

PROSPECT CAPITAL CORP

Form 497

August 29, 2014

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PROSPECTUS SUPPLEMENT

(To Prospectus dated October 15, 2013)

Up to 50,000,000 Shares

Common Stock

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

We have entered into equity distribution agreements, dated August 29, 2014, with KeyBanc Capital Markets Inc., or "KeyBanc," BB&T Capital Markets, a division of BB&T Securities, LLC or "BB&T Capital Markets," Goldman, Sachs & Co., and RBC Capital Markets, LLC, or "RBC Capital Markets," relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. We sometimes refer to KeyBanc, BB&T Capital Markets, Goldman, Sachs & Co., and RBC Capital Markets individually as a "Sales Manager" and together as the "Sales Managers."

The equity distribution agreements provide that we may offer and sell up to 50,000,000 shares of our common stock from time to time through the Sales Managers, as our agents for the offer and sale of such common stock. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by means of ordinary brokers' transactions on the NASDAQ Global Select Market or that otherwise qualify for delivery of a prospectus to the NASDAQ Global Select Market in accordance with Rule 153 under the Securities Act of 1933, as amended, or the "1933 Act," at market prices prevailing at the time of sale, at prices related to prevailing market prices or negotiated transactions or as otherwise agreed with the applicable Sales Manager.

The Sales Managers will receive from us a commission to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of all shares of common stock sold through them as Sales Managers under the equity distribution agreements. The Sales Managers are not required to sell any specific number or dollar amount of common stock, but each will use its commercially reasonable efforts to sell the common stock offered by this prospectus supplement and the accompanying prospectus. See "Plan of Distribution" on page S-66 of this prospectus supplement. These shares of common stock may be offered at a discount from our most recently determined net asset value, or "NAV," per share pursuant to authority granted by our stockholders at the 2013 annual meeting of stockholders held on December 6, 2013. Sales of common stock at prices below NAV per share dilute the interests of existing stockholders, have the effect of reducing our NAV per share and may reduce our market price per share. See "Risk Factors" beginning on page S-8 and "Recent Sales of Common Stock Below Net Asset Value" beginning on page S-56 of this prospectus supplement and "Sales of Common Stock Below Net Asset Value" beginning on page 116 of the accompanying prospectus.

Our common stock is listed on The Nasdaq Global Select Market under the symbol "PSEC." The last reported sale price of our common stock on August 28, 2014 was \$10.26 per share. Our most recently estimated NAV per share is \$10.56 on an as adjusted basis solely to give effect to our issuance of common stock since June 30, 2014 in connection with our dividend reinvestment plan, the same as the \$10.56 determined by us as of June 30, 2014.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 42nd Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus

supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-8 of this prospectus supplement and on page 10 of the accompanying prospectus.

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

KeyBanc

BB&T

Goldman, Sachs & Co.

RBC

Capital Markets

Capital Markets

Capital Markets

Prospectus Supplement dated August 29, 2014

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## FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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## PROSPECTUS SUMMARY

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

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

### The Company

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

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

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

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

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

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

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



broadly syndicated loans and do not have direct exposure to real estate, mortgages, sub-prime debt, or consumer based debt. The CLOs in which we invest are managed by top-tier collateral managers that have been thoroughly diligenced prior to investment. This strategy has comprised approximately 10%-20% of our business.

Real Estate Investments – We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts ("REITs"), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, "our REITs"). Our real estate investments are in various classes of fully developed and occupied real estate

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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.

**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.

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 June 30, 2014, we held investments in 143 portfolio companies. The aggregate fair value as of June 30, 2014 of investments in these portfolio companies held on that date is approximately \$6.2 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 12.1% as of June 30, 2014.

#### Recent Developments

##### Recent Investment Activity

On July 22, 2014, Injured Workers Pharmacy, LLC repaid the \$22.7 million loan receivable to us.

On July 23, 2014, Correctional Healthcare Holding Company, Inc. repaid the \$27.1 million loan receivable to us.

On July 28, 2014, Tectum Holdings, Inc. repaid the \$10.0 million loan receivable to us.

On August 1, 2014, we sold our investments in AMU Holdings, Inc. and Airmall, Inc. for net proceeds of \$51.4 million. In addition, there is \$6.0 million being held in escrow, of which 98% is due to Prospect, which will be recognized if and when received.

On August 5, 2014, we made an investment of \$39.1 million to purchase 70.94% of the subordinated notes in CIFIC Funding 2014-IV, Ltd.

On August 13, 2014, we provided \$210.0 million of senior secured financing, of which \$200.0 million was funded at closing, to support the recapitalization of Trinity Services Group, Inc., a leading food services company in the H.I.G. Capital portfolio.

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On August 21, 2014, we issued 129,435 shares of our common stock in connection with the dividend reinvestment plan.

On August 22, 2014, Byrider Systems Acquisition Corp. repaid the \$11.2 million loan receivable to us.

On August 22, 2014, Capstone Logistics, LLC repaid the \$189.9 million loan receivable to us.

On August 22, 2014, TriMark USA, LLC repaid the \$10.0 million loan receivable to us.

On August 29, 2014, we made a follow-on secured debt investment of \$15.0 million to support the recapitalization of BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork), a provider of intra-operative neurophysiological monitoring services.

#### Credit Facility

On July 11, 2014, we increased total commitments to our Revolving Credit Facility by \$10.0 million to \$867.5 million in the aggregate.

On July 23, 2014, we increased total commitments to our Revolving Credit Facility by \$10.0 million to \$877.5 million in the aggregate.

On August 29, 2014, we completed a first closing on an expanded five-and-one-half year \$1.5 billion revolving credit facility (the "Facility") for Prospect Capital Funding LLC with reduced pricing. The new Facility, for which twenty lenders have closed on \$800 million to date, includes an accordion feature that allows the Facility, at our discretion, to accept up to a total of \$1.5 billion of commitments, an objective we target reaching with additional lenders. The Facility matures in March 2020 and is substantially similar to the terms of the prior revolving credit facility. It includes a revolving period that extends through March 2019, followed by an additional one-year amortization period, with distributions allowed to us after the completion of the revolving period. Pricing for the Facility is one-month Libor plus 2.25%, achieving 50 basis point reduction in pricing from the previous five-year facility pricing of Libor plus 2.75%. The new Facility has an investment grade Moody's rating of Aa3.

#### Debt

On August 14, 2014, we announced the then current conversion rate our \$200.0 million of 5.75% Convertible Senior Notes due 2018, or the "2018 Notes", as 83.6661 shares of common stock per \$1 principal amount of the 2018 Notes converted, which is equivalent to a conversion price of approximately \$11.95.

#### Common Stock Issuance

On July 24, 2014, we issued 98,503 shares of our common stock in connection with the dividend reinvestment plan.

On August 21, 2014, we issued 129,435 shares of our common stock in connection with the dividend reinvestment plan.

The Offering Common stock offered by us	Up to 50,000,000 shares.
Common stock outstanding as of the date of this prospectus supplement	342,854,575 shares.
Use of proceeds	We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See "Use of Proceeds" in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current Distribution Rate	<p>On February 3, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:</p> <ul style="list-style-type: none"><li>• \$0.110500 per share for August 2014 to holders of record on August 29, 2014 with a payment date of September 18, 2014; and</li><li>• \$0.110525 per share for September 2014 to holders of record on September 30, 2014 with a payment date of October 22, 2014.</li></ul> <p>On May 6, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:</p> <ul style="list-style-type: none"><li>• \$0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014;</li><li>• \$0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and</li><li>• \$0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.</li></ul> <p>Based on the August 2014 distribution of \$0.110500, this represents an annualized yield of approximately 12.9% based on our August 28, 2014 closing stock price of \$10.26 per share. Such distributions are expected to be payable out of earnings. Our</p>

distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

## Fees and Expenses

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$800.0 million under our credit facility, which is the maximum amount available under the credit facility, in addition to our other indebtedness of \$2.7 billion and a maximum sales load pursuant to the equity distribution agreements. We do not intend to issue preferred stock during the year. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

## Stockholder transaction expenses:

Sales load (as a percentage of offering price)(1)	2.00	%
Offering expenses borne by the Company (as a percentage of offering price)(2)	0.07	%
Dividend reinvestment plan expenses(3)	None	
Total stockholder transaction expenses (as a percentage of offering price)	2.07	%
Annual expenses (as a percentage of net assets attributable to common stock)(4):		
Management fees(5)	4.02	%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.47	%
Total advisory fees	6.49	%
Total interest expense(7)	4.59	%
Acquired Fund Fees and Expenses(8)	0.01	%
Other expenses(9)	1.05	%
Total annual expenses(6)(9)	12.14	%

## Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we have borrowed all \$800.0 million available under our line of credit, in addition to our other indebtedness of \$2.7 billion and that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

	1 Year	3 Years	5 Years	10 Years	
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return*	\$ 115.42	\$ 291.81	488.84	\$ 452.10	\$ 791.70
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return**	\$ 125.21	386.12	\$ 319.54	\$ 495.72	\$ 867.03

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

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

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

dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

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

- Represents the estimated commission with respect to the shares of common stock being sold in this offering. The Sales Managers will be entitled to compensation up to 2.00% of the gross proceeds of the sale of any shares of our
- (1) common stock under the equity distribution agreements, with the exact amount of such compensation to be mutually agreed upon by the Company and the Sales Managers from time to time. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.
  - (2) The offering expenses of this offering are estimated to be approximately \$350,000.
  - (3) The expenses of the dividend reinvestment plan are included in "other expenses." See "Capitalization" in this prospectus supplement.
  - (4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at June 30, 2014.  
Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non-investment purposes, for which purpose we have not and have no intention of borrowing). Although we have no intent to borrow the entire amount available
  - (5) under our line of credit, assuming that we had total borrowings of \$3.5 billion, the 2% management fee of gross assets would equal approximately 4.02% of net assets. Based on our borrowings as of August 28, 2014 of \$2.7 billion, the 2% management fee of gross assets would equal approximately 3.59% of net assets. See "Business—Management Services—Investment Advisory Agreement" and footnote 5 below.  
Based on the incentive fee paid during our most recently completed quarter ended June 30, 2014, all of which
  - (6) consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre-incentive fee income. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services—Investment Advisory Agreement" in the accompanying prospectus.  
As of August 28, 2014, Prospect has \$2.7 billion outstanding of its Senior Notes (as defined below) in various maturities, ranging from December 15, 2015 to October 15, 2043, and interest rates, ranging from 3.23% to 7.0%,
  - (7) some of which are convertible into shares of Prospect common stock at various conversion rates. Please see "Business of Prospect—General" and "Risks Related to Prospect—Risks Relating to Prospect's Business" below for more detail on the Senior Notes.  
The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of June 30, 2014. When applicable, fees and expenses are based on historic fees and expenses for the investment companies, and for those investment companies with little or no operating history fees and expenses are
  - (8) based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately \$3.6 billion as of June 30, 2014.  
"Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents the expenses during the year ended June 30, 2014 representing all of our recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as
  - (9) expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement is based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business—Management Services—Administration Agreement" in the accompanying prospectus.



## 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. 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-13 for more information.

	For the Year Ended June 30,					
	2014	2013	2012	2011	2010	
<b>Performance Data:</b>						
Interest income	\$613,741	\$435,455	\$219,536	\$134,454	\$86,518	
Dividend income	26,837	82,705	64,881	15,092	15,366	
Other income	71,713	58,176	36,493	19,930	12,675	
Total investment income	712,291	576,336	320,910	169,476	114,559	
Interest and credit facility expenses	(130,103 )	(76,341 )	(38,534 )	(17,598 )	(8,382 )	
Investment advisory expense	(198,296 )	(151,031 )	(82,507 )	(46,051 )	(30,727 )	
Other expenses	(26,669 )	(24,040 )	(13,185 )	(11,606 )	(8,260 )	
Total expenses	(355,068 )	(251,412 )	(134,226 )	(75,255 )	(47,369 )	
Net investment income	357,223	324,924	186,684	94,221	67,190	
Realized and unrealized (losses) gains	(38,203 )	(104,068 )	4,220	24,017	(47,565 )	
Net increase in net assets from operations	\$319,020	\$220,856	\$190,904	\$118,238	\$19,625	
<b>Per Share Data:</b>						
Net increase in net assets from operations(1)	\$1.06	\$1.07	\$1.67	\$1.38	\$0.33	
Distributions declared per share	\$(1.32 )	\$(1.28 )	\$(1.22 )	\$(1.21 )	\$(1.33 )	
Average weighted shares outstanding for the year	300,283,941	207,069,971	114,394,554	85,978,757	59,429,222	
<b>Assets and Liabilities Data:</b>						
Investments	\$6,253,739	\$4,172,852	\$2,094,221	\$1,463,010	\$748,483	
Other assets	223,530	275,365	161,033	86,307	84,212	
Total assets	6,477,269	4,448,217	2,255,254	1,549,317	832,695	
Amount drawn on credit facility	92,000	124,000	96,000	84,200	100,300	
Senior convertible notes	1,247,500	847,500	447,500	322,500	—	
Senior unsecured notes	647,881	347,725	100,000	—	—	
InterNotes®	785,670	363,777	20,638	—	—	
Amount owed to related parties	2,211	6,690	8,571	7,918	9,300	
Other liabilities	83,825	102,031	70,571	20,342	11,671	
Total liabilities	2,859,087	1,791,723	743,280	434,960	121,271	
Net assets	\$3,618,182	\$2,656,494	\$1,511,974	\$1,114,357	\$711,424	
<b>Investment Activity Data:</b>						
No. of portfolio companies at year end	143	124	85	72	58	
Acquisitions	\$2,952,456	\$3,103,217	\$1,120,659	\$953,337	\$364,788(2)	
Sales, repayments, and other disposals	\$787,069	\$931,534	\$500,952	\$285,562	\$136,221	
Total return based on market value(3)	10.9	% 6.2	% 27.2	% 17.2	% 17.7	%
Total return based on net asset value(3)	11.0	% 10.9	% 18.0	% 12.5	% (6.8)	)%
Weighted average yield at end of year(4)	12.1	% 13.6	% 13.9	% 12.8	% 16.2	%

(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.

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

(3) 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.

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

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## RISK FACTORS

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

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

Our most recently estimated NAV per share is \$10.56 on an as adjusted basis solely to give effect to our issuance of common stock since June 30, 2014 in connection with our dividend reinvestment plan, the same as the \$10.56 determined by us as of June 30, 2014. NAV per share as of September 30, 2014, may be higher or lower than \$10.56 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2014. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, our Investment Adviser, our Administrator and the Audit Committee of our Board of Directors.

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

At our 2013 annual meeting of stockholders held on December 6, 2013, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 6, 2013. It should be noted that, theoretically, we may offer up to 25% of our then outstanding common stock each day. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have sold shares of our common stock at prices below net asset value per share in the past and may do so to the future. We have not sold any shares of our common stock at prices below net asset value per share since July 18, 2011. For additional information about recent sales below NAV per share, see "Recent Sales of Common Stock Below Net Asset Value" in this prospectus supplement and for additional information and hypothetical examples of these risks, see "Sales of Common Stock Below Net Asset Value" in this prospectus supplement and in the accompanying prospectus.

Capital markets could experience a period of disruption and instability. Such market conditions have historically and could again have a material and adverse effect on debt and equity capital markets in the United States and abroad, which could have a materially negative impact on our business and operations.

Global capital markets have periodically experienced periods of instability as evidenced by the extended disruptions from 2007 to 2010 in liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the markets and the failure of certain major financial institutions. Such conditions may occur for a prolonged period of time. These market conditions have historically and could again have a material adverse effect on debt and equity capital markets in the United States and Europe, which could have a materially negative impact on our business, financial condition and results of operations. We and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital. In such

circumstances, equity capital may be difficult to raise because subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without general approval by our stockholders, which we currently have, and approval of the specific issuance by our Board of Directors. In addition, our ability to incur indebtedness or issue preferred stock is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness or issue preferred stock. The debt capital that may be available, if at all, may be at a higher cost and on less

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favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness, including the final maturity of our credit facility in March 2015, and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the extreme volatility and dislocation that the capital markets have historically experienced, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. We may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, significant changes in the capital markets, including the extreme volatility and disruption, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations. The Investment Adviser does not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. The Investment Adviser monitors developments and seeks to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that it will be successful in doing so; and the Investment Adviser may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments in the current or future market environment.

We are required to record certain of our assets at fair value, as determined in good faith by our Board of Directors in accordance with our valuation policy. As a result, volatility in the capital markets may have a material adverse effect on our investment valuations and our net asset value, even if we plan to hold investments to maturity.

Uncertainty about the financial stability of the United States and of several countries in the European Union (EU) could have a significant adverse effect on our business, financial condition and results of operations.

Due to federal budget deficit concerns, S&P downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. Further, Moody's and Fitch have warned that they may downgrade the federal government's credit rating. Further downgrades or warnings by S&P or other rating agencies, and the United States government's credit and deficit concerns in general, including issues around the federal debt ceiling, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our financial performance and the value of our common stock.

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the debt crisis in Europe or any similar crisis could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. We cannot assure you that market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not impact the global economy, and we cannot assure you that assistance packages will be available, or if available, be sufficient to stabilize countries and markets in Europe or elsewhere affected by a financial crisis. To the extent uncertainty regarding any economic recovery in Europe negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be significantly and adversely affected.

On December 18, 2013, the Federal Reserve announced that it would scale back its bond-buying program, or quantitative easing, which was designed to stimulate the economy and expand the Federal Reserve's holdings of long-term securities until key economic indicators, such as the unemployment rate, show signs of improvement. The Federal Reserve signaled it would reduce its purchases of long-term Treasury bonds and would scale back on its

purchases of mortgage-backed securities. It is unclear what effect, if any, the incremental reduction in the rate of the Federal Reserve's monthly purchases will have on the value of our investments. However, it is possible that absent continued quantitative easing by the Federal Reserve, these developments, along with the United States government's federal debt ceiling issues and the European sovereign debt crisis, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms.

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Our investments in prospective portfolio companies may be risky and we could lose all or part of our investment. Some of our portfolio companies have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their investment objective and the value of our investment in them may decline substantially or fall to zero. In addition, investment in the middle market companies that we are targeting involves a number of other significant risks, including:

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

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

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

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

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

They may have difficulty accessing the capital markets to meet future capital needs.

Changes in laws and regulations, as well as their interpretations, may adversely affect their business, financial structure or prospects.

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

We acquire majority interests in operating companies engaged in a variety of industries. When we acquire these companies we generally seek to apply financial leverage to them in the form of debt. In most cases all or a portion of this debt is held by us, with the obligor being either the operating company itself, a holding company through which we own our majority interest or both. The level of debt leverage utilized by these companies makes them susceptible to the risks identified above.

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

The Volcker Rule may impact how we operate our business.

Section 13 of the Bank Holding Company Act of 1956, as amended, often referred to as the "Volcker Rule," is expected to impose significant restrictions on banking entities' ability to sponsor or invest in hedge funds, private equity funds or commodity pools, collectively referred to as covered funds. Certain CLOs will be considered covered funds under the Volcker Rule and banking entities' investments in such CLOs may be considered ownership interests that are prohibited. The rules are highly complex, and many aspects of the implementation of the Volcker Rule remain unclear. We are in the process of assessing the impact of the Volcker Rule on our investments, CLOs and on our industry. The Volcker Rule may have a material adverse effect on our ability to invest in bank-sponsored CLOs in the future and therefore may adversely affect our share price.

Risks affecting investments in real estate.

We make investments in commercial and multi-family residential real estate through our three wholly-owned real estate investment trusts ("REITs"), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, "our REITs"). A number of factors may prevent each of our REIT's properties and assets from generating sufficient net cash flow or may adversely affect their value, or both, resulting in less cash available for distribution, or a loss, to us. These factors include:

national economic conditions;

- regional and local economic conditions (which may be adversely impacted by plant closings, business layoffs, industry slow-downs, weather conditions, natural disasters, and other factors);

local real estate conditions (such as over-supply of or insufficient demand for office space);

changing demographics;

perceptions by prospective tenants of the convenience, services, safety, and attractiveness of a property;

the ability of property managers to provide capable management and adequate maintenance;

the quality of a property's construction and design;

increases in costs of maintenance, insurance, and operations (including energy costs and real estate taxes);

changes in applicable laws or regulations (including tax laws, zoning laws, or building codes);

potential environmental and other legal liabilities;

the level of financing used by our REITs in respect of their properties, increases in interest rate levels on such

financings and the risk that one of our REITs will default on such financings, each of which increases the risk of loss to us;

the availability and cost of refinancing;

the ability to find suitable tenants for a property and to replace any departing tenants with new tenants;

potential instability, default or bankruptcy of tenants in the properties owned by our REITs;

potential limited number of prospective buyers interested in purchasing a property that one of our REITs wishes to sell; and

the relative illiquidity of real estate investments in general, which may make it difficult to sell a property at an attractive price or within a reasonable time frame.

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

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

On February 10, 2014, we received an exemptive order from the SEC (the "Order") that gave us the ability to negotiate terms other than price and quantity of co-investment transactions with other funds managed by the Investment Adviser or certain affiliates, including Priority Senior Secured Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc., subject to the conditions included therein. In certain situations where co-investment with one or more funds managed by the Investment Adviser or its affiliates is not covered by the Order, such as when there is an opportunity to invest in different securities of the same issuer, the personnel of the Investment Adviser or its affiliates will need to decide which fund will proceed with the

investment. Such personnel will make these determinations based on policies and procedures, which are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds over time and in a manner that is consistent with applicable laws, rules and regulations. Moreover, except in certain circumstances, when relying on the Order, we will be unable to invest in any issuer in which one or more funds managed by the Investment Adviser or its affiliates has previously invested.

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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

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.

**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.

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. 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 June 30, 2014, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investment in controlled companies is \$1,719,242 and \$1,640,454, respectively. This structure gives rise to several of the risks described in our public documents and highlighted above in Part I, Item 1A of this report. Effective for periods commencing on and after July 1, 2014, we will consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. We do not anticipate any 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 \$6,253,739 and \$4,172,852 as of June 30, 2014 and 2013, respectively. During the year ended June 30, 2014, our net cost of investments increased by \$2,115,744, or 49.7%, as a result of forty-seven new investments, four revolver advances and several follow-on investments of \$2,937,311, payment-in-kind interest of \$15,145, structuring fees of \$45,087 and net amortization of discounts and premiums of \$46,297, while we received full repayments on twenty-one investments, sold eight investments, and received several partial prepayments and

amortization payments totaling \$787,069.

Compared to the end of last fiscal year (ended June 30, 2013), net assets increased by \$961,688, or 36.2%, during the year ended June 30, 2014, from \$2,656,494 to \$3,618,182. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$1,030,282, dividend reinvestments of \$15,574, and \$319,020 from operations. These increases, in turn, were offset by \$403,188 in dividend distributions to our stockholders. The \$319,020 from operations is net of the following: net investment income of \$357,223, net realized loss on investments of \$3,346, and net change in unrealized depreciation on investments of \$34,857.

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## Fourth Quarter Highlights

### Investment Transactions

During the three months ended June 30, 2014, we acquired \$386,642 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$55,360, and recorded PIK interest of \$2,102, resulting in gross investment originations of \$444,104. During the three months ended June 30, 2014, we received full repayments on five investments, and received several partial prepayments and amortization payments totaling \$169,617. The more significant of these transactions are discussed in "Portfolio Investment Activity."

### SEC Matter

On May 6, 2014, we announced in our filing on Form 10-Q for the quarter ended March 31, 2014 that the SEC Staff had asserted certain of our wholly-owned holding companies were investment companies, such companies were required to be consolidated in our historical financial results and financial position, and restatement of such financial statements was needed. At that time, we disclosed that we disagreed with the views of the SEC Staff and wished to appeal the conclusion through the Office of the Chief Accountant. On June 10, 2014, based on those discussions with the Office of the Chief Accountant, we concluded the following:

- Our historical non-consolidation of wholly-owned and substantially wholly-owned holding companies did not require restatement of our prior period financial statements.

Upon our adoption of ASU 2013-08 for the fiscal year ended June 30, 2015, we will begin consolidating on a prospective basis certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy.

While we were in discussions with the SEC, we elected to suspend our debt and equity raising activities for the remainder of the quarter and continuing through the filing of this Form 10-K. This curtailment of capital raising activities suppressed our levels of origination and growth in the fourth quarter of the fiscal year ended June 30, 2014. This reduction in originations suppressed our level of structuring fees recognized and reduced our earnings for the quarter. Originations were \$1,343,356 in the quarter ended March 31, 2014 versus \$444,104 in the quarter ended June 30, 2014. As a result, structuring fees fell from \$24,659 in the quarter ended March 31, 2014 to \$5,026 in the quarter ended June 30, 2014.

### Equity Issuance

During the three months ended June 30, 2014, we sold 7,711,389 shares of our common stock at an average price of \$10.91 per share, and raised \$84,145 of gross proceeds, under our at-the-market offering program (the "ATM Program"). Net proceeds were \$83,308 after commissions to the broker-dealer on shares sold and offering costs.

On April 17, 2014, May 22, 2014 and June 19, 2014, we issued 86,333, 114,111 and 112,630 shares of our common stock in connection with the dividend reinvestment plan, respectively.

### Dividend

On May 6, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014;

- \$0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and

- \$0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.

### Revolving Credit Facility

On May 9, 2014 and May 29, 2014, we increased total commitments to our Revolving Credit Facility by \$45,000 and \$20,000, respectively. The lenders have extended total commitments of \$857,500 as of June 30, 2014, which was increased to \$877,500 in July 2014 (see "Recent Developments").



### Debt Issuance

On April 7, 2014, we issued \$300,000 aggregate principal amount of senior 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.

On April 11, 2014, we issued \$400,000 aggregate principal amount of senior 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.

During the three months ended June 30, 2014, we issued \$66,554 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$65,251. These notes were issued with stated interest rates ranging from 3.75% to 6.25% with a weighted average interest rate of 5.03%. These notes mature between April 15, 2018 and May 15, 2039.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
4	\$8,759	3.75%	3.75	% April 15, 2018 – May 15, 2018
5	21,950	4.25%–4.75%	4.48	% April 15, 2019 – May 15, 2019
7	15,182	5.25%	5.25	% April 15, 2021 – May 15, 2021
10	10,159	5.75%	5.75	% April 15, 2024 – May 15, 2024
25	10,504	6.25%	6.25	% April 15, 2039 – May 15, 2039
	\$66,554			

### Investment Holdings

As of June 30, 2014, we continue to pursue our investment strategy. At June 30, 2014, approximately \$6,253,739, or 172.8%, of our net assets are invested in 143 long-term portfolio investments and CLOs.

During the year ended June 30, 2014, we originated \$2,952,456 of new investments, primarily composed of \$1,585,869 of debt and equity financing to non-controlled investments, \$913,094 of debt and equity financing to controlled investments, and \$453,493 of subordinated notes in CLOs. Our origination efforts are focused primarily on debt and equity financing to controlled investments and secured lending to non-control investments, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close select junior debt and equity investments. Our annualized current yield was 13.6% and 12.1% as of June 30, 2013 and June 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.

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As of June 30, 2014, we own controlling interests in AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; ARRM Services, Inc. (f/k/a ARRM Holdings Inc.); AWC, LLC; BXC Company, Inc. (f/k/a BXC Holding Company); CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Echelon Aviation LLC; Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.); First Tower Holdings of Delaware LLC; Gulf Coast Machine & Supply Company; Harbortouch Holdings of Delaware Inc.; The Healing Staff, Inc.; Manx Energy, Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; R-V Industries, Inc.; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; and Wolf Energy Holdings Inc. We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork).

The following shows the composition of our investment portfolio by level of control as of June 30, 2014 and June 30, 2013:

Level of Control	June 30, 2014				June 30, 2013				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Control Investments	\$1,719,242	27.0	% \$1,640,454	26.2	% \$830,151	19.5	% \$811,634	19.5	%
Affiliate Investments	31,829	0.5	% 32,121	0.5	% 49,189	1.2	% 42,443	1.0	%
Non-Control/Non-Affiliate Investments	4,620,451	72.5	% 4,581,164	73.3	% 3,376,438	79.3	% 3,318,775	79.5	%
Total Investments	\$6,371,522	100.0	% \$6,253,739	100.0	% \$4,255,778	100.0	% \$4,172,852	100.0	%

The following shows the composition of our investment portfolio by type of investment as of June 30, 2014 and June 30, 2013:

Type of Investment	June 30, 2014				June 30, 2013			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Revolving Line of Credit	\$3,445	0.1	% \$2,786	—				