debt securities issued by us with similar maturities whose interest rates cannot change. The variable interest rate on the notes, while determined, in part, by reference to LIBOR, may not actually pay at such rates. Furthermore, we have no control over any fluctuations in LIBOR.

If the relevant pricing supplement specifies a maximum rate, the interest rate for any interest period will be limited by the maximum rate. The maximum rate will limit the amount of interest you may receive for each such interest period, even if the fixed or floating rate component, as adjusted by any spread factor, if applicable, and/or a spread, if applicable, would have otherwise resulted in an interest rate greater than the maximum rate. As a result, if the interest rate for any interest period without taking into consideration the maximum rate would have been greater than the maximum rate, the notes will provide you less interest income than an investment in a similar instrument that is not subject to a maximum interest rate.

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DESCRIPTION OF NOTES

The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the debt securities set forth under the heading "Description of Our Debt Securities" in the accompanying prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the accompanying prospectus and in the indenture relating to the notes.

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an indenture, dated as of February 16, 2012, as amended and as supplemented from time to time. U.S. Bank National Association was appointed as trustee, as successor to American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 9, 2012. The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. From time to time we may offer other debt securities either publicly or through private placement having maturities, interest rates, covenants and other terms that may differ materially from the terms of the notes described herein and in any pricing supplement.

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the notes from time to time, up to an aggregate principal amount of $1.5 billion. As of November 6, 2014, $837.5 million aggregate principal amount of notes has been issued.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

- the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;
- the notes may be offered from time to time by us through the Purchasing Agent and each note will mature on a day that is at least 12 months from its date of original issuance;
- each note may be issued with a fixed or floating interest rate; any floating interest rate will be based on LIBOR;
- the notes will not be subject to any sinking fund; and
- the minimum denomination of the notes will be $1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including but not limited to:

- the stated maturity;
- the denomination of your notes;
- the price at which we originally issue your notes, expressed as a percentage of the principal amount, and the original issue date;
- whether your notes are fixed rate notes or floating rate notes;
- if your notes are fixed rate notes, the annual rate at which your notes will bear interest, or the periodic rates in the case of notes that bear different rates at different times during the term of the notes, and the interest payment dates, if different from those stated below under "—Interest Rates—Fixed Rate Notes;"
- if your notes are floating rate notes, the interest rate, spread or spread multiplier or initial base rate, maximum rate and/or minimum rate; if there is more than one spread to be applied at different times during the term of the notes for your interest rate, which spread during which periods applies to your notes; and the interest reset, determination, calculation and payment dates, all of which we describe under "—Interest Rates—Floating Rate Notes" below;
- if applicable, the circumstances under which your notes may be redeemed at our option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under "—Redemption and Repayment" below;
-

whether the authorized representative of the holder of a beneficial interest in the notes will have the right to seek repayment upon the death of the holder as described under "—Survivor's Option;"

- any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and
- any other significant terms of your notes, which could be different from those described in this prospectus supplement and the accompanying prospectus, but in no event inconsistent with the indenture.

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We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

Types of Notes

We may issue either of the two types of notes described below. Notes may have elements of each of the two types of notes described below. For example, notes may bear interest at a fixed rate for some periods and at a floating rate in others.

Fixed Rate Notes. Notes of this type will bear interest at one or more fixed rates described in your pricing supplement.

Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed rate or rates per annum stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention) unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under "—Payments of Principal and Interest." Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

Floating Rate Notes. Notes of this type will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. The various interest rate formulas and these other features are described below in "—Interest Rates—Floating Rate Notes." If your notes are floating rate notes, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Floating rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of floating rate notes at a rate per annum determined according to the interest rate formula stated in your pricing supplement during the applicable interest rate periods as stated in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below "—Payments of Principal and Interest." Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

Interest Rates

This subsection describes the different kinds of interest rates that may apply to your notes, as specified in your pricing supplement.

Fixed Rate Notes. Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed yearly rate or rates stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Your pricing supplement will describe the interest periods and relevant interest payment dates on which interest on fixed rate notes will be payable. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention), unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under "—Payments of Principal and Interest."

Floating Rate Notes. Floating rate notes will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Each floating rate note will bear interest from its original issue date or from the most recent date to which interest on the note has been paid or made available for payment. Interest will accrue on the principal of a floating rate note at a rate per annum determined according to the interest rate formula stated in the pricing supplement during the applicable interest rate

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period specified in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under "—Payment of Principal and Interest." In addition, the following will apply to floating rate notes.

Initial Base Rate

Unless otherwise specified in your pricing supplement, for floating rate notes, the initial base rate will be the applicable LIBOR base rate in effect from and including the original issue date to but excluding the initial interest reset date. We will specify the initial LIBOR base rate in your pricing supplement.

Spread or Spread Multiplier

In some cases, the base rate for floating rate notes may be adjusted:

- by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or
- by multiplying the base rate by a specified percentage, called the spread multiplier.

If you purchase floating rate notes, your pricing supplement will specify whether a spread or spread multiplier will apply to your notes and, if so, the amount of the applicable spread or spread multiplier and any increases or decreases in the spread or spread multiplier during the term of your notes.

Maximum and Minimum Rates

The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

- a maximum rate—i.e., a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or
- a minimum rate—i.e., a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase floating rate notes, your pricing supplement will specify whether a maximum rate and/or minimum rate will apply to your notes and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on floating rate notes will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than $250,000 is 16% and for any loan in the amount of $250,000 or more but less than $2,500,000 is 25%, per year on a simple interest basis. These limits do not apply to loans of $2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on floating rate notes.

Interest Reset Dates

Except as otherwise specified in your pricing supplement, the rate of interest on floating rate notes will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually or annually (each, an "interest reset period"). The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in your pricing supplement, the interest reset date will be as follows:

- for floating rate notes that reset daily, each London business day (as defined below);
- for floating rate notes that reset weekly, the Wednesday of each week;
- for floating rate notes that reset monthly, the third Wednesday of each month;
- for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as specified in your pricing supplement;
- for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in your pricing supplement; and
- for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in your pricing supplement.

For floating rate notes, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

Interest reset dates are subject to adjustment, as described below under "—Business Day Conventions."

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The base rate in effect from and including the original issue date to but excluding the first interest reset date will be the initial base rate. For floating rate notes that reset daily or weekly, the base rate in effect for each day following the fifth business day before an interest payment date to, but excluding, the interest payment date, and for each day following the fifth business day before the maturity to, but excluding, the maturity, will be the base rate in effect on that fifth business day.

Interest Determination Dates

The interest rate that takes effect on an interest reset date will be determined by the calculation agent for the LIBOR base rates by reference to a particular date called an interest determination date. Except as otherwise specified in your pricing supplement, the interest determination date relating to a particular interest reset date will be the second London business day preceding the interest reset date. We refer to an interest determination date for LIBOR notes as a LIBOR interest determination date.

Interest Calculation Date

The interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date or interest reset date, as applicable. For some notes, however, the calculation agent will set the rate on a day no later than the corresponding interest calculation date. Unless otherwise specified in your pricing supplement, the interest calculation date for rates to which a calculation date applies will be the business day immediately preceding the date on which interest will next be paid (on an interest payment date or the maturity, as the case may be). The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

Interest Rate Calculations

Interest payable on floating rate notes for any particular interest period will be calculated as described below using an interest factor, expressed as a decimal, applicable to each day during the applicable interest period, unless otherwise specified in your pricing supplement.

Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We have initially appointed U.S. Bank National Association as our calculation agent for any floating rate notes. We may specify a different calculation agent in your pricing supplement. The applicable pricing supplement for your floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of your floating rate note without your consent and without notifying you of the change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

For floating rate notes, the calculation agent will determine, on the corresponding interest calculation date or interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period—i.e., the period from and including the original issue date, or the last date to which interest has accrued (which may be the interest payment date or any interest reset date in accordance with the business day convention), to but excluding the next date to which interest will accrue (which may be the interest payment date or any interest reset date in accordance with the business day convention). For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the floating rate note by an accrued interest factor for the interest period. Such accrued interest rate factor is determined by multiplying the applicable interest rate for the period by the day count fraction. The day count fraction will be determined in accordance with the 30/360 (ISDA) day count convention, where the number of days in the interest period in respect of which payment is being made is divided by 360, calculated on a formula basis as follows:

where:

"Y1" is the year, expressed as a number, in which the first day of the interest period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the interest period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

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"D1" is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date with respect to such floating rate note.

All percentages resulting from any calculation relating to any note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to any note will be rounded upward or downward to the nearest cent.

Sources and Corrections

If we refer to a rate as set forth on a display page, other published source, information vendor or other vendor officially designated by the sponsor of that rate, if there is a successor source for the display page, other published source, information vendor or other official vendor, we refer to that successor source as applicable as determined by the calculation agent. When we refer to a particular heading or headings on any of those sources, those references include any successor or replacement heading or headings as determined by the calculation agent.

If the applicable rate is based on information obtained from a Reuters screen, that rate will be subject to the corrections, if any, published on that Reuters screen within one hour of the time that rate was first displayed on such source.

LIBOR Calculation

LIBOR, with respect to the base rate and any interest reset date, will be the London interbank offered rate for deposits in U.S. dollars for the index maturity specified in your pricing supplement, appearing on the Reuters screen LIBOR page as of approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date.

- If the rate described above does not so appear on the Reuters screen LIBOR page, then LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the calculation agent at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, to prime banks in the London interbank market for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the quotations.
- If fewer than two of the requested quotations described above are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the calculation agent, at approximately 11:00 A.M., New York City time (or the time in the relevant principal financial center), on the relevant interest reset date, for loans in U.S. dollars (or the index currency) to leading European banks for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount.
- If no quotation is provided as described in the preceding paragraph, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for that interest reset date in its sole discretion.
- For the purpose of this section, we define the term "index maturity" as the interest rate period of LIBOR on which the interest rate formula is based as specified in your pricing supplement.

In all cases, if the stated maturity or any earlier redemption date or repayment date with respect to any note falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

Business Days

The term "London business day" will apply to your floating rate notes, as specified in your pricing supplement, and it means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London generally are authorized or obligated by law, regulation or executive order to close and is also a day on which dealings in the applicable index currency are transacted in the London interbank market.

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Business Day Convention

The business day convention that will apply to your notes is the "following business day convention." The "following business day convention" means, for any interest payment date or interest reset date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

Payment of Principal and Interest

Principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as "DTC") and its participants as described under "Registration and Settlement—The Depository Trust Company." Payments in respect of any notes in certificated form will be made as described under "Registration and Settlement—Registration, Transfer and Payment of Certificated Notes."

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note's stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note's stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

Payment and Record Dates for Interest

Interest on the notes will be paid as follows:

Interest Payment Frequency	Interest Payment Dates
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note's stated maturity date or date of earlier redemption or repayment will be that particular date. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Interest on a note will be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date.

"Business day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

Redemption and Repayment

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than 30 nor more than 60 days' written notice to the holder of those notes.

If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in

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the pricing supplement. We also must receive the completed form entitled "Option to Elect Repayment." Exercise of the repayment option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See "Registration and Settlement."

To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption or repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the note plus unpaid interest accrued to the date or dates of redemption or repayment.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder's duly authorized representative through exercise of the Survivor's Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.

Survivor's Option

The "Survivor's Option" is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor's Option applies to those notes.

If a note is entitled to a Survivor's Option, upon the valid exercise of the Survivor's Option and the proper tender of that note for repayment, we will, at our option, repay or repurchase that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner's interest in that note plus unpaid interest accrued to the date of repayment.

To be valid, the Survivor's Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder's spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder's spouse will be deemed the death of a beneficial owner only with respect to such deceased person's interest in the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor's Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of $2,000,000 or 2% of the principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to $250,000 in any calendar year the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of

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any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of $1,000 and multiples of $1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2014, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on October 15, 2014, because the September 15, 2014 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment.

With respect to notes represented by a global note, DTC or its nominee is treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

- a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;
- appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;
- if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;
- written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;
- if applicable, a properly executed assignment or endorsement;
- tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and
- any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such beneficial interest can be established to the satisfaction of the trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by the trustee, in its sole discretion, which determination will be final and binding on all parties.

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The broker or other entity will be responsible for disbursing payments received from the trustee to the authorized representative. See "Registration and Settlement."

Forms for the exercise of the Survivor's Option may be obtained from the Trustee at 100 Wall Street, Suite 1600, New York, NY 10005, Attention: General Counsel.

If applicable, we will comply with the requirements of Section 14(e) of the Exchange Act, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

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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 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 %

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

	September 30, 2014				June 30, 2014			
Type of Investment	Cost	% of Portfolio	Fair Value	% of Portfolio	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:

	September 30, 2014				June 30, 2014			
Type of Investment	Cost	% of Portfolio	Fair Value	% of Portfolio	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:

	September 30, 2014				June 30, 2014			
Geographic Location	Cost	% of Portfolio	Fair Value	% of Portfolio	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:

	September 30, 2014				June 30, 2014			
Industry	Cost	% of Portfolio	Fair Value	% of Portfolio	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				

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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.

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.)

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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.)

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.

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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, 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

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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 administrative services cost payable by us to Prospect Administration. Had Prospect Ad