

PROSPECT CAPITAL CORP  
Form 497  
March 31, 2014

**The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying 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, dated March 31, 2014**

**Filed pursuant to Rule 497  
File No. 333-190850**

**PROSPECTUS SUPPLEMENT  
(To Prospectus dated October 15, 2013)**

## **Prospect Capital Corporation**

### **% Senior Notes due 2019**

This is an offering by Prospect Capital Corporation of \$ \_\_\_\_\_ in aggregate principal amount of its \_\_\_\_\_ % Senior Notes due 2019, which we refer to in this prospectus supplement as the Notes. The Notes will mature on July 15, 2019. We will pay interest on the Notes on January 15 and July 15 of each year, beginning July 15, 2014. The Notes will be issued in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. We may offer other debt securities from time to time other than the Notes under our Registration Statement or in private placements.

The Notes will be our direct senior unsecured obligations and rank pari passu with all outstanding and future unsecured unsubordinated indebtedness issued by Prospect Capital Corporation.

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.

We previously issued \$50,000,000 in aggregate principal amount of 4.75% Senior Notes due 2019 (the "Exchange Notes") pursuant to our Prospect Capital InterNotes® program that provides original holders of such Exchange Notes with the option of exchanging such Exchange Notes for any issue of additional notes by us of at least \$250,000,000 in aggregate principal amount that are pari passu with such Exchange Notes. This option expires on May 21, 2014. In the event that this offering is greater than \$250,000,000, holders of such Exchange Notes shall have the right to exchange their Exchange Notes for the Notes offered hereby. Our Board of Directors has approved the issuance of up to an additional \$50,000,000 of Notes in the event that holders of Exchange Notes exercise such option.

***Investing in the Notes involves risks. See "Risk Factors" beginning on page S-10 of this prospectus supplement and page 12 of the accompanying prospectus.***

**Per Note**

**Total**

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Public offering price(1)	%	\$
Underwriting discounts and commissions (sales loads)	%	\$
Proceeds to Prospect Capital Corporation (before expenses)(2)	%	\$

(1) The public offering price set forth above does not include accrued interest, if any.

(2) Expenses payable by us related to this offering are estimated to be \$400,000.

**THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.**

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about \_\_\_\_\_, 2014.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read this prospectus supplement and the accompanying prospectus 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, 44th 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.

**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 or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

**Barclays      Goldman, Sachs & Co.      RBC Capital Markets      UBS Investment Bank**  
**BNP PARIBAS**  
**BMO Capital Markets**

**Prospectus Supplement dated April \_\_\_\_\_, 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,

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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,

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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 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 underwriters have 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 underwriters 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 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. In this prospectus supplement and the accompanying prospectus, we use the term "middle-market" to refer to companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the "1940 Act." We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We currently have seven 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, and (7) investments in syndicated debt. 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 mezzanine 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. This strategy generally has comprised approximately 10%-15% 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, subprime 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 (as defined below) -compliant partnership, enhancing returns. This strategy has comprised approximately 10%-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 Holdings Corp., National Property Holdings Corp. and United Property Holdings Corp. 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. We 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.

We invest primarily in first and second lien senior loans and mezzanine debt which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated 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. Mezzanine debt and 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 depending on the tranche.

We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. These may be in several industries, including industrial, service, real estate and financial businesses. In most cases, companies in which we invest are privately held at the time we invest in them.

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 currently 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 December 31, 2013, we held investments in 130 portfolio companies. The aggregate fair value as of December 31, 2013 of investments in these portfolio companies held on that date is

approximately \$4.9 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 12.9% as of December 31, 2013.

### **Recent Developments**

#### ***Recent Investment Activity***

On January 7, 2014, we made a \$2.0 million investment in NPH Property Holdings, LLC ("NPH"), to support the peer-to-peer lending initiative. We invested \$0.3 million of equity and \$1.7 million of debt in NPH.

On January 8, 2014, we made a \$161.5 million follow-on investment in Broder Bros., Co., a distributor of imprintable sportswear and accessories in the United States.

On January 13, 2014, we made a \$2.0 million follow-on investment in NPH. We invested \$0.3 million of equity and \$1.7 million of debt in NPH.

On January 14, 2014, we made a \$2.0 million follow-on investment in NPH. We invested \$0.3 million of equity and \$1.7 million of debt in NPH.

On January 17, 2014, we made a \$2.0 million follow-on investment in NPH. We invested \$0.3 million of equity and \$1.7 million of debt in NPH.

On January 17, 2014, we made a \$6.6 million follow-on investment in APH Property Holdings, LLC ("APH") to acquire the Gulf Coast II Portfolio, a portfolio of two multi-family residential properties located in Alabama and Florida. We invested \$1.1 million of equity and \$5.5 million of debt in APH.

On January 31, 2014, we made a \$4.8 million follow-on investment in NPH to acquire Island Club, a multi-family residential property located in Jacksonville, Florida. We invested \$0.8 million of equity and \$4.0 million of debt in NPH.

On February 4, 2014, we made a secured debt investment of \$25.0 million in Ikaria, Inc., a biotherapeutics company focused on developing and commercializing innovative therapies designed to meet the unique and complex medical needs of critically ill patients.

On February 5, 2014, we sold \$8.0 million of our investment in a consumer products company.

On February 5, 2014, we made an investment of \$32.4 million to purchase 94.27% of the subordinated notes in ING IM CLO 2014-I, Ltd.

On February 7, 2014, we made an investment of \$23.1 million to purchase 63.64% of the subordinated notes in Halcyon Loan Advisors Funding 2014-I, Ltd.

On February 10, 2014, the SEC granted our exemptive application to permit us to participate in negotiated co-investments with our funds managed by Prospect Capital Management LLC, Priority Senior Secured Income Management, LLC or Pathway Energy Infrastructure Management, LLC or affiliated advisers in a manner consistent with our investment objective, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to the conditions therein.

On February 11, 2014, we made a \$7.0 million follow-on investment in Interdent, Inc. to fund an acquisition.

On February 11, 2014, we made a secured debt investment of \$10.0 million in TriMark USA LLC, a foodservice equipment and supplies distributor and provider of custom kitchen design services.

On February 12, 2014, we made a \$2.0 million follow-on investment in NPH to support the peer-to-peer lending initiative. We invested \$0.3 million of equity and \$1.7 million of debt in NPH.

On February 19, 2014, we provided \$17.0 million of secured floating rate financing to support the acquisition of Keane by Lovell Minnick Partners. Keane provides unclaimed property services to many



of the nation's largest financial institutions including transfer agents, mutual funds, banks, brokerages and insurance companies.

On February 21, 2014, we sold \$6.5 million of our investment in a consumer products company.

On March 7, 2014, we provided \$78.0 million of senior secured floating rate debt to support the continued growth of Tolt Solutions, Inc., a retail-focused information technology services company, providing customized network architecture solutions, installation, deployment, maintenance, and customer support to retailers nationwide.

On March 12, 2014, we made a secured debt investment of \$10.0 million in Tectum Holdings, Inc., a manufacturer of aftermarket accessories for the lite-truck market.

On March 18, 2014, we made a \$28.3 million follow-on investment in LaserShip, Inc., of which \$22.3 million was funded at closing, to finance an acquisition.

On March 20, 2014, New Star Metals, Inc. repaid the \$50.5 million loan receivable to us.

On March 25, 2014, we made a secured debt investment of \$28.5 million in a provider of contract and permanent placement staffing services, with a strategic focus on the information technology segment.

On March 26, 2014, Material Handling Services, LLC repaid the \$64.5 million loan receivable to us.

On March 28, 2014, we provided \$277.5 million of secured floating rate debt to support the refinancing of Instant Web, LLC, a provider of direct marketing solutions to direct marketers for acquisition and loyalty programs in the United States.

#### ***Credit Facility***

On January 15, 2014, we expanded the accordion feature of our credit facility from \$650.0 million to \$1.0 billion. On January 15, 2014, February 28, 2014 and March 28, 2014, we increased the commitments to the credit facility by \$62.5 million, \$45.0 million and \$35.0 million, respectively. The commitments to the credit facility now stand at \$792.5 million. As of March 28, 2014, we had \$629.0 million outstanding under the credit facility.

#### ***Debt Issuance***

During the period from January 1, 2014 to March 28, 2014, we issued \$168.4 million in aggregate principal amount of our Prospect Capital InterNotes for net proceeds of \$165.8 million.

#### ***Common Stock Issuance***

During the period from January 1, 2014 to March 28, 2014 (with settlement through April 2, 2014), we sold 29,721,167 shares of our common stock at an average price of \$11.13 per share, and raised \$330.8 million gross proceeds, under our at-the-market offering program, or the "ATM Program." Net proceeds were \$327.6 million after commissions to the broker-dealer on shares sold and offering costs.

On January 23, 2014, February 20, 2014 and March 20, 2014, we issued 109,087, 88,112 and 93,735 shares of our common stock in connection with the dividend reinvestment plan, respectively.

#### ***Dividends***

On February 3, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110475 per share for July 2014 to holders of record on July 31, 2014 with a payment date of August 21, 2014;

\$0.110500 per share for August 2014 to holders of record on August 29, 2014 with a payment date of September 18, 2014;  
and

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\$0.110525 per share for September 2014 to holders of record on September 30, 2014 with a payment date of October 22, 2014.

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**SPECIFIC TERMS OF THE NOTES AND THE OFFERING**

This prospectus supplement sets forth certain terms of the Notes that Prospect Capital Corporation is offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes under the heading "Description of the Notes" in this prospectus supplement and in the accompanying prospectus under the heading "Description of Our Debt Securities" before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing, or the supplemental indenture establishing, the terms of the Notes (collectively, the indenture and the supplemental indenture is referred to as the "Indenture").

Issuer	Prospect Capital Corporation
Title of securities	% Senior Notes due 2019
Initial aggregate principal amount being offered	\$
Initial public offering price	% of the aggregate principal amount of Notes.
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in The City of New York as we may designate.
Type of Note	Fixed rate note
Interest rate	% per year
Original issue date	, 2014
Stated maturity date	July 15, 2019
Date interest starts accruing	, 2014
Interest payment dates	Every January 15 and July 15, commencing July 15, 2014. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Interest periods	The initial interest period will be the period from and including , 2014, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.
Specified currency	U.S. Dollars
Place of payment	New York City

Ranking of Notes	<p>The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future senior, unsecured indebtedness (including, but not limited to, our \$150 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015 (the "2015 Notes"), our \$167.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016 (the "2016 Notes"), our \$130 million in aggregate principal amount of 5.375% Senior Convertible Notes due 2017 (the "2017 Notes"), our \$200 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018 (the "2018 Notes"), our \$200 million aggregate principal amount of 5.875% Convertible Senior Notes due 2019 (the "2019 Notes"), our \$100 million aggregate principal amount of 6.95% Senior Notes due 2022 (the "2022 Notes"), our \$250 million aggregate principal amount of 5.875% Senior Notes due 2023 (the "2023 Notes") and the Prospect Capital InterNotes®) and senior in right of payment to any of our subordinated indebtedness. 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 subsidiary.</p> <p>As of March 28, 2014, we and our subsidiary had approximately \$2,642 million of senior indebtedness outstanding, \$2,013 million of which was unsecured indebtedness.</p>
Denominations	<p>We will issue the Notes in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.</p>
Business day	<p>Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.</p>
Sinking fund	<p>The Notes will not be subject to any sinking fund.</p>
Repayment at option of Holders	<p>Holder will not have the option to have the Notes repaid prior to the stated maturity date unless we undergo a fundamental change (as defined in this prospectus supplement) or we decide at our option to redeem the Notes. See " Fundamental Change Repurchase Right of Holders" and " Optional Redemption."</p>
Defeasance	<p>The Notes are subject to defeasance by us.</p>
Covenant defeasance	<p>The Notes are subject to covenant defeasance by us.</p>

Form of Notes	The Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company ("DTC") or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC.
Trustee, Paying Agent, Registrar and Transfer Agent	U.S. Bank National Association
Fundamental Change Repurchase Right of Holders	If we undergo a fundamental change (as defined in this prospectus supplement) prior to maturity, you will have the right, at your option, to require us to repurchase for cash some or all of your Notes at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. See "Description of the Notes Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change."
Optional Redemption	The Notes will be redeemable, in whole or in part, at any time, or from time to time, at the option of the Company at the redemption price (as defined in this prospectus supplement). See "Description of the Notes Optional Redemption."
Events of Default	If an event of default on the Notes occurs, the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the Indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving the Company as defined in the Indenture.
Other covenants	In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes:

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions.



	<p>If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end. All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.</p>
No Established Trading Market	<p>The Notes are a new issue of securities with no established trading market. The Notes will not be listed on any securities exchange or on any automated dealer quotation system. Although the underwriters have informed us that they intend to make a market in the Notes, they are not obligated to do so, and may discontinue any such market making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.</p>
Global Clearance and Settlement Procedures	<p>Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the Trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.</p>
Governing Law	<p>The Notes and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.</p>
Exchange Notes	<p>We previously issued \$50,000,000 in aggregate principal amount of Exchange Notes pursuant to our Prospect Capital InterNotes® program that provides original holders of such Exchange Notes with the option of exchanging such Exchange Notes for any issue of additional notes by us of at least \$250,000,000 in aggregate principal amount that are pari passu with such Exchange Notes. This option expires on May 21, 2014. In the event that this offering is greater than \$250,000,000, holders of such Exchange Notes shall have the right to exchange their Exchange Notes for the Notes offered hereby. In the event any original holder of such Exchange Notes desires to exercise its exchange option, it must do so no later than 5:00 pm on the business day following the date of this preliminary prospectus supplement, unless otherwise extended by us. Our Board of Directors has approved the issuance of up to an additional \$50,000,000 of Notes in the event that holders of Exchange Notes exercise such option.</p>

## 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, 2013, 2012, 2011, 2010 and 2009 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 and six months ended December 31, 2013 and 2012 has been derived from unaudited financial data. Interim results for the three and six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ending June 30, 2014. 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-15 for more information.

	For the Three Months Ended December 31,		For the Six Months Ended December 31,		For the Year Ended June 30,					
	2013	2012	2013	2012	2013	2012	2011	2010	2009	
(in thousands except data relating to shares, per share and number of portfolio companies)										
<b>Performance Data:</b>										
Interest income	\$ 147,103	\$ 116,866	\$ 285,524	\$ 195,176	\$ 435,455	\$ 219,536	\$ 134,454	\$ 86,518	\$ 62,926	
Dividend income	8,892	31,955	15,981	68,163	82,705	64,881	15,092	15,366	22,793	
Other income	22,095	17,214	37,619	26,332	58,176	36,493	19,930	12,675	14,762	
<b>Total investment income</b>	<b>178,090</b>	<b>166,035</b>	<b>339,124</b>	<b>289,671</b>	<b>576,336</b>	<b>320,910</b>	<b>169,476</b>	<b>114,559</b>	<b>100,481</b>	
Interest and credit facility expenses	(29,256)	(16,414)	(56,663)	(29,925)	(76,341)	(38,534)	(17,598)	(8,382)	(6,161)	
Investment advisory expense	(48,129)	(41,110)	(91,758)	(72,845)	(151,031)	(82,507)	(46,051)	(30,727)	(26,705)	
Other expenses	(8,490)	(9,295)	(16,151)	(13,658)	(24,040)	(13,185)	(11,606)	(8,260)	(8,452)	
<b>Total expenses</b>	<b>(85,875)</b>	<b>(66,819)</b>	<b>(164,572)</b>	<b>(116,428)</b>	<b>(251,412)</b>	<b>(134,226)</b>	<b>(75,255)</b>	<b>(47,369)</b>	<b>(41,318)</b>	
<b>Net investment income</b>	<b>92,215</b>	<b>99,216</b>	<b>174,552</b>	<b>173,243</b>	<b>324,924</b>	<b>186,684</b>	<b>94,221</b>	<b>67,190</b>	<b>59,163</b>	
<b>Realized and unrealized (losses) gains</b>	<b>(6,853)</b>	<b>(52,727)</b>	<b>(9,290)</b>	<b>(79,505)</b>	<b>(104,068)</b>	<b>4,220</b>	<b>24,017</b>	<b>(47,565)</b>	<b>(24,059)</b>	
<b>Net increase in net assets from operations</b>	<b>\$ 85,362</b>	<b>\$ 46,489</b>	<b>\$ 165,262</b>	<b>\$ 93,738</b>	<b>\$ 220,856</b>	<b>\$ 190,904</b>	<b>\$ 118,238</b>	<b>\$ 19,625</b>	<b>\$ 35,104</b>	

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<b>Per Share Data:</b>																		
Net increase in net assets from operations(1)	\$	0.30	\$	0.24	\$	0.61	\$	0.52	\$	1.07	\$	1.67	\$	1.38	\$	0.33	\$	1.11
Distributions declared per share	\$	(0.33)	\$	(0.31)	\$	(0.66)	\$	(0.62)	\$	(1.28)	\$	(1.22)	\$	(1.21)	\$	(1.33)	\$	(1.62)
Average weighted shares outstanding for the period		287,016,433		195,585,502		272,550,293		179,039,198		207,069,971		114,394,554		85,978,757		59,429,222		31,559,905
<b>Assets and Liabilities Data:</b>																		
Investments	\$	4,886,020	\$	3,038,808	\$	4,886,020	\$	3,038,808	\$	4,172,852	\$	2,094,221	\$	1,463,010	\$	748,483	\$	547,168
Other assets		308,002		490,913		308,002		490,913		275,365		161,033		86,307		84,212		119,857
Total assets		5,194,022		3,529,721		5,194,022		3,529,721		4,448,217		2,255,254		1,549,317		832,695		667,025
Amount drawn on credit facility										124,000		96,000		84,200		100,300		124,800
Senior convertible notes		847,500		847,500		847,500		847,500		847,500		447,500		322,500				
Senior unsecured notes		347,814		100,000		347,814		100,000		347,725		100,000						
Prospect Capital InterNotes@		600,907		164,993		600,907		164,993		363,777		20,638						
Amount owed to related parties		49,849		2,392		49,849		2,392		6,690		8,571		7,918		9,300		6,713
Other liabilities		116,853		88,201		116,853		88,201		102,031		70,571		20,342		11,671		2,916
Total liabilities		1,962,923		1,203,086		1,962,923		1,203,086		1,791,723		743,280		434,960		121,271		134,429
Net assets	\$	3,231,099	\$	2,326,635	\$	3,231,099	\$	2,326,635	\$	2,656,494	\$	1,511,974	\$	1,114,357	\$	711,424	\$	532,596

<b>Investment Activity Data:</b>																		
No. of portfolio companies at period end		130		106		130		106		124		85		72		58		30
Acquisitions	\$	607,657	\$	772,125	\$	1,164,500	\$	1,520,062	\$	3,103,217	\$	1,120,659	\$	953,337	\$	364,788(2)	\$	98,305
Sales, repayments, and other	\$	255,238	\$	349,269	\$	419,405	\$	507,392	\$	931,534	\$	500,952	\$	285,562	\$	136,221	\$	27,007

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disposals

Total return based on market value(3)	3.41%	(2.99)%	10.12%	0.71%	6.2%	27.2%	17.2%	17.7%	(18.6)%
Total return based on net asset value(3)	3.04%	2.14%	6.09%	5.33%	10.9%	18.0%	12.5%	(6.8)%	(0.6)%
Weighted average yield at end of period(4)	12.9%	14.7%	12.9%	14.7%	13.6%	13.9%	12.8%	16.2%	14.6%

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

**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 March 28, 2014, we and our subsidiary had \$629 million of secured indebtedness outstanding and approximately \$2,592 million of 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 substantially 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 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 credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt.

***A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us or the Notes, if any, could cause the liquidity or market value of the Notes to decline significantly.***

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. Neither we nor the underwriters undertake any obligation to maintain the ratings or to advise holders of Notes of any changes in ratings.

The Notes will be rated by Standard & Poor's Ratings Services, or "S&P", and Kroll Bond Rating Agency, Inc., or "Kroll." There can be no assurance that their rating will remain for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P or Kroll if in their respective judgment future circumstances relating to the basis of the rating, such as adverse changes in our company, so warrant.

***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 subsidiary, and are due after our other outstanding notes.***

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 senior indebtedness, including without limitation, the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes, the 2023 Notes and any Prospect Capital InterNotes®. 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 subsidiary. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The Notes do not restrict us or our subsidiary 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 March 28, 2014, we had \$629.0 million of 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.

Each of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and \$260.5 million aggregate principal amount of Prospect Capital InterNotes® are due prior to the Notes. We do not currently know whether we will be able to replace any such 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 or any of \$260.5 million aggregate principal amount of Prospect Capital InterNotes® 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 under which the Notes will be issued will contain limited protection for holders of the Notes.***

The Indenture under which the Notes will be issued will offer limited protection to holders of the Notes. The terms of the Indenture and the Notes do not restrict our or any of our subsidiary's ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events

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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 subsidiary's 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 subsidiary and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiary that would be senior to our equity interests in our subsidiary and therefore rank structurally senior to the Notes with respect to the assets of our subsidiary, 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 subsidiary) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiary.

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 subsidiary 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 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.

***We may be subject to certain corporate-level taxes which could adversely affect our cash flow and consequently adversely affect our ability to make payments on the Notes.***

We may be subject to certain corporate-level taxes regardless of whether we continue to qualify as a RIC. Additionally, should we fail to qualify as a RIC, we would be subject to corporate-level taxes on

all of our taxable income. The imposition of corporate-level taxes could adversely affect our cash flow and consequently adversely affect our ability to make payments on the Notes.

***There is currently no public market for the Notes, and an active trading market may not develop for the Notes. The failure of a market to develop for the Notes could adversely affect the liquidity and value of your Notes.***

The Notes are a new issue of securities, and there is no existing market for the Notes. We do not intend to apply for listing of the Notes on any securities exchange or for quotation of the Notes on any automated dealer quotation system. We have been advised by the underwriters that following the completion of the offering, the underwriters currently intend to make a market in the Notes. However, the underwriters are not obligated to do so and any market-making activities with respect to the Notes may be discontinued by them at any time without notice. In addition, any market-making activity will be subject to limits imposed by law. A market may not develop for the Notes, and there can be no assurance as to the liquidity of any market that may develop for the Notes. If an active, liquid market does not develop for the Notes, the market price and liquidity of the Notes may be adversely affected. If any of the Notes are traded after their initial issuance, they may trade at a discount from their initial discounted offering price. The liquidity of the trading market, if any, and future trading prices of the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors.

***The Indenture governing the Notes will not contain restrictive covenants and will provide only limited protection in the event of a change of control.***

The Indenture under which the Notes will be issued will not contain any financial or operating covenants or any other restrictive covenants that would limit our ability to engage in certain transactions that may adversely affect you. In particular, the Indenture will not contain covenants that limit our ability to pay dividends or make distributions on or redeem our capital stock or that limit our ability to incur additional indebtedness, including in a highly leveraged transaction or other similar transaction. We will only be required to offer to repurchase the Notes upon a change of control in the case of the transactions specified in the definition of a "fundamental change" under "Description of the Notes Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change."

Accordingly, subject to restrictions contained in our other debt agreements, we will be permitted to engage in certain transactions, such as acquisitions, refinancings or recapitalizations, that could affect our capital structure and the value of the Notes but would not constitute a fundamental change under the Notes.

***We may be unable to repurchase the Notes following a fundamental change.***

Holders of the Notes have the right to require us to repurchase the Notes prior to their maturity upon the occurrence of a fundamental change as described under "Description of the Notes Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change." Any of our future debt agreements may contain similar provisions. We may not have sufficient funds or the ability to arrange necessary financing on acceptable terms at the time we are required to make repurchases of tendered Notes. In addition, our ability to repurchase the Notes may be limited by law or the terms of other agreements relating to our debt outstanding at the time, including our credit facility. If we fail to repurchase the Notes as required by the Indenture, it would constitute an event of default under the Indenture governing the Notes, which, in turn, would constitute an event of default under our credit facility.



*Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Notes.*

Upon the occurrence of a fundamental change, you have the right to require us to offer to repurchase the Notes. However, the fundamental change provisions will not afford protection to holders of the Notes in the event of certain transactions. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us would not constitute a fundamental change event which may require us to repurchase the Notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of the Notes.

*Provisions of the Notes could discourage an acquisition of us by a third party.*

Certain provisions of the Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change event, holders of the Notes will have the right, at their option, to require us to repurchase all of their Notes or any portion of the principal amount of such Notes in integral multiples of \$1,000.

**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 that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We currently have seven 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, and (7) investments in syndicated debt. 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 mezzanine 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. This strategy has comprised approximately 5%-15% 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, subprime auto lending and other strategies.

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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 10%-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 Holdings Corp., National Property Holdings Corp., and United Property Holdings Corp. 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. We 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.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated 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. Mezzanine debt and 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 seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was \$4,886,020 and \$4,172,852 as of December 31, 2013 and June 30, 2013, respectively. During the six months ended December 31, 2013, our net cost of investments increased by \$720,576, or 16.9%, as a result of twenty-three new investments, two revolver advances and several follow-on investments of \$1,154,655, accrued of payment-in-kind interest of \$9,845, structuring fees of \$15,533 and net amortization of discounts and premiums of \$23,133, while we received full repayments on twelve investments, sold eight investments and restructured one investment, for which we realized a net loss of \$5,373, received \$3,466 from the release of escrow amounts which was recognized as a capital gain, and received several partial prepayments, amortization payments and a revolver repayment totaling \$419,405.

Compared to the end of last fiscal year (ended June 30, 2013), net assets increased by \$574,605 or 21.6% during the six months ended December 31, 2013, from \$2,656,494 to \$3,231,099. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$583,565, dividend reinvestments of \$9,093, and another \$165,262 from operations. These increases, in turn, were offset by \$183,315 in dividend distributions to our stockholders. The \$165,262 increase in net assets resulting from operations is net of the following: net investment income of \$174,552, net realized

loss on investments of \$1,882, and a decrease in net assets due to changes in net unrealized depreciation on investments of \$7,408.

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

## Second Quarter Highlights

### *Investment Transactions*

During the three months ended December 31, 2013, we acquired \$265,916 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$330,977, funded \$5,500 of revolver advances, and recorded PIK interest of \$5,264, resulting in gross investment originations of \$607,657. The more significant of these investments are discussed in *Portfolio Investment Activity*.

### *Proposed Investment Transactions*

On December 17, 2013, we entered into a definitive agreement to acquire 100% of the common stock of Nicholas Financial, Inc. ("Nicholas") for \$16.00 per share. Nicholas is a specialty finance company headquartered in Clearwater, Florida. Nicholas is engaged primarily as an indirect lender in the consumer automobile lending business, where Nicholas purchases loans originated by more than 1,600 car dealerships. Subject to certain conditions, the transaction is currently contemplated to close in April 2014, although this timing could be earlier or later depending on the time required to obtain the requisite approvals.

If the arrangement is completed, each outstanding share of common stock of Nicholas Financial-Canada will be converted into the right to receive the number of shares of common stock of Prospect determined by dividing \$16.00 by the volume-weighted average price of Prospect common stock for the 20 trading days prior to and ending on the trading day immediately preceding the effective time of the arrangement. Each option to acquire shares of Nicholas Financial-Canada common stock outstanding immediately prior to the effective time of the arrangement will be cancelled or transferred by the holder thereof in exchange for a cash amount equal to the amount by which (i) the product obtained by multiplying (x) the number of Common Shares of Nicholas Financial-Canada underlying such option by (y) \$16.00 exceeds (ii) the aggregate exercise price payable under such option. As of January 31, 2014, the last reported sales price for Prospect common stock was \$10.87.

Including the \$199,466 equity valuation for Nicholas and after taking into consideration its outstanding net debt, which is currently \$126,526, the overall value placed on Nicholas in the transaction is approximately \$325,992 before estimated transaction fees and expenses. Upon closing the transaction, Prospect intends to refinance the business using proceeds from a newly committed \$250,000 revolving credit facility from bank lenders and an operating company term loan that Prospect will provide. The aggregate net proceeds from this recapitalization will be used to repay the existing debt of Nicholas and return a portion of capital issued by Prospect to complete the transaction on the closing date. After receipt of the recapitalization cash distribution, Prospect will have a net investment in the transaction of approximately \$139,521.

Prospect's post-recapitalization \$139,521 investment in Nicholas is expected to consist of \$124,593 of operating and holding company term loans and \$14,928 of a holding company equity investment.

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### Equity Issuance

During the period from October 1, 2013 to December 31, 2013, we sold 29,406,729 shares of our common stock at an average price of \$11.26 per share, and raised \$331,040 of gross proceeds, under the ATM Program. Net proceeds were \$327,522 after commissions to the broker-dealer on shares sold and offering costs.

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,595,882 of additional debt and equity securities in the public market as of December 31, 2013.

On October 24, 2013, November 21, 2013 and December 19, 2013, we issued 135,212, 206,586 and 106,620 shares of our common stock in connection with the dividend reinvestment plan, respectively.

### Dividend

On November 4, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110400 per share for April 2014 to holders of record on April 30, 2014 with a payment date of May 22, 2014;

\$0.110425 per share for May 2014 to holders of record on May 30, 2014 with a payment date of June 19, 2014; and

\$0.110450 per share for June 2014 to holders of record on June 30, 2014 with a payment date of July 24, 2014.

### Credit Facility

On October 2, 2013 and December 6, 2013, we announced an increase of \$20,000 and \$62,500 to our commitments to our credit facility, respectively. The lenders have extended commitments of \$650,000 as of December 31, 2013; which was increased to \$712,500 in January 2014 (see *Recent Developments*).

### Debt Issuance

During the quarter ended December 31, 2013, we issued \$140,525 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$138,050, as follows:

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	16,545	4.00%	4.00%	November 15, 2017 - December 15, 2017
5	74,043	5.00%	5.00%	October 15, 2018 - December 15, 2018
7	20,039	5.50%	5.50%	October 15, 2020 - December 15, 2020
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	1,555	6.00%	6.00%	October 15, 2028 - November 15, 2028
20	1,664	6.00%	6.00%	October 15, 2033
25	9,894	6.50%	6.50%	October 15, 2038 - December 15, 2038
30	4,948	6.50%	6.50%	October 15, 2043
<b>\$ 140,525</b>				



## Investment Holdings

As of December 31, 2013, we continue to pursue our diversified investment strategy. At December 31, 2013, approximately \$4,886,020 or 151.2% of our net assets are invested in 130 long-term portfolio investments and CLOs and 6.9% of our net assets are invested in money market funds.

During the six months ended December 31, 2013, we originated \$1,164,500 of new investments, primarily composed of \$529,376 of debt and equity financing to non-control investments, \$429,405 of debt and equity financing to controlled investments, and \$205,719 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close select junior debt and equity investments. Our annualized current yield was 13.6% and 12.9% as of June 30, 2013 and December 31, 2013, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily the result of senior secured loan refinancing activity that took place in the leveraged loan market and within our CLO portfolios during the first half of calendar year 2013. 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 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 more than 25% of the voting securities of an investee company. Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of the investee company.

As of December 31, 2013, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), APH Property Holdings, LLC ("APH"), AWCNC, LLC, Borga, Inc., CCPI Holdings, Inc., CP Holdings of Delaware LLC ("CP Holdings"), Credit Central Holdings of Delaware, LLC ("Credit Central"), Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Holdings of Delaware, LLC ("First Tower"), Gulf Coast Machine & Supply Company ("Gulf Coast"), The Healing Staff, Inc. ("THS"), Manx Energy, Inc. ("Manx"), MITY Holdings of Delaware Inc. ("Mity"), Nationwide Acceptance Holdings, LLC ("Nationwide"), NMMB Holdings, Inc. ("NMMB"), NPH Property Holdings, LLC ("NPH"), R-V Industries, Inc. ("R-V"), UPH Property Holdings, LLC ("UPH"), Valley Electric Holdings I, Inc. ("Valley Electric") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork), Boxercraft Incorporated and Smart, LLC.

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The following is a summary of our investment portfolio by level of control at December 31, 2013 and June 30, 2013, respectively:

Level of Control	December 31, 2013				June 30, 2013			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 1,236,286	24.8%	\$ 1,163,300	23.8%	\$ 830,151	19.5%	\$ 811,634	19.5%
Affiliate	49,278	1.0%	38,880	0.8%	49,189	1.2%	42,443	1.0%
Non-control/Non-affiliate	3,690,790	74.2%	3,683,840	75.4%	3,376,438	79.3%	3,318,775	79.5%
<b>Total Portfolio</b>	<b>\$ 4,976,354</b>	<b>100.0%</b>	<b>\$ 4,886,020</b>	<b>100.0%</b>	<b>\$ 4,255,778</b>	<b>100.0%</b>	<b>\$ 4,172,852</b>	<b>100.0%</b>

The following is our investment portfolio presented by type of investment at December 31, 2013 and June 30, 2013, respectively:

Type of Investment	December 31, 2013				June 30, 2013			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Revolving Line of Credit	\$ 12,595	0.3%	\$ 11,974	0.2%	\$ 9,238	0.2%	\$ 8,729	0.2%
Senior Secured Debt	2,746,971	55.2%	2,682,361	54.9%	2,262,327	53.1%	2,207,091	52.8%
Subordinated Secured Debt	1,012,293	20.3%	980,206	20.1%	1,062,386	25.0%	1,024,901	24.6%
Subordinated Unsecured Debt	99,933	2.0%	100,000	2.0%	88,470	2.1%	88,827	2.1%
CLO Debt	27,889	0.6%	33,466	0.7%	27,667	0.7%	28,589	0.7%
CLO Residual Interest	821,653	16.5%	864,618	17.7%	660,619	15.5%	658,086	15.8%
Preferred Stock	84,052	1.7%	10,709	0.2%	25,016	0.6%	14,742	0.4%
Common Stock	168,591	3.4%	169,148	3.5%	117,678	2.7%	108,494	2.6%
Membership Interests	216	0.0%	4,111	0.1%	216	0.0%	492	0.0%
Net Profits Interests		%	20,309	0.4%		%	20,959	0.5%
Escrows Receivable		%	1,942	0.0%		%	4,662	0.1%
Warrants	2,161	0.0%	7,176	0.2%	2,161	0.1%	7,280	0.2%
<b>Total Portfolio</b>	<b>\$ 4,976,354</b>	<b>100.0%</b>	<b>\$ 4,886,020</b>	<b>100.0%</b>	<b>\$ 4,255,778</b>	<b>100.0%</b>	<b>\$ 4,172,852</b>	<b>100.0%</b>

The following are our investments in interest bearing securities presented by type of investment at December 31, 2013 and June 30, 2013, respectively:

Type of Investment	December 31, 2013				June 30, 2013			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
First Lien	\$ 2,759,566	58.5%	\$ 2,694,335	57.7%	\$ 2,271,565	55.3%	\$ 2,215,820	55.2%
Second Lien	1,012,293	21.4%	980,206	21.0%	1,062,386	25.8%	1,024,901	25.5%
Unsecured CLO Residual Interest	99,933	2.1%	100,000	2.1%	88,470	2.2%	88,827	2.2%
Interest	821,653	17.4%	864,618	18.5%	660,619	16.0%	658,086	16.4%
CLO Debt	27,889	0.6%	33,466	0.7%	27,667	0.7%	28,589	0.7%



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Total Debt Securities	\$ 4,721,334	100.0%	\$ 4,672,625	100.0%	\$ 4,110,707	100.0%	\$ 4,016,223	100.0%
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The following is our investment portfolio presented by geographic location of the investment at December 31, 2013 and June 30, 2013, respectively:

Geographic Location	December 31, 2013				June 30, 2013			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	\$ 15,000	0.3%	\$ 15,000	0.3%	\$ 165,000	3.9%	\$ 165,000	4.0%
Cayman Islands	849,542	17.1%	898,084	18.4%	688,286	16.2%	686,675	16.5%
France	10,198	0.2%	10,203	0.2%		0.0%		0.0%
Ireland	14,933	0.3%	15,000	0.3%	14,927	0.4%	15,000	0.4%
Midwest US	716,395	14.4%	691,414	14.2%	565,239	13.3%	531,934	12.7%
Northeast US	733,469	14.7%	730,542	15.0%	649,484	15.3%	663,025	15.9%
Puerto Rico	41,155	0.8%	35,589	0.7%	41,352	1.0%	41,352	1.0%
Southeast US	1,308,158	26.3%	1,267,657	25.9%	1,111,946	26.0%	1,081,320	25.8%
Southwest US	536,671	10.8%	507,329	10.4%	345,392	8.1%	336,362	8.1%
Western US	750,833	15.1%	715,202	14.6%	674,152	15.8%	652,184	15.6%
<b>Total Portfolio</b>	<b>\$ 4,976,354</b>	<b>100.0%</b>	<b>\$ 4,886,020</b>	<b>100.0%</b>	<b>\$ 4,255,778</b>	<b>100.0%</b>	<b>\$ 4,172,852</b>	<b>100.0%</b>

The following is our investment portfolio presented by industry sector of the investment at December 31, 2013 and June 30, 2013, respectively:

Industry	December 31, 2013				June 30, 2013			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	\$ 10,203	0.2%	\$ 10,203	0.2%	\$ 56	0.0%	\$	%
Automobile / Auto Finance	23,349	0.5%	23,472	0.5%	23,214	0.6%	22,917	0.5%
Biotechnology		%	15	0.0%		%	14	0.0%
Business Services	207,918	4.2%	207,918	4.3%	180,793	4.2%	179,544	4.3%
Chemicals	19,619	0.4%	19,619	0.4%	28,364	0.7%	28,648	0.7%
Commercial Services	239,307	4.8%	239,307	4.9%	252,073	5.9%	252,073	6.0%
Construction and Engineering	55,228	1.1%	38,941	0.8%	53,615	1.3%	53,615	1.3%
Consumer Finance	417,505	8.4%	427,617	8.8%	413,332	9.7%	406,964	9.8%
Consumer Services	374,139	7.5%	376,060	7.7%	330,343	7.8%	332,394	8.0%
Contracting	3,831	0.1%		%	2,145	0.1%		%
Diversified Financial Services	887,878	17.8%	936,420	19.2%	745,705	17.5%	742,434	17.8%
Diversified / Conglomerate Service		%	1,745	0.0%		%	143	0.0%
Durable Consumer Products	397,298	7.9%	393,143	8.1%	380,225	8.9%	370,207	8.9%
Ecological		%		%	141	0.0%	335	0.0%
Electronics		%		%		%	149	0.0%
Energy	78,492	1.6%	69,776	1.4%	63,895	1.5%	56,321	1.3%
Food Products	174,148	3.5%	174,153	3.6%	177,423	4.2%	177,428	4.3%
Healthcare	280,640	5.6%	274,019	5.6%	275,124	6.5%	273,838	6.6%
Hotel, Restaurant & Leisure	99,178	2.0%	99,400	2.0%	11,764	0.3%	12,000	0.3%
Machinery	396	0.0%	804	0.0%	396	0.0%	790	0.0%
Manufacturing	210,958	4.2%	176,035	3.6%	163,431	3.8%	167,584	4.0%
Media	124,618	2.5%	111,926	2.3%	171,290	4.0%	161,325	3.9%
Metal Services and Minerals	60,429	1.2%	59,481	1.2%	60,162	1.4%	60,274	1.4%
Oil and Gas Production	169,128	3.4%	123,691	2.5%	75,126	1.8%	24,420	0.6%
Personal and Nondurable Consumer Products	84,254	1.7%	84,865	1.7%	39,000	0.9%	39,630	0.9%
Pharmaceuticals	79,062	1.6%	77,057	1.6%		%		%
Property Management	57,499	1.2%	49,467	1.0%	51,170	1.2%	54,648	1.3%
Real Estate	322,708	6.5%	322,708	6.6%	152,540	3.6%	152,540	3.7%
Retail	14,209	0.3%	14,622	0.3%	14,190	0.3%	14,569	0.3%
Software & Computer Services	262,300	5.3%	263,255	5.4%	307,734	7.2%	309,308	7.4%
Specialty Minerals	38,500	0.8%	40,488	0.8%	38,500	0.9%	42,558	1.0%

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Telecommunications	75,000	1.5%	75,000	1.5%	99,500	2.3%	99,323	2.4%
Textiles, Apparel & Luxury Goods	115,649	2.3%	104,111	2.1%	16,760	0.4%	9,385	0.2%
Transportation	92,911	1.9%	90,702	1.9%	127,767	3.0%	127,474	3.1%
<b>Total Portfolio</b>	<b>\$ 4,976,354</b>	<b>100.0%</b>	<b>\$ 4,886,020</b>	<b>100.0%</b>	<b>\$ 4,255,778</b>	<b>100.0%</b>	<b>\$ 4,172,852</b>	<b>100.0%</b>

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**Portfolio Investment Activity**

During the six months ended December 31, 2013, we acquired \$758,435 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$386,720, funded \$9,500 of revolver advances, and recorded PIK interest of \$9,845, resulting in gross investment originations of \$1,164,500. The more significant of these investments are described briefly in the following:

On July 12, 2013, we provided \$11,000 of secured second lien financing to Water PIK, Inc., a leader in developing innovative personal and oral healthcare products. The second lien term loan bears interest in cash at the greater of 9.75% or Libor plus 8.75% and has a final maturity of January 8, 2021.

On July 23, 2013, we made a \$2,000 investment in Carolina Beverage Group, LLC ("Carolina Beverage"), a contract beverage manufacturer. The senior secured note bears interest in cash at 10.5% and has a final maturity of July 23, 2018.

On July 26, 2013, we made a \$2,000 follow-on senior secured debt investment in Spartan Energy Services, Inc. ("Spartan") to finance the formation of the Well Testing division. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

On July 26, 2013, we made a \$20,000 follow-on secured second lien investment in Royal Adhesives & Sealants, LLC ("Royal") to facilitate an acquisition. The second lien term loan bears interest in cash at the greater of 9.75% or Libor plus 8.5% and has a final maturity of January 31, 2019.

On July 31, 2013, we made a \$5,100 follow-on investment in Coverall North America, Inc. to fund a dividend recapitalization. The first lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and has a final maturity of December 17, 2017.

On August 2, 2013, we made an investment of \$44,100 to purchase 90% of the subordinated notes in CIFC Funding 2013-III, Ltd.

On August 2, 2013, we provided \$81,273 of debt and \$12,741 of equity financing to support the recapitalization of CP Holdings, an energy services company based in western Oklahoma. Through the recapitalization, we acquired a controlling interest in CP Holdings for \$73,009 in cash and 1,918,342 unregistered shares of our common stock. After the financing, we received repayment of the \$18,991 loan previously outstanding. The \$58,773 first lien note issued to CP Energy Services Inc. bears interest in cash at the greater of 9.0% or Libor plus 7.0% and interest payment in kind of 9.0% and has a final maturity of August 2, 2018. The \$22,500 first lien note issued to CP Well Testing Holding Company LLC bears interest in cash at the greater of 11.0% or Libor plus 9.0% and has a final maturity of August 2, 2018.

On August 9, 2013, we provided \$80,000 in senior secured loans and a senior secured revolving loan facility, of which \$70,000 was funded at closing, for the recapitalization of Matrixx Initiatives, Inc., owner of Zicam, a developer and marketer of OTC cold remedy products under the Zicam brand. The \$35,000 Term Loan A note bears interest in cash at the greater of 7.5% or Libor plus 6.0% and has a final maturity of August 9, 2018. The \$35,000 Term Loan B note bears interest in cash at the greater of 12.5% or Libor plus 11.0% and has a final maturity of August 9, 2018. The \$10,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.0% or Libor plus 8.5% and has a final maturity of February 9, 2014.

On August 15, 2013, we made a \$14,000 follow-on investment in Totes Isotoner Corporation to fund a dividend to shareholders. The second lien term loan bears interest in cash at the greater of 10.75% or Libor plus 9.25% and has a final maturity of January 8, 2018.

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On August 30, 2013, we made a \$16,000 follow-on investment in System One Holdings, LLC to support an acquisition. The first lien note bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of December 31, 2018.

On September 5, 2013, we provided a \$50,382 senior secured term loan to United Bank Card, Inc. (d/b/a Harbortouch) ("Harbortouch"), a payments processor. The first lien term loan bears interest in cash at the greater of 11.5% or Libor plus 9.5% and has a final maturity of September 5, 2018.

On September 10, 2013, we made a \$12,500 first lien secured investment in Photonis Technologies SAS ("Photonis"), a world leader in the development, manufacture and sale of electro-optic components for the detection and intensification of very faint light sources. The first lien term loan bears interest in cash at the greater of 8.5% or Libor plus 7.5% and has a final maturity of September 18, 2019.

On September 11, 2013, we provided a \$75,000 senior secured term loan to support the recapitalization of American Broadband Holding Company and Cameron Holdings of NC, Inc., a provider of voice, video, and high-speed internet services. The first lien Term Loan B bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of September 30, 2018.

On September 13, 2013, we made an investment of \$36,515 to purchase 83.56% of the subordinated notes in Apidos CLO XV, Ltd.

On September 19, 2013, we provided \$41,042 of debt and \$6,943 of equity financing to support the recapitalization of Mity, a designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products. The \$22,792 first lien note issued to Mity bears interest in cash at the greater of 9.0% or Libor plus 7.0% and interest payment in kind of 9.0% and has a final maturity of September 19, 2019. The \$18,250 first lien note issued to Mity-Lite, Inc. bears interest in cash at the greater of 10.0% or Libor plus 7.0% and has a final maturity of March 19, 2019.

On September 25, 2013, we made a \$12,000 subordinated secured second lien investment in NCP Finance Limited Partnership, a lender to short term loan providers in the alternative financial services industry. The subordinated secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of September 30, 2018.

On September 30, 2013, we made an investment of \$20,945 to purchase 51.02% of the subordinated notes in Galaxy XVI CLO, Ltd.

On September 30, 2013, we made an \$18,818 follow-on investment in JHH Holdings, Inc. to finance an acquisition. The second lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and interest payment in kind of 0.5% and has a final maturity of March 30, 2019.

On October 1, 2013, we made a \$2,600 follow-on investment in AIRMALL to support liquidity needs. The subordinated secured note bears interest in cash at 12.0% and interest payment in kind of 6.0% and has a final maturity of December 31, 2015.

On October 11, 2013, we made a \$5,846 follow-on investment in CP Holdings to fund flowback equipment purchases. We invested \$746 of equity and \$5,100 of debt in CP Holdings. The first lien note issued to CP Energy Services Inc. bears interest in cash at the greater of 9.0% or Libor plus 7.0% and interest payment in kind of 9.0% and has a final maturity of August 2, 2018.

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 loan previously outstanding.

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On October 11, 2013, we made a secured debt investment of \$2,000 in Digital Insight, a provider of digital banking software to financial institutions in the U.S. which allows financial institutions to offer a comprehensive, user friendly platform of products and services through the online and mobile channels.

On October 16, 2013, we made a secured debt investment of \$7,000 in Renaissance Learning, Inc. ("Renaissance"), a provider of technology based school improvement and student assessment programs.

On October 22, 2013, we made an investment of \$40,791 to purchase 85.05% of the subordinated notes in CIFC Funding 2013-IV, Ltd.

On October 29, 2013, we made a \$2,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to NPH.

On October 29, 2013, we made a secured debt investment of \$2,500 in Omnitrac, Inc. ("Omnitrac"), one of the world's largest providers of satellite and terrestrial-based connectivity and position location solutions to transportation and logistics companies.

On October 30, 2013, we made a secured debt investment of \$6,000 in The Petroleum Place, Inc. ("P2"), a provider of enterprise resource planning software focused on the oil & gas industry.

On November 1, 2013, we made a \$9,869 follow-on investment in APH to acquire Bexley Apartment Houses, a multi-family residential property located in Marietta, Georgia. We invested \$1,669 of equity and \$8,200 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to NPH.

On November 5, 2013, we made a \$2,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to NPH.

On November 8, 2013, we provided \$25,950 in preferred equity for the recapitalization of Gulf Coast, a provider of value-added forging solutions to energy and industrial end markets. Through the recapitalization, we acquired a controlling interest in Gulf Coast. After the financing, we received partial repayment of the loan previously outstanding, leaving a balance of \$15,000. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On November 14, 2013, we made an investment of \$26,064 to purchase 61.30% of the subordinated notes in Sudbury Mill CLO Ltd.

On November 15, 2013, we made a \$45,900 follow-on investment in APH to acquire the Gulf Coast Portfolio, a portfolio of six multi-family residential properties located in Alabama and Florida. We invested \$7,400 of equity and \$38,500 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

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On November 19, 2013, we made a \$66,188 follow-on investment in APH to acquire the Oxford Portfolio, a portfolio of six multi-family residential properties located in Georgia, Florida, North Carolina and Texas. We invested \$11,188 of equity and \$55,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to NPH.

On November 20, 2013, we made a secured debt investment of \$1,000 in Chromaflo Technologies ("Chromaflo"), a producer of colorants and related specialty chemical products based in Ohio.

On November 25, 2013, we restructured our investment in Freedom Marine Holdings, LLC ("Freedom Marine"), a subsidiary of Energy Solutions. The subordinated secured loan to Jettco Marine Services, LLC ("Jettco"), a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel Holdings II, LLC, a new subsidiary of Freedom Marine. The \$13,000 first lien note issued to Vessel Holdings II, LLC bears interest in cash at 13.0% and has a final maturity of November 25, 2018.

On November 25, 2013, we made a \$2,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to NPH.

On November 25, 2013, we made a \$5,000 follow-on investment in AIRMALL to support liquidity needs. The subordinated secured note bears interest in cash at 12.0% and interest payment in kind of 6.0% and has a final maturity of December 31, 2015.

On November 29, 2013, we made a \$1,000 follow-on senior secured debt investment in Gulf Coast to fund working capital needs. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, a new subsidiary of Freedom Marine, a subsidiary of Energy Solutions. The first lien note bears interest in cash at 13.0% and has a final maturity of December 3, 2018.

On December 4, 2013, we made a \$5,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$750 of equity and \$4,250 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to NPH.

On December 12, 2013, we made a \$22,507 follow-on investment in APH to acquire the Stonemark Portfolio, a portfolio of six multi-family residential properties located in Atlanta, Georgia. We invested \$3,707 of equity and \$18,800 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to UPH.

On December 13, 2013, we provided \$8,086 in preferred equity for the recapitalization of NMMB. After the restructuring, we received full repayment of \$2,800 of the subordinated term loan and partial repayment of \$5,286 of the senior term loan previously outstanding.

On December 13, 2013, we purchased an additional \$5,000 investment in TGG Medical Transitory, Inc., a developer of technologies for extracorporeal photopheresis treatments. The

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second lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

On December 16, 2013, we made a \$1,500 follow-on senior secured debt investment in Gulf Coast to fund working capital needs. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On December 18, 2013, we made a \$5,000 follow-on investment in Spartan to fund capital expenditures across all divisions. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

On December 18, 2013, we made an investment of \$39,876 to purchase 90% of the subordinated notes in Cent CLO 20 Limited.

On December 20, 2013, we made a secured debt investment of \$9,000 in Harley Marine Services, Inc., a provider of marine transportation services. The second lien term loan bears interest in cash at the greater of 10.5% or Libor plus 9.25% and has a final maturity of December 20, 2019.

On December 23, 2013, we provided \$102,400 of senior secured financing, of which \$87,400 was funded at closing, for the recapitalization of PrimeSport, Inc. ("PrimeSport"), a global live entertainment and event management company. The \$43,700 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 \$43,700 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.5% and interest payment in kind of 1.0% and has a final maturity of December 23, 2019. The \$15,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.0% or Libor plus 9.5% and has a final maturity of June 23, 2014.

On December 26, 2013, we made a \$13,641 follow-on investment in CP Holdings to fund the acquisition of additional equipment. We invested \$1,741 of equity and \$11,900 of debt in CP Holdings. The first lien note issued to CP Energy Services Inc. bears interest in cash at the greater of 9.0% or Libor plus 7.0% and interest payment in kind of 9.0% and has a final maturity of August 2, 2018.

On December 30, 2013, we made a secured debt investment of \$40,000 in Crosman Corporation, the world's leading designer, manufacturer and marketer of airguns, airsoft guns and related category consumables. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of December 30, 2019.

On December 30, 2013, we made a \$10,000 follow-on investment in First Tower to support seasonal demand. We invested \$1,500 of equity and \$8,500 of debt in First Tower. The first lien term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of June 30, 2022.

On December 30, 2013, we made a \$45,000 follow-on investment in Progrexion Holdings, Inc. to fund a dividend recapitalization. The senior secured first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On December 31, 2013, we made a \$10,620 follow-on investment in NPH to acquire Indigo Apartments, a multi-family residential property located in Jacksonville, Florida. We invested \$1,820 of equity and \$8,800 of debt in NPH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

During the six months ended December 31, 2013, we closed-out or partially exited 21 positions which are briefly described below.



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On July 1, 2013, Pre-Paid Legal Services, Inc. repaid the \$5,000 loan receivable to us.

On July 9, 2013, Southern Management Corporation repaid the \$17,565 loan receivable to us.

On July 24, 2013, we sold our \$2,000 investment in Carolina Beverage and realized a gain of \$45 on the sale.

On July 31, 2013, Royal repaid the \$28,364 subordinated unsecured loan receivable to us.

On July 31, 2013, Cargo Airport Services USA, LLC repaid the \$43,399 loan receivable to us.

On August 1, 2013, Medical Security Card Company, LLC repaid the \$13,214 loan receivable to us.

On September 11, 2013, Seaton Corp. repaid the \$13,310 loan receivable to us.

On September 30, 2013, we sold our investment in ADAPCO, Inc. for net proceeds of \$553, recognizing a realized gain of \$413 on the sale.

On October 7, 2013, Evanta Ventures, Inc. repaid the \$10,506 loan receivable to us.

On October 15, 2013, we sold our \$2,000 investment in Digital Insight and realized a gain of \$20 on the sale.

On October 17, 2013, \$19,730 of the Apidos CLO VIII, Ltd. ("Apidos VIII") subordinated notes were called, and we realized a gain of \$1,183 on this investment.

On October 29, 2013, we sold our \$2,500 investment in Omnitrac and realized a gain of \$25 on the sale.

On October 31, 2013, we sold our \$18,755 National Bankruptcy Services, LLC ("NBS") loan receivable. The loan receivable was sold at a discount and we realized a loss of \$7,853.

On November 1, 2013, P2 repaid the \$22,000 second lien term loan receivable to us.

On November 4, 2013, we sold our \$6,000 secured debt investment in P2 and realized a gain of \$60 on the sale.

On November 4, 2013, we sold our \$7,000 investment in Renaissance and realized a gain of \$140 on the sale.

On November 4, 2013, we sold \$2,000 of our \$12,500 investment in Photonis and realized a gain of \$50 on the sale.

On November 19, 2013, Harbortouch made a partial repayment of \$23,942.

On November 22, 2013, we sold our \$1,000 investment in Chromaflo and realized a gain of \$10 on the sale.

On November 25, 2013, EIG Investors Corp. repaid the \$22,000 loan receivable to us.

On December 4, 2013, we sold a \$972 participation in our term loans in AIRMALL, equal to 2% of the outstanding principal amount of loans on that date.

On December 18, 2013, Naylor, LLC repaid the \$45,563 loan receivable to us.

On December 30, 2013, Energy Solutions repaid the \$4,250 junior secured note receivable to us.

In addition to the repayments noted above, during the six months ended December 31, 2013, we received principal amortization payments of \$16,582 on several loans, and \$14,105 of partial

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prepayments primarily related to Energy Solutions, Stauber Performance Ingredients, Inc., and Cinedigm DC Holdings, LLC.

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

Quarter-End	Acquisitions(1)	Dispositions(2)
December 31, 2013	\$ 607,657	\$ 255,238
September 30, 2013	556,843	164,167
June 30, 2013	798,760	321,615
March 31, 2013	784,395	102,527
December 31, 2012	772,125	349,269
September 30, 2012	747,937	158,123
June 30, 2012	573,314	146,292
March 31, 2012	170,073	188,399
December 31, 2011	154,697	120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	\$ 7,517,030	\$ 2,508,616

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

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



(3)

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

### Investment Valuation

In determining the fair value of our portfolio investments at December 31, 2013, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$4,755,192 to \$5,062,188 excluding money market investments.

In determining the range of value for debt instruments except CLOs, management and the independent valuation firms 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 ranges of value. For non-traded equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

In determining the range of value for our investments in CLOs, management and the independent valuation firms used dynamic discounted cash flow models, where the projected future cash flow was estimated using Monte Carlo simulation techniques. 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 discounted cash flow model is prepared, utilizing a waterfall engine to store the collateral data, generate numerous collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates to the various cash flows along each simulation path.

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 \$4,886,020, excluding money market investments.

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

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

#### *AIRMALL USA, Inc.*

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

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On July 30, 2010, we invested \$52,420 of combined debt and equity as follows: \$30,000 senior term loan, \$12,500 senior subordinated note and \$9,920 preferred equity. During the six months ended December 31, 2013, we provided an additional \$7,600 of subordinated secured financing to AIRMALL. On December 4, 2013, we sold a \$972 participation in our term loans in AIRMALL, equal to 2% of the outstanding principal amount of loans on that date. As of December 31, 2013, we own 98% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

During the three and six months ended December 31, 2013, we received distributions of \$5,000 and \$12,000, respectively, from AIRMALL which were recorded as dividend income. No dividends were received from AIRMALL during the three and six months ended December 31, 2012. Primarily as a result of the distribution of earnings during the six months ended December 31, 2013, the Board of Directors decreased the fair value of our investment in AIRMALL to \$49,467 as of December 31, 2013, a discount of \$8,032 from its amortized cost, compared to the \$3,478 unrealized appreciation recorded at June 30, 2013.

### *Ajax Rolled Ring & Machine, Inc.*

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

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. 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 December 31, 2013, we control 78.01% of the fully-diluted common and preferred equity.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Ajax to \$24,581 as of December 31, 2013, a discount of \$26,012 from its amortized cost, compared to the \$6,057 unrealized depreciation recorded at June 30, 2013.

### *APH Property Holdings, LLC*

APH is a holding company that owns 100% of the common stock of American Property Holdings Corp. ("APHC"). APHC is a Maryland corporation and a qualified REIT for federal income tax purposes. APHC was formed to hold for investment, operate, finance, lease, manage and sell a portfolio of real estate assets. As of December 31, 2013, we own 100% of the fully-diluted common equity of APH.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various real estate properties. During the six months ended December 31, 2013, we provided \$129,850 and \$25,614 of debt and equity financing, respectively, to APH for the acquisition of certain properties. In December 2013, APHC, a wholly-owned subsidiary of APH, distributed its investments in fourteen properties: eight to National Property

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Holdings Corp. ("NPHC"); and six to United Property Holdings Corp. ("UPHC"), two newly formed REIT holding companies which are discussed below. The investments transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

As of December 31, 2013, APHC's real estate portfolio was comprised of 12 properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Abbingtion Pointe	Marietta, GA	12/28/2012	\$ 23,500	\$ 15,275
2	Amberly Place	Tampa, FL	1/17/2013	63,400	39,600
3	Lofton Place	Tampa, FL	4/30/2013	26,000	16,965
4	Vista at Palma Sola	Bradenton, FL	4/30/2013	27,000	17,550
5	Arlington Park	Marietta, GA	5/8/2013	14,850	9,650
6	The Resort	Pembroke Pines, FL	6/24/2013	225,000	157,500
7	Inverness Lakes(1)	Mobile, AL	11/15/2013	29,600	19,400
8	Kings Mill Apartments(1)	Pensacola, FL	11/15/2013	20,750	13,622
9	Crestview at Oakleigh(1)	Pensacola, FL	11/15/2013	17,500	11,488
10	Plantations at Pine Lake(1)	Tallahassee, FL	11/15/2013	18,000	11,817
11	Cordova Regency(1)	Pensacola, FL	11/15/2013	13,750	9,026
12	Verandas at Rocky Ridge(1)	Birmingham, AL	11/15/2013	15,600	10,205
				\$ 494,950	\$ 332,098

(1) These properties comprise the Gulf Coast Portfolio.

The Board of Directors set the fair value of our investment in APH at \$193,902 as of December 31, 2013, equal to its amortized cost.

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

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

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

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Through December 31, 2013, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a

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result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as cash distributions were received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the three and six months ended December 31, 2012, we received distributions of \$20,570 and \$53,820 from Energy Solutions which were recorded as dividend income, respectively. No such dividends were received during the three or six months ended December 31, 2013.

During the six months ended December 31, 2013, Energy Solutions repaid the remaining \$8,500 of our subordinated secured debt to the company. In addition to the repayment of principal, we received \$4,812 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as additional interest income during the six months ended December 31, 2013.

On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Freedom Marine. The subordinated secured loan to Jettco was replaced with a senior secured note to Vessel Holdings II, LLC, a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine. Overall the restructuring of our investment in Freedom Marine provided approximately \$16,000 net senior secured debt financing to support the acquisition of two new vessels. We received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income during the six months ended December 31, 2013.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment: a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. The Board of Directors set the fair value of our investment in Energy Solutions, including the underlying portfolio companies affected by the reorganization, at \$33,551 as of December 31, 2013, a discount of \$8,716 from its amortized cost, compared to the \$7,574 unrealized depreciation recorded at June 30, 2013.

### *First Tower Holdings of Delaware, LLC*

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, LLC businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. During the three months ended December 31, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. During the three months ended June 30, 2012, we received \$8,075 in structuring fee income. During the three months ended December 31, 2013, we funded an additional \$10,000 to again support seasonal demand. We 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 during the six months ended December 31, 2013. As of October 31, 2013, First Tower had total assets of approximately \$630,325 including \$402,475 of finance receivables net of unearned charges. As of December 31, 2013, First Tower's total debt outstanding to parties senior to us was \$273,260.

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Due to improved operating results, the Board of Directors increased the fair value of our investment in First Tower to \$322,511 as of December 31, 2013, a premium of \$4,558 to its amortized cost, compared to the \$9,869 unrealized depreciation recorded at June 30, 2013.

### *NPH Property Holdings, LLC*

NPH is a holding company that owns 100% of the common stock of National Property Holdings Corp. ("NPHC") and 100% of the membership units of NPH Property Holdings II, LLC ("NPH II"). NPHC is a Maryland corporation that intends to qualify to be a REIT for federal income tax purposes. NPHC was formed to hold for investment, operate, finance, lease, manage and sell a portfolio of real estate assets. NPH II is a Delaware single member limited liability company structured to enable Prospect to invest in peer-to-peer loans. As of December 31, 2013, we own 100% of the fully-diluted common equity of NPH.

During the six months ended December 31, 2013, we provided \$8,800 and \$1,820 of debt and equity financing, respectively, to NPH for the acquisition of certain properties. The eight investments transferred to NPHC from APHC consisted of \$79,309 and \$16,315 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

As of December 31, 2013, NPHC's real estate portfolio was comprised of nine properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway	Forest Park, GA	10/24/2012	\$ 7,400	\$
2	Bexley	Marietta, GA	11/1/2013	30,600	22,497
3	St. Marin(1)	Coppell, TX	11/19/2013	73,078	53,863
4	Mission Gate(1)	Plano, TX	11/19/2013	47,621	36,148
5	Vinings Corner(1)	Smyrna, GA	11/19/2013	35,691	26,640
6	Central Park(1)	Altamonte Springs, FL	11/19/2013	36,590	27,471
7	City West(1)	Orlando, FL	11/19/2013	23,562	18,533
8	Matthews Reserve(1)	Matthews, NC	11/19/2013	22,063	17,571
9	Indigo	Jacksonville, FL	12/31/2013	38,000	28,500
				\$ 314,605	\$ 231,223

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(1) These properties comprise the Oxford Portfolio.

The Board of Directors set the fair value of our investment in NPH at \$106,244 as of December 31, 2013, equal to its amortized cost.

### *The Healing Staff, Inc.*

During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Services, Inc. ("ICS") was other-than-temporary and recorded a realized loss of \$12,198 for the amount that the amortized cost exceeded the fair value. Our remaining investments are in THS and Vets Securing America, Inc. ("VSA"), wholly-owned subsidiaries of ICS with ongoing operations. THS provides outsourced medical staffing services to governmental and commercial enterprises. VSA provides out-sourced security guards staffed primarily using retired military and police department veterans.

During September and October 2007, we provided \$1,170 to THS for working capital through our investment in ICS. In January 2009, we foreclosed on the real and personal property of ICS. Through



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this foreclosure process, we gained 100% ownership of THS. As part of its strategy to diversify its revenues THS started VSA as a new business in the latter part of 2009. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of \$1,708 and \$874, respectively, to support the ongoing operations of THS and VSA. Effective October 19, 2011, the closing date of the sale by VSA of a commercial real estate asset, \$893 of the follow-on secured debt investments were repaid. In early May 2012, we made short-term secured debt investments of \$118 and \$42, respectively, to support the operations of THS and VSA, which short term debt was repaid in early June 2012. We made no additional fundings during the fiscal year ended June 30, 2013 and the six months ended December 31, 2013. In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider, we agreed to subordinate our first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding. During the six months ended December 31, 2013, we received \$5,000 of legal cost reimbursement from a litigation settlement, which had been expensed in prior quarters and was recorded as other income during the six months ended December 31, 2013.

Based upon an analysis of the liquidation value of assets, the Board of Directors determined the fair value of our investment in THS and VSA to be zero at December 31, 2013 and June 30, 2013, respectively, a reduction of \$3,831 from its amortized cost.

### *UPH Property Holdings, LLC*

UPH is a holding company that owns 100% of the common stock of United Property Holdings Corp. ("UPHC"). UPHC is a Delaware limited liability company that intends to qualify to be a REIT for federal income tax purposes. UPHC was formed to hold for investment, operate, finance, lease, manage and sell a portfolio of real estate assets. As of December 31, 2013, we own 100% of the fully-diluted common equity of UPH.

The six investments transferred to UPHC from APHC consisted of \$18,855 and \$3,707 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

As of December 31, 2013, UPHC's real estate portfolio was comprised of six properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Eastwood Village(1)	Stockbridge, GA	12/12/2013	\$ 25,957	\$ 19,785
2	Monterey Village(1)	Jonesboro, GA	12/12/2013	11,501	9,193
3	Hidden Creek(1)	Morrow, GA	12/12/2013	5,098	3,619
4	Meadow Springs(1)	College Park, GA	12/12/2013	13,116	10,180
5	Meadow View(1)	College Park, GA	12/12/2013	14,354	11,141
6	Peachtree Landing(1)	Fairburn, GA	12/12/2013	17,224	13,575
				\$ 87,250	\$ 67,493

(1) These properties comprise the Stonemark Portfolio.

The Board of Directors set the fair value of our investment in UPH at \$22,562 as of December 31, 2013, equal to its amortized cost.

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### *Valley Electric Holdings I, Inc.*

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, Valley Electric Holdings II, Inc., a wholly-owned subsidiary of Valley Electric Holdings I, Inc., and management acquired 100% of the outstanding shares of Valley Electric Company of Mount Vernon, Inc. We funded the recapitalization of Valley Electric with \$42,572 of debt and \$9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley Electric for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. As of December 31, 2013, 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 \$38,941 as of December 31, 2013, a discount of \$16,287 from its amortized cost, compared to being valued at cost as of June 30, 2013.

### *Wolf Energy Holdings, Inc.*

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

On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan secured by the assets. Our cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and is equal to the fair value of assets at the time of transfer and we recorded a realized loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf sold certain of the assets that had been previously held by H&M that were located in Martin County to Hibernia for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us and we recognized as a realized gain of \$11,826 partially offsetting the previously recorded loss. We received \$3,960 of structuring and advisory fees from Wolf during the year ended June 30, 2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

The Board of Directors set the fair value of our investment in Wolf at \$4,563 as of December 31, 2013, a reduction of \$3,478 from its amortized cost, compared to the \$3,091 unrealized depreciation recorded at June 30, 2013.

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. Four of our controlled companies, Ajax, First Tower, Gulf Coast and Valley Electric, experienced such volatility and experienced fluctuations in valuation during the six months ended December 31, 2013. The value of Ajax decreased

to \$24,581 as of December 31, 2013, a discount of \$26,012 to its amortized cost, compared to the \$6,057 unrealized depreciation recorded at June 30, 2013 due to a decline in operating results. The value of our equity position in First Tower increased to \$322,511 as of December 31, 2013, a premium of \$4,558 to its amortized cost, compared to the \$9,869 unrealized depreciation recorded at June 30, 2013 as there has been improvement in operating results during the six months ended December 13, 2013. The value of Gulf Coast decreased to \$12,414 as of December 31, 2013, a discount of \$31,036 to its amortized cost, compared to the \$9,241 unrealized depreciation recorded at June 30, 2013 due to a decline in operating results. The value of Valley Electric decreased to \$38,941 as of December 31, 2013, a discount of \$16,287 to its amortized cost, compared to the value of \$53,615 recorded at June 30, 2013, equal to its cost, due to a decline in operating results. Seven of the other controlled investments have been valued at discounts to the original investment. Ten of the other control investments are valued at the original investment amounts or higher. Overall, at December 31, 2013, control investments are valued at \$72,986 below their amortized cost.

We hold three affiliate investments at December 31, 2013. One of our affiliate portfolio companies, Boxercraft, experienced a meaningful decrease in valuation during the six months ended December 31, 2013 due to declining operating results. As of December 31, 2013, Boxercraft is valued at \$5,611, a discount of \$11,538 to its amortized cost, compared to the \$7,375 unrealized depreciation recorded at June 30, 2013. Overall, at December 31, 2013, affiliate investments are valued \$10,398 below their amortized cost.

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is 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. Overall, at December 31, 2013, other non-control/non-affiliate investments are valued at \$40,511 above their amortized cost, excluding our investments in 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 currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012 and December 2012, Senior Unsecured Notes, and Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible

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Notes, Senior Unsecured Notes and Prospect Capital InterNotes® amounts and outstanding borrowings at December 31, 2013 and June 30, 2013:

	As of December 31, 2013		As of June 30, 2013	
	Maximum	Amount	Maximum	Amount
	Draw Amount	Outstanding	Draw Amount	Outstanding
Revolving Credit Facility	\$ 650,000	\$	\$ 552,500	\$ 124,000
Senior Convertible Notes	847,500	847,500	847,500	847,500
Senior Unsecured Notes	347,814	347,814	347,725	347,725
Prospect Capital InterNotes®	600,907	600,907	363,777	363,777

The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® at December 31, 2013:

	Total	Payments Due by Period			
		Less than			After
		1 Year	1 - 3 Years	3 - 5 Years	5 Years
Revolving Credit Facility	\$	\$	\$	\$	\$
Senior Convertible Notes	847,500		317,500	330,000	200,000
Senior Unsecured Notes	347,814				347,814
Prospect Capital InterNotes®	600,907		5,710	144,588	450,609
<b>Total Contractual Obligations</b>	<b>\$ 1,796,221</b>	<b>\$</b>	<b>\$ 323,210</b>	<b>\$ 474,588</b>	<b>\$ 998,423</b>

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 December 31, 2013, we can issue up to \$4,595,882 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

### *Revolving Credit Facility*

On March 27, 2012, we closed on an expanded five-year \$650,000 revolving credit facility with a syndicate of lenders through PCF (the "2012 Facility"). The lenders have extended commitments of \$650,000 under the 2012 Facility as of December 31, 2013, which was increased to \$712,500 in January 2014 (see *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$1,000,000 in the aggregate after the 2012 Facility accordion feature was increased from \$650,000 in January 2014 (see *Recent Developments*). The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of

the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At December 31, 2013, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points, if at least half of the credit facility is drawn, or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of December 31, 2013 and June 30, 2013, we had \$577,548 and \$473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was zero and \$124,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the current commitment amount of \$712,500. At December 31, 2013, the investments used as collateral for the 2012 Facility had an aggregate fair value of \$1,075,441, which represents 21.1% 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 2012 Facility, we incurred \$12,127 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$5,639 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of December 31, 2013.

During the three months ended December 31, 2013 and December 31, 2012, we recorded \$2,600 and \$2,227, respectively, of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense. During the six months ended December 31, 2013 and December 31, 2012, we recorded \$5,076 and \$4,395, respectively, of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense.

#### *Senior Convertible Notes*

On December 21, 2010, we issued \$150,000 aggregate principal amount of senior 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 senior 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 senior 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 senior convertible notes that mature on March 15, 2018 (the "2018 Notes"), unless previously converted or repurchased in

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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 senior 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.

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

	2015 Notes	2016 Notes	2017 Notes	2018 Notes	2019 Notes
Initial conversion rate(1)	88.0902	78.3699	85.8442	82.3451	79.7766
Initial conversion price	\$11.35	\$12.76	\$11.65	\$12.14	\$12.54
Conversion rate at December 31, 2013(1)(2)	89.0157	78.5395	86.1162	82.8631	79.7885
Conversion price at December 31, 2013(2)(3)	\$11.23	\$12.73	\$11.61	\$12.07	\$12.53
Last conversion price calculation date	12/21/2013	2/18/2013	4/16/2013	8/14/2013	12/21/2013
Dividend threshold amount (per share)(4)	\$0.101125	\$0.101150	\$0.101500	\$0.101600	\$0.110025

- (1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Senior 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 December 31, 2013 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.

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Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the notes surrendered for conversion representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Senior Convertible Notes.

No holder of Senior Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. We will not issue any shares in connection with the conversion or redemption of the Senior 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 Senior Convertible Notes upon a fundamental change at a price equal to 100% of the principal amount of the Senior 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 Senior Convertible Notes through and including the maturity date.

In connection with the issuance of the Senior Convertible Notes, we incurred \$27,030 of fees which are being amortized over the terms of the notes, of which \$18,015 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of December 31, 2013.

During the three months ended December 31, 2013 and December 31, 2012, we recorded \$13,360 and \$10,564, respectively, of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense. During the six months ended December 31, 2013 and December 31, 2012, we recorded \$26,670 and \$19,230, respectively, of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense.

### *Senior Unsecured Notes*

On May 1, 2012, we issued \$100,000 aggregate principal amount of senior 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 senior 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.

The 2022 Notes and the 2023 Notes (collectively, the "Senior Unsecured Notes") are direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

In connection with the issuance of the Senior Unsecured Notes, we incurred \$7,364 of fees which are being amortized over the term of the notes, of which \$6,732 remains to be amortized and is

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included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of December 31, 2013.

During the three months ended December 31, 2013 and December 31, 2012, we recorded \$5,596 and \$1,814, respectively, of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense. During the six months ended December 31, 2013 and December 31, 2012, we recorded \$11,173 and \$3,621, respectively, of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense.

### *Prospect Capital InterNotes®*

On February 16, 2012, we entered into a Selling Agent Agreement, as amended, (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 subsequently increased to \$1,000,000. 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 senior obligations and rank equally with all of our unsecured senior indebtedness 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 six months ended December 31, 2013, we issued \$238,780 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$234,239. These notes were issued with stated interest rates ranging from 4.0% to 6.75% with a weighted average rate of 5.25%. These notes mature between October 15, 2016 and October 15, 2043.

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	16,545	4.00%	4.00%	November 15, 2017 - December 15, 2017
5	125,580	4.75% - 5.00%	4.99%	July 15, 2018 - December 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	34,438	5.50% - 5.75%	5.54%	June 15, 2020 - December 15, 2020
7.5	1,996	5.75%	5.75%	February 15, 2021
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	2,495	6.00%	6.00%	August 15, 2028 - November 15, 2028
18	4,062	6.00% - 6.25%	6.21%	July 15, 2031 - August 15, 2031
20	2,791	6.00%	6.00%	September 15, 2033 - October 15, 2033
25	13,266	6.50%	6.50%	August 15, 2038 - December 15, 2038
30	20,150	6.50% - 6.75%	6.60%	July 15, 2043 - October 15, 2043
<b>\$ 238,780</b>				

During the six months ended December 31, 2013, we repaid \$1,650 in aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor's Option, as defined in the





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InterNotes® Offering prospectus. Below are the Prospect Capital InterNotes® outstanding as of December 31, 2013:

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	16,545	4.00% - 4.75%	4.00%	November 15, 2017 - December 15, 2017
5	125,580	5.00%	4.99%	July 15, 2018 - December 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	229,220	4.00% - 6.55%	5.40%	June 15, 2019 - December 15, 2020
7.5	1,996	5.75%	5.75%	February 15, 2021
10	18,102	3.24% - 7.00%	6.55%	March 15, 2022 - April 15, 2023 November 15, 2025 - December 15, 2025
12	2,978	6.00%	6.00%	May 15, 2028 - November 15, 2028
15	17,495	5.00% - 6.00%	5.14%	December 15, 2030 - August 15, 2031
18	26,099	4.125% - 6.25%	5.48%	November 15, 2032 - October 15, 2033
20	5,897	5.625% - 6.00%	5.84%	August 15, 2038 - December 15, 2038
25	13,266	6.50%	6.50%	November 15, 2042 - October 15, 2043
30	129,250	5.50% - 6.75%	6.22%	

**\$ 600,907**

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$15,868 of fees which are being amortized over the term of the notes, of which \$15,084 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of December 31, 2013.

During the three months ended December 31, 2013 and December 31, 2012, we recorded \$7,700 and \$1,809, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the six months ended December 31, 2013 and December 31, 2012, we recorded \$13,744 and \$2,679, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

### Net Asset Value

During the six months ended December 31, 2013, we issued \$592,658 of additional equity, net of underwriting and offering costs, by issuing 53,422,471 shares of our common stock. The following table shows the calculation of net asset value per share as of December 31, 2013 and June 30, 2013:

	As of December 31, 2013	As of June 30, 2013
Net assets	\$ 3,231,099	\$ 2,656,494
Shares of common stock issued and outstanding	301,259,436	247,836,965
Net asset value per share	\$ 10.73	\$ 10.72

At December 31, 2013, we had 301,259,436 shares of our common stock issued and outstanding.

**Results of Operations**

Net increase in net assets resulting from operations for the three months ended December 31, 2013 and December 31, 2012 was \$85,362 and \$46,489, respectively, representing \$0.30 and \$0.24 per weighted average share, respectively. The increase is primarily due to a \$45,874, or \$0.25 per weighted

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average share, favorable decrease in our net realized losses and net change in unrealized depreciation on investments. (See *Net Realized Losses and Increase in Net Assets from Changes in Unrealized Depreciation*.) The favorable decrease in realized losses and unrealized depreciation is partially offset by a \$7,001, or \$0.19 per weighted average share, decline in net investment income primarily due to a decrease in dividend income from our investments in Energy Solutions and R-V, a decrease in the average rate of interest earned on investments, and an increase in interest expense due to additional debt financing.

Net increase in net assets resulting from operations for the six months ended December 31, 2013 and December 31, 2012 was \$165,262 and \$93,738, respectively, representing \$0.61 and \$0.52 per weighted average share, respectively. The increase is primarily due to a \$70,215, or \$0.41 per weighted average share, favorable decrease in our net realized losses and net change in unrealized depreciation on investments. (See *Net Realized Losses and Increase in Net Assets from Changes in Unrealized Depreciation*.) The favorable decrease in realized losses and unrealized depreciation is partially offset by a \$1,309, or \$0.33 per weighted average share, decline in net investment income primarily due to a decrease in dividend income from our investments in American Gilsonite Company ("AGC"), Energy Solutions and R-V, a decrease in the average rate of interest earned on investments, and an increase in interest expense due to additional debt financing.

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 \$178,090 and \$166,035 for the three months ended December 31, 2013 and December 31, 2012, respectively. Investment income was \$339,124 and \$289,671 for the six months ended December 31, 2013 and December 31, 2012, respectively. During the three and six months ended December 31, 2013, the increase in investment income is primarily the result of a larger income producing portfolio.

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

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2013	2012	2013	2012
Interest income	\$ 147,103	\$ 116,866	\$ 285,524	\$ 195,176
Dividend income	8,892	31,955	15,981	68,163
Other income	22,095	17,214	37,619	26,332
Total investment income	\$ 178,090	\$ 166,035	\$ 339,124	\$ 289,671
Average debt principal of performing investments	\$ 4,484,433	\$ 2,536,141	\$ 4,331,891	\$ 2,341,813
Weighted average interest rate earned on performing assets	12.84%	18.03%	12.90%	16.31%

Average interest income producing assets have increased from \$2,536,141 for the three months ended December 31, 2012 to \$4,484,433 for the three months ended December 31, 2013. The average yield on interest bearing performing assets decreased from 18.0% for the three months ended December 31, 2012 to 12.8% for the three months ended December 31, 2013. Average interest income producing assets have increased from \$2,341,813 for the six months ended December 31, 2012 to \$4,331,891 for the six months ended December 31, 2013. The average yield on interest bearing performing assets decreased from 16.3% for the six months ended December 31, 2012 to 12.9% for the six months ended December 31, 2013. The decrease in annual returns is primarily due to a decline in prepayment penalty income driven by a \$9,331 decrease in the make-whole fees we received from Energy Solutions. The decrease in our current yield is also the result of senior secured loan refinancing activity that took place in the leveraged loan market and within our CLO portfolios during the first half of calendar year 2013, and to a lesser extent, originations at lower rates than our average portfolio yield. Excluding these adjustments, our annual return would have been 13.3% for both the three and six months ended December 31, 2012.

Investment income is also generated from dividends and other income. Dividend income decreased from \$31,955 for the three months ended December 31, 2012 to \$8,892 for the three months ended December 31, 2013. The decrease in dividend income is primarily attributed to a \$20,570 decrease in the level of dividends received from our investment in Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, we received dividends from Energy Solutions of \$20,570 during the three months ended December 31, 2012. No such dividends were received during the three months ended December 31, 2013 related to our investment in Energy Solutions. The decrease in dividend income is also attributed to a \$10,270 decrease in the level of dividends received from our investment in R-V. We received dividends from R-V of \$877 and \$11,147 during the three months ended December 31, 2013 and December 31, 2012, respectively. The \$11,147 of dividends received from R-V during the three months ended December 31, 2012 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The decrease in dividend income was partially offset by dividends of \$5,000 and \$3,000 received from our investments in AIRMALL and Credit Central, respectively, during the three months ended December 31, 2013. No dividends were received from AIRMALL or Credit Central during the three months ended December 31, 2012.

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Dividend income decreased from \$68,163 for the six months ended December 31, 2012 to \$15,981 for the six months ended December 31, 2013. The decrease in dividend income is primarily attributed to a \$53,820 decrease in the level of dividends received from our investment in Energy Solutions. As described above, the sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, we received dividends from Energy Solutions of \$53,820 during the six months ended December 31, 2012. No such dividends were received during the six months ended December 31, 2013 related to our investment in Energy Solutions. The decrease in dividend income is also attributed to a \$10,195 decrease in the level of dividends received from our investment in R-V. We received dividends from R-V of \$952 and \$11,147 during the six months ended December 31, 2013 and December 31, 2012, respectively. The \$11,147 of dividends received from R-V during the six months ended December 31, 2012 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The decrease in dividend income is further attributed to a \$2,945 decrease in dividends received from our investment in AGC. We received dividends of \$2,945 from AGC during the six months ended December 31, 2012. No such dividends were received during the six months ended December 31, 2013 related to our investment in AGC. The decrease in dividend income was partially offset by dividends of \$12,000 and \$3,000 received from our investments in AIRMALL and Credit Central, respectively, during the six months ended December 31, 2013. No dividends were received from AIRMALL or Credit Central during the six months ended December 31, 2012.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Comparing the three months ended December 31, 2012 to the three months ended December 31, 2013, income from other sources increased from \$17,214 to \$22,095. This \$4,881 increase is primarily due to a \$4,039 increase in structuring fees. During the three months ended December 31, 2013, we recognized structuring fees of \$19,353. Included within this amount is an \$8,000 fee from First Tower Delaware related to the renegotiation and expansion of First Tower's third party revolver for which a fee was received in December 2013. The remaining \$11,353 of structuring fees recognized during the three months ended December 31, 2013 resulted from follow-on investments and new originations, primarily from our investments in APH, Freedom Marine, Nationwide and PrimeSport. During the three months ended December 31, 2012, we recognized structuring fees of \$15,314 primarily from our investments in Credit Central, Ryan, LLC, and United Sporting Companies, Inc.

Comparing the six months ended December 31, 2012 to the six months ended December 31, 2013, income from other sources increased from \$26,332 to \$37,619. This \$11,287 increase is primarily due to \$5,000 of legal cost reimbursement from a litigation settlement, which has been expensed in prior quarters, a \$3,740 increase in structuring fees and a \$1,272 increase in royalty interests from our controlled investments, particularly APH, Credit Central, First Tower and Nationwide. During the six months ended December 31, 2013 and December 31, 2012, we recognized structuring fees of \$28,013 and \$24,273, respectively, from new originations, restructurings and follow-on investments. Included within the \$28,013 of structuring fees recognized during the six months ended December 31, 2013, is an \$8,000 fee from First Tower Delaware discussed above. Excluding this \$8,000 fee, other income recognized from structuring fees decreased by \$4,260 primarily as a result of fewer originations during the six months ended December 31, 2013 in comparison to the six months ended December 31, 2012.

### 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

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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 \$85,875 and \$66,819 for the three months ended December 31, 2013 and December 31, 2012, respectively, or approximately \$0.30 and \$0.34 per weighted average share outstanding, respectively. Operating expenses were \$164,572 and \$116,428 for the six months ended December 31, 2013 and December 31, 2012, respectively, or approximately \$0.60 and \$0.65 per weighted average share outstanding, respectively.

The base management fee was \$25,075 and \$16,306 for the three months ended December 31, 2013 and December 31, 2012, respectively. This \$8,769 increase is directly related to our growth in total assets. For the three months ended December 31, 2013 and December 31, 2012, we incurred \$23,054 and \$24,804, respectively, of income incentive fees. The \$1,750 decrease in the income incentive fee for the respective three-month period is driven by a \$8,751 decrease in pre-incentive fee net investment income from \$124,020 for the three months ended December 31, 2012 to \$115,269 for the three months ended December 31, 2013, primarily due to an increase in interest income from a larger asset base and partially offset by a decrease in dividend income from Energy Solutions and R-V and increase in expense.

The base management fee was \$48,120 and \$29,534 for the six months ended December 31, 2013 and December 31, 2012, respectively. This \$18,586 increase is directly related to our growth in total assets. For the six months ended December 31, 2013 and December 31, 2012, we incurred \$43,638 and \$43,311, respectively, of income incentive fees. The \$327 increase in the income incentive fee for the respective six-month period is driven by a \$1,636 increase in pre-incentive fee net investment income from \$216,554 for the six months ended December 31, 2012 to \$218,190 for the three months ended December 31, 2013, primarily due to an increase in interest income from a larger asset base and partially offset by a decrease in dividend income from R-V and Energy Solutions. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended December 31, 2013 and December 31, 2012, we incurred \$29,256 and \$16,414, respectively, of expenses related to our 2012 Facility, Prospect Capital InterNotes®, Senior Unsecured Notes and Senior Convertible Notes. During the six months ended December 31, 2013 and December 31, 2012, we incurred \$56,663 and \$29,925, respectively, of expenses related to our 2012 Facility, Prospect Capital InterNotes®, Senior Unsecured Notes and Senior Convertible Notes. These expenses are related directly to the leveraging capacity put into place for each of those years and the levels of indebtedness actually undertaken in those years. The table below describes the various expenses of our 2012 Facility, Prospect Capital InterNotes®, Senior Unsecured Notes and Senior Convertible Notes and the related indicators of leveraging capacity and indebtedness during these periods.

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2013	2012	2013	2012
Interest on borrowings	\$ 25,096	\$ 13,140	\$ 48,620	\$ 23,610
Amortization of deferred financing costs	2,614	1,950	5,086	3,724
Commitment and other fees	1,546	1,324	2,957	2,591
Total	\$ 29,256	\$ 16,414	\$ 56,663	\$ 29,925
Weighted-average debt outstanding	\$ 1,730,214	\$ 890,902	\$ 1,672,256	\$ 800,789
Weighted-average interest rate	5.80%	5.90%	5.81%	5.90%
Weighted-average interest rate including amortization of deferred financing costs	6.38%	6.78%	6.41%	6.83%
2012 Facility amount at beginning of period	\$ 567,500	\$ 517,500	\$ 552,500	\$ 492,500

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The increase in interest expense for the three months ended December 31, 2013 is primarily due to the issuance of additional Prospect Capital InterNotes®, the 2023 Notes and the 2019 Notes, for which we incurred \$11,584 of collective interest expense. The weighted average interest rate on borrowings (excluding amortization and undrawn facility fees) decreased from 5.90% to 5.80% as of December 31, 2012 and December 31, 2013, respectively. This decrease is primarily due to issuances of our Prospect Capital InterNotes® at lower coupon rates. The weighted average interest rate on our Prospect Capital InterNotes® decreased from 5.97% as of December 31, 2012 to 5.48% as of December 31, 2013.

The allocation of overhead expense from Prospect Administration was \$3,986 and \$2,139 for the three months ended December 31, 2013 and December 31, 2012, respectively. The allocation of overhead expense from Prospect Administration was \$7,972 and \$4,323 for the six months ended December 31, 2013 and December 31, 2012, respectively. As our portfolio continues to grow, we expect Prospect Administration to continue to increase the size of its administrative and financial staff.

Excise tax was \$1,000 and \$4,500 for the three months ended December 31, 2013 and December 31, 2012, respectively. Excise tax was \$2,000 and \$4,500 for the six months ended December 31, 2013 and December 31, 2012, respectively. For the calendar year ended December 31, 2012, we elected to retain a portion of our annual taxable income and have paid \$4,500 for the excise tax due with the filing of the return. As of December 31, 2013, we have \$4,000 accrued as an estimate of the excise tax due for continuing to retain a portion of our annual taxable income for the calendar year ending December 31, 2013.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration, and excise tax ("Other Operating Expenses"), were \$3,504 and \$2,656 for the three months ended December 31, 2013, and December 31, 2012, respectively, holding consistent at approximately \$0.01 per weighted average share outstanding. Other Operating Expenses were \$6,179 and \$4,835 for the six months ended December 31, 2013, and December 31, 2012, respectively. The increase of \$1,344, representing less than \$0.01 per weighted average share outstanding, is primarily due to an increase in our investor relations expense which is included within other general and administrative expenses. Investor relations expense increased due to increased proxy costs incurred for our larger investor base.

### **Net Investment Income**

Net investment income represents the difference between investment income and operating expenses. Our net investment income was \$92,215 and \$99,216 for the three months ended December 31, 2013 and December 31, 2012, respectively, or \$0.32 per weighted average share and \$0.51 per weighted average share, respectively. The \$7,001 decrease in net investment income is primarily due to a \$19,056 increase in operating expenses partially offset by a \$12,055 increase in investment income. The \$19,056 increase in operating expenses results from the growing size of our portfolio for which we incurred an additional \$8,769 of base management fees. We also incurred an additional \$12,842 of interest and credit facility expenses during the three months ended December 31, 2013 as we maintain consistent leverage on our growing portfolio. The \$12,055 increase in investment income is from a larger income producing portfolio partially offset by a decrease in dividend income from our investments in Energy Solutions and R-V. The \$0.19 per share decrease in net investment income for the three months ended December 31, 2013 is primarily due to a \$0.13 per weighted average share decrease in dividend income primarily due to a decline in the level of dividends received from our investments in Energy Solutions and R-V, and a \$0.10 per weighted average share decrease in interest income, net of interest and credit facility expenses. These decreases are partially offset by a \$0.04 per weighted average share decrease in advisory fees.



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Our net investment income was \$174,552 and \$173,243 for the six months ended December 31, 2013 and December 31, 2012, respectively, or \$0.64 per weighted average share and \$0.97 per weighted average share, respectively. The \$1,309 increase for the six months ended December 31, 2013 is primarily the result of a \$49,453 increase in investment income due to a larger income producing portfolio partially offset by a decrease in dividend income from our investments in AGC, Energy Solutions and R-V. The \$49,453 increase in investment income is partially offset by an increase in operating expenses of \$48,144, primarily due to a \$18,913 increase in advisory fees due to the growing size of our portfolio and related income and \$26,738 of additional interest and credit facility expenses. The \$0.33 per share decrease in net investment income for the six months ended December 31, 2013 is primarily due to a \$0.32 per weighted average share decrease in dividend income primarily due to a decline in the level of dividends received from our investment in AGC, Energy Solutions and R-V, and a \$0.08 per weighted average share decrease in interest income, net of interest and credit facility expenses. These decreases are partially offset by a \$0.07 per weighted average share decrease in income incentive fees.

### **Net Realized Losses**

Net realized losses were \$5,671 and \$8,123 for the three months ended December 31, 2013 and December 31, 2012, respectively. The net realized loss of \$5,671 for the three months ended December 31, 2013 was due primarily to a \$7,853 realized loss from the sale of our loan receivable in NBS at a discount. This loss was partially offset by a \$1,183 gain realized when the subordinated notes of Apidos III were called in October 2013. The net realized loss of \$8,123 for the three months ended December 31, 2012 was due primarily to the impairment of ICS. During the three months ended December 31, 2012, we determined that the impairment of ICS was other-than-temporary and recorded a realized loss of \$12,198 for the amount that the amortized cost exceeded the fair market value. This loss was offset primarily by the sale of Northwestern Management Services, LLC ("Northwestern") common stock for which we realized a gain of \$1,862 and sale of Shearer's Foods, Inc. ("Shearer's") membership units for which we realized a gain of \$2,027.

Net realized losses were \$1,882 and \$6,348 for the six months ended December 31, 2013 and December 31, 2012, respectively. The net realized loss of \$1,882 for the six months ended December 31, 2013 was due primarily to the \$7,853 realized loss related to the sale of our loan receivable in NBS at a discount. This loss was partially offset by a \$3,252 gain realized from the release of escrowed amounts to us related to our investment in NRG and a \$1,183 gain realized when the subordinated notes from Apidos VIII were called in October 2013. The net realized loss for the six months ended December 31, 2012 was primarily due to the impairment of ICS, sale of our equity investments in Northwestern and Shearer's, and sale of our common stock in Iron Horse Coiled Tubing, Inc. for which we realized a gain of \$1,772.

### **Decrease in Net Assets from Changes in Unrealized Depreciation**

Net decrease in net assets from changes in unrealized depreciation was \$1,182 and \$44,604 for the three months ended December 31, 2013 and December 31, 2012, respectively. The variability in results is primarily due to the valuation of equity positions in our portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the three months ended December 31, 2013, the \$1,182 net change in unrealized depreciation was driven by significant write-downs of our equity investments in AIRMALL, Ajax, Gulf Coast and Valley Electric. These instances of unrealized depreciation were partially offset by unrealized appreciation related to NBS and our CLO equity investments. During the three months ended December 31, 2013, we sold our debt investment in NBS at a discount and realized a loss of \$7,853, reducing the amount previously recorded unrealized depreciation. Included within the change in net unrealized appreciation of \$1,182 for the three months ended December 31, 2013 is \$7,751 of unrealized appreciation resulting from the sale of NBS.

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Net decrease in net assets from changes in unrealized depreciation was \$7,408 and \$73,157 for the six months ended December 31, 2013 and December 31, 2012, respectively. The variability in results is primarily due to the valuation of equity positions in our portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the six months ended December 31, 2013, the \$7,408 net change in unrealized depreciation was driven by significant write-downs of our equity investments in AIRMALL, Ajax and Valley Electric. We also recognized a decline in value for our investment in Gulf Coast due to a decrease in the company's operating results. These instances of unrealized depreciation were partially offset by unrealized appreciation in First Tower and our CLO equity investments.

### Financial Condition, Liquidity and Capital Resources

For the six months ended December 31, 2013 and December 31, 2012, our operating activities used \$536,080 and \$1,102,242 of cash, respectively. There were no investing activities for the six months ended December 31, 2013 and December 31, 2012. Financing activities provided \$501,260 and \$1,101,636 of cash during the six months ended December 31, 2013 and December 31, 2012, respectively, which included dividend payments of \$168,290 and \$97,577, respectively.

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

Our primary sources of funds have been issuances of debt and equity. We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the six months ended December 31, 2013, we borrowed \$96,000 and made repayments totaling \$220,000 under our revolving credit facility. As of December 31, 2013, we had zero outstanding on our revolving credit facility, \$847,500 outstanding on our Senior Convertible Notes, Senior Unsecured Notes with a carrying value of \$347,814 and \$600,907 outstanding on our Prospect Capital InterNotes®. (See *Capitalization*.)

Undrawn committed revolvers to our portfolio companies incur commitment fees ranging from 0.00% to 2.00%. As of December 31, 2013 and June 30, 2013, we have \$200,990 and \$202,518 of undrawn revolver commitments to our portfolio companies, respectively.

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,595,882 of additional debt and equity securities in the public market as of December 31, 2013.

We also continue to generate liquidity through public and private stock offerings. (See *Recent Developments*.)

On May 8, 2013, we entered into an ATM Program with BB&T Capital Markets, BMO Capital Markets, and KeyBanc Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from July 5, 2013 to August 21, 2013, we sold 9,818,907 shares of our common stock at an average price of \$10.97 per share, and raised \$107,725 of gross proceeds, under the ATM Program. Net proceeds were \$106,654 after commissions to the broker-dealer on shares sold and offering costs.

On August 22, 2013, we entered into an ATM Program with BMO Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets, LLC through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from August 29, 2013 to November 4, 2013, we sold 24,127,242 shares of our common stock at an average price of \$11.28 per share, and raised \$272,114 of gross proceeds, under

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the ATM Program. Net proceeds were \$268,997 after commissions to the broker-dealer on shares sold and offering costs.

On November 5, 2013, we entered into an ATM Program with Barclays Capital, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets, LLC through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from November 12, 2013 to December 31, 2013, we sold 16,753,918 shares of our common stock at an average price of \$11.30 per share, and raised \$189,237 of gross proceeds, under the ATM Program. Net proceeds were \$186,908 after commissions to the broker-dealer on shares sold and offering costs. See *Recent Developments* for issuances under the ATM Program subsequent to December 31, 2013.

### Off-Balance Sheet Arrangements

At December 31, 2013, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

### Recent Developments

During the period from January 1, 2014 to March 28, 2014, we issued \$168,428 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$165,823.

During the period from January 1, 2014 to March 28, 2014 (with settlement through April 2, 2014), we sold 29,721,167 shares of our common stock at an average price of \$11.13 per share, and raised \$330,805 of gross proceeds, under the ATM Program. Net proceeds were \$327,588 after commissions to the broker-dealer on shares sold and offering costs.

On January 7, 2014, we made a \$2,000 investment in NPH. We invested \$300 of equity and \$1,700 of debt in NPH.

On January 8, 2014, we made a \$161,500 follow-on investment in Broder Bros., Co., a distributor of imprinted sportswear and accessories in the United States.

On January 13, 2014, we made a \$2,000 follow-on investment in NPH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in NPH.

On January 14, 2014, we made a \$2,000 follow-on investment in NPH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in NPH.

On January 15, 2014, we expanded the accordion feature of our credit facility from \$650,000 to \$1,000,000. On January 15, 2014, February 28, 2014 and March 28, 2014, we increased the commitments to the credit facility by \$62,500, \$45,000 and \$35,000, respectively. The commitments to the credit facility now stand at \$792,500.

On January 17, 2014, we made a \$2,000 follow-on investment in NPH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in NPH.

On January 17, 2014, we made a \$6,565 follow-on investment in APH to acquire the Gulf Coast II Portfolio, a portfolio of two multi-family residential properties located in Alabama and Florida. We invested \$1,065 of equity and \$5,500 of debt in APH.

On January 23, 2014, February 20, 2014 and March 20, 2014, we issued 109,087, 88,112 and 93,735 shares of our common stock in connection with the dividend reinvestment plan, respectively.

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On January 31, 2014, we made a \$4,805 follow-on investment in NPH to acquire Island Club, a multi-family residential property located in Jacksonville, Florida. We invested \$805 of equity and \$4,000 of debt in NPH.

On February 3, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110475 per share for July 2014 to holders of record on July 31, 2014 with a payment date of August 21, 2014;

\$0.110500 per share for August 2014 to holders of record on August 29, 2014 with a payment date of September 18, 2014;  
and

\$0.110525 per share for September 2014 to holders of record on September 30, 2014 with a payment date of October 22, 2014.

On February 4, 2014, we made a secured debt investment of \$25,000 in Ikaria, Inc., a biotherapeutics company focused on developing and commercializing innovative therapies designed to meet the unique and complex medical needs of critically ill patients.

On February 5, 2014, we sold \$8,000 of our investment in a consumer products company.

On February 5, 2014, we made an investment of \$32,383 to purchase 94.27% of the subordinated notes in ING IM CLO 2014-I, Ltd.

On February 7, 2014, we made an investment of \$23,111 to purchase 63.64% of the subordinated notes in Halcyon Loan Advisors Funding 2014-I, Ltd.

On February 10, 2014, the SEC granted our exemptive application to permit us to participate in negotiated co-investments with our funds managed by Prospect Capital Management LLC, Priority Senior Secured Income Management, LLC or Pathway Energy Infrastructure Management, LLC or affiliated advisers in a manner consistent with our investment objective, strategies and restrictions as well as regulatory requirements and other pertinent factors, subject to the conditions therein.

On February 11, 2014, we made a \$7,000 follow-on investment in Interdent, Inc. to fund an acquisition.

On February 11, 2014, we made a secured debt investment of \$10,000 in TriMark USA LLC, a foodservice equipment and supplies distributor and provider of custom kitchen design services.

On February 12, 2014, we made a \$2,000 follow-on investment in NPH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in NPH.

On February 19, 2014, we provided \$17,000 of secured floating rate financing to support the acquisition of Keane by Lovell Minnick Partners. Keane provides unclaimed property services to many of the nation's largest financial institutions including transfer agents, mutual funds, banks, brokerages and insurance companies.

On February 21, 2014, we sold \$6,500 of our investment in a consumer products company.

On March 7, 2014, we provided \$78,000 of senior secured floating rate debt to support the continued growth of Tolt Solutions, Inc., a retail-focused information technology services company, providing customized network architecture solutions, installation, deployment, maintenance, and customer support to retailers nationwide.

On March 12, 2014, we made a secured debt investment of \$10,000 in Tectum Holdings, Inc., a manufacturer of aftermarket accessories for the lite-truck market.

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On March 18, 2014, we made a \$28,250 follow-on investment in LaserShip, Inc., of which \$22,250 was funded at closing, to finance an acquisition.

On March 20, 2014, New Star Metals, Inc. repaid the \$50,534 loan receivable to us.

On March 25, 2014, we made a secured debt investment of \$28,500 in a provider of contract and permanent placement staffing services, with a strategic focus on the information technology segment.

On March 26, 2014, Material Handling Services, LLC repaid the \$64,547 loan receivable to us.

On March 28, 2014, we provided \$277,500 of secured floating rate debt to support the refinancing of Instant Web, LLC, a provider of direct marketing solutions to direct marketers for acquisition and loyalty programs in the United States.

### **Critical Accounting Policies and Estimates**

#### *Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. The financial results of our portfolio investments are not consolidated in the financial statements.

#### *Reclassifications*

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompany notes to conform to the presentation as of and for the three and six months ended December 31, 2013.

#### *Use of Estimates*

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

#### *Basis of Consolidation*

Under the 1940 Act, the regulations pursuant to Article 6 of Regulation S-X and ASC 946, *Financial Services Investment Companies* ("ASC 946"), we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our consolidated financial statements include our accounts and the accounts of PCF, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

#### *Investment Classification*

We are a non-diversified company within the meaning of the 1940 Act. We classify our investments by level of control. As defined in the 1940 Act, controlled 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, Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire

within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person.

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

#### *Investment Risks*

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

##### *Market Risk*

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

##### *Credit Risk*

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

##### *Liquidity Risk*

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

##### *Interest Rate Risk*

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

##### *Prepayment Risk*

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

#### *Investment Valuation*

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

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

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

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

*Level 3:* Unobservable inputs for the asset or liability.

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

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

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

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

- 1) Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors;
- 2) the independent valuation firms conduct independent valuations and make their own independent assessment;
- 3) the Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of Prospect Capital Management LLC (the "Investment Adviser") and that of the independent valuation firms; and
- 4) the Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

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

utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

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

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

#### *Valuation of Other Financial Assets and Financial Liabilities*

The Fair Value Option within ASC 825, *Financial Instruments*, specifically ASC 825-10-25, permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible assets and liabilities for which the assets and liabilities are measured using another measurement attribute. For our non-investment assets and liabilities, we have elected not to value them at fair value as would be permitted by ASC 825-10-25.

#### *Senior Convertible Notes*

We have recorded the Senior Convertible Notes (see Note 5) at their contractual amounts. The Senior Convertible Notes were analyzed for any features that would require their accounting to be bifurcated and such features were determined to be immaterial.

#### *Revenue Recognition*

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

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

Interest income from investments in the "equity" class of security of CLO funds (typically income notes or subordinated notes) is recorded based upon an estimation of an effective yield to expected maturity utilizing assumed cash flows in accordance with ASC 325-40, *Beneficial Interests in Securitized*



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*Financial Assets.* We monitor the expected cash inflows from our CLO equity investments, including the expected residual payments, and the effective yield is determined and updated periodically.

Dividend income is recorded on the ex-dividend date.

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

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of December 31, 2013, approximately 0.3% of our total assets are in non-accrual status.

### *Federal and State Income Taxes*

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income. For the calendar year ended December 31, 2012, we elected to retain a portion of our annual taxable income and have paid \$4,500 for the excise tax due with the filing of the return. As of December 31, 2013, we have \$4,000 accrued as an estimate of the excise tax due for continuing to retain a portion of our annual taxable income for the calendar year ending December 31, 2013.

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

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subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

We follow ASC 740, *Income Taxes* ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of December 31, 2013 and for the three and six months then ended, we did not have a liability for any unrecognized tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2009 remain subject to examination by the Internal Revenue Service.

### *Dividends and Distributions*

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

### *Financing Costs*

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

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

### *Guarantees and Indemnification Agreements*

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

### *Per Share Information*

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

*Recent Accounting Pronouncements*

In June 2013, the FASB issued Accounting Standards Update 2013-08, Financial Services - Investment Companies (Topic 946) Amendments to the Scope, Measurement, and Disclosure Requirements ("ASU 2013-08"). The update clarifies the approach to be used for determining whether an entity is an investment company and provides new measurement and disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. The adoption of ASU 2013-08 is not expected to materially affect our consolidated financial statements and disclosures.

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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended December 31, 2013, we did not engage in hedging activities.

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**DESCRIPTION OF THE NOTES**

*The Notes will be issued under the Indenture referred to in the accompanying prospectus between us and U.S. Bank National Association, as trustee, and a supplemental indenture establishing the terms of the Notes (collectively, the indenture and supplemental indenture is referred to as the "Indenture"). The following description of particular terms of the Notes supplements the more general description of the debt securities contained in the accompanying prospectus. If there are any inconsistencies between the information in this section and the information in the accompanying prospectus, the information in this section controls. You should read this section together with the section entitled "Description of Our Debt Securities" in the accompanying prospectus.*

*Together with the "Description of Our Debt Securities" in the accompanying prospectus, the following description provides a summary of the material provisions of the Notes and the Indenture and does not purport to be complete. We urge you to read the Indenture (including the form of global note contained therein), because it, and not this description, defines your rights as a holder of the Notes.*

**Brief Description of the Notes**

The Notes will:

initially be limited to \$       million aggregate principal amount;

bear interest at a rate of       % per year, payable every January 15 and July 15, commencing on July 15, 2014, in each case having a record date of July, 1 and January, 1;

be issued in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof;

be subject to redemption at our option as described under " Optional Redemption"

be our general unsecured obligations, ranking equally with all of our other unsecured senior indebtedness (including, but not limited to, the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, 2019 Notes, the 2022 Notes, the 2023 Notes and the Prospect Capital InterNotes®) and senior in right of payment to any of our subordinated indebtedness, effectively subordinated in right of payment to our existing and future secured indebtedness and structurally subordinated to all existing and future debt of our subsidiary;

be subject to repurchase by us at your option if a fundamental change occurs, at a cash repurchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date; and

be due July 15, 2019.

Neither we nor our subsidiary will be subject to any financial covenants under the Indenture. In addition, neither we nor our subsidiary will be restricted under the Indenture from paying dividends, incurring debt or issuing or repurchasing our securities. You are not afforded protection under the Indenture in the event of a highly leveraged transaction or a change in control of us, except to the extent described below under " Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change."

No sinking fund is provided for the Notes and the Notes will be subject to defeasance.

The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC. For information



regarding registration of transfer and exchange of the global note held in DTC, see "Registration and Settlement" on page S-71.

### **Additional Notes**

We may, without the consent of the holders of the Notes, increase the principal amount of the Notes by issuing additional Notes in the future on the same terms and conditions, except for any differences in the public offering price and interest accrued prior to the issue date of the additional Notes and the original issue date; provided that such differences do not cause the additional Notes to constitute a different class of securities than the Notes for U.S. federal income tax purposes. The Notes offered by this prospectus supplement and any additional Notes would rank equally and ratably and would be treated as a single class for all purposes under the Indenture. No additional Notes may be issued if any event of default has occurred with respect to the Notes.

### **Ranking**

The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future senior, unsecured indebtedness (including, but not limited to, our 2015 Notes, 2016 Notes, 2017 Notes, 2018 Notes, 2019 Notes, 2022 Notes, 2023 Notes and any Prospect Capital InterNotes®) and senior in right of payment to any of our subordinated indebtedness. 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 subsidiary. As of March 28, 2014, we and our subsidiary had approximately \$2,592 million of senior indebtedness outstanding, \$629 million of which was secured indebtedness and \$1,963 million of which was unsecured indebtedness.

### **Payment at Maturity**

On the maturity date, each holder will be entitled to receive on such date \$1,000 in cash for each \$1,000 in principal amount of Notes, together with accrued and unpaid interest (including additional interest, if any) to, but not including, the maturity date. With respect to the global note, principal and interest (including additional interest, if any) will be paid to DTC in immediately available funds.

### **Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change**

If a fundamental change (as defined below) occurs at any time prior to the maturity of the Notes, you will have the right to require us to repurchase, at the repurchase price described below, all or part of your Notes for which you have properly delivered and not withdrawn a written repurchase notice. The Notes submitted for repurchase must be \$1,000 in principal amount or \$1,000 integral multiples in excess thereof.

The repurchase price will be payable in cash and will equal 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date. However, if the repurchase date is after a record date and on or prior to the corresponding interest payment date, the interest (including additional interest, if any) will be paid on the repurchase date to the holder of record on the record date.

We may be unable to repurchase your Notes in cash upon a fundamental change. Our ability to repurchase the Notes in cash in the future may be limited by the terms of our then-existing borrowing agreements. In addition, the occurrence of a fundamental change could cause an event of default under the terms of our then-existing borrowing agreements. We cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price in cash. See "Risk Factors We may be unable to repurchase the Notes following a fundamental change" on page S-13 of this prospectus supplement.

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A "fundamental change" will be deemed to have occurred upon the occurrence of both (a) a below investment grade ratings event (as defined below) and (b) any of the following events (each such events listed below shall be deemed a "fundamental change event"):

1. the consummation of any transaction (including, without limitation, any merger or consolidation other than those excluded under clause (3) below) the result of which is that any "person" becomes the "beneficial owner" (as these terms are defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of our capital stock that is at the time entitled to vote by the holder thereof in the election of our board of directors (or comparable body);
2. the adoption of a plan relating to our liquidation or dissolution; or
3. the consolidation or merger of us with or into any other person, or the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiary taken as a whole to any "person" (as this term is used in Section 13(d)(3) of the Exchange Act), other than:

any transaction that does not result in any reclassification, conversion, exchange or cancellation of all or substantially all of the outstanding shares of our capital stock;

any changes resulting from a subdivision or combination or a change solely in par value;

any transaction pursuant to which the holders of 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors immediately prior to such transaction have the right to exercise, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of the continuing or surviving person immediately after giving effect to such transaction entitled to vote generally in elections of directors; or

any merger primarily for the purpose of changing our jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity.

For purposes of determining the occurrence of a fundamental change, the term "below investment grade rating event" means the Notes are downgraded below investment grade (as defined below) by the rating agency (as defined below) on any date from the date of the public notice of an arrangement that results in the occurrence of a fundamental change event until the end of the 60-day period following public notice of the occurrence of a fundamental change event (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by the rating agency); *provided* that a downgrade contemplated by this paragraph otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular fundamental change event (and thus shall not be deemed a downgrade as contemplated by this paragraph for purposes of the definition of fundamental change hereunder) if the rating agency making the reduction in rating to which this paragraph would otherwise apply does not announce or publicly confirm or inform the trustee in writing at its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable fundamental change event (whether or not the applicable fundamental change event shall have occurred at the time of any downgrade contemplated by this paragraph). "Rating agency" means Standard & Poor's Rating Service, a division of McGraw-Hill, Inc. or any successor thereto and "investment grade" means a rating of BBB- or better by the rating agency (or if such rating agency ceases to rate the Notes for reasons outside of the Company's control, the equivalent investment grade rating from any "nationally recognized statistical rating organization" as defined in Section (3)(a)(62) of the Exchange Act selected by the Company as a replacement for the rating agency).



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The definition of "fundamental change" includes a phrase relating to the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiary taken as a whole. Although there is a developing body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require us to repurchase the Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our assets and those of our subsidiary taken as a whole to another person or group may be uncertain.

On or before the 30th calendar day after the occurrence of a fundamental change, we will provide to all record holders of the Notes on the date of the fundamental change at their addresses shown in the register of the registrar and to beneficial owners to the extent required by applicable law, the trustee and the paying agent, a written notice of the occurrence of the fundamental change and the resulting repurchase right. Such notice shall state, among other things, the event causing the fundamental change and the procedures you must follow to require us to repurchase your Notes.

The repurchase date will be a date specified by us in the notice of a fundamental change that is not less than 30 nor more than 60 calendar days after the date of the notice of a fundamental change.

To exercise your repurchase right, you must deliver, prior to 5:00 p.m., New York City time, on the repurchase date, a written notice to the paying agent of your exercise of your repurchase right (together with the Notes to be repurchased, if certificated Notes have been issued). The repurchase notice must state:

if you hold a beneficial interest in a global Note, your repurchase notice must comply with appropriate DTC procedures; if you hold certificated Notes, the Notes certificate numbers;

the portion of the principal amount of the Notes to be repurchased, which must be \$1,000 or \$1,000 integral multiples in excess thereof; and

that the Notes are to be repurchased by us pursuant to the applicable provisions of the Notes and the Indenture.

You may withdraw your repurchase notice at any time prior to 5:00 p.m., New York City time, on the repurchase date by delivering a written notice of withdrawal to the paying agent. If a repurchase notice is given and withdrawn during that period, we will not be obligated to repurchase the Notes listed in the repurchase notice. The withdrawal notice must state:

if you hold a beneficial interest in a global Note, your withdrawal notice must comply with appropriate DTC procedures; if you hold certificated Notes, the certificate numbers of the withdrawn Notes;

the principal amount of the withdrawn Notes; and

the principal amount, if any, which remains subject to the repurchase notice.

Payment of the repurchase price for Notes for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the Notes, together with necessary endorsements, to the paying agent, as the case may be. Payment of the repurchase price for the Notes will be made promptly following the later of the repurchase date and the time of book-entry transfer or delivery of the Notes, as the case may be.

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If the paying agent holds on the business day immediately following the repurchase date cash sufficient to pay the repurchase price of the Notes that holders have elected to require us to repurchase, then, as of the repurchase date:

the Notes will cease to be outstanding and interest (including additional interest, if any) will cease to accrue, whether or not book-entry transfer of the Notes has been made or the Notes have been delivered to the paying agent, as the case may be; and

all other rights of the holders of Notes will terminate, other than the right to receive the repurchase price upon delivery or transfer of the Notes.

In connection with any repurchase, we will, to the extent applicable:

comply with the provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act that may be applicable at the time of the offer to repurchase the Notes;

file a Schedule TO or any other schedule required in connection with any offer by us to repurchase the Notes; and

comply with all other federal and state securities laws in connection with any offer by us to repurchase the Notes.

This fundamental change repurchase right could discourage a potential acquirer of the Company. However, this fundamental change repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions. See "Risk Factors Provisions of the Notes could discourage an acquisition of us by a third party" on page S-14 of this prospectus supplement.

Our obligation to repurchase the Notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged or other transaction involving us that may adversely affect holders. We also could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a fundamental change but would increase the amount of our (or our subsidiary's) outstanding debt. The incurrence of significant amounts of additional debt could adversely affect our ability to service our then existing debt, including the Notes. See "Risk Factors Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to repurchase the Notes" on page S-14 of this prospectus supplement.

### **Optional Redemption**

The Notes will be redeemable, in whole or in part, at any time, or from time to time, at the option of the Company, at a "redemption price" equal to the greater of the following amounts, plus, in each case, accrued and unpaid interest to the redemption date:

100% of the principal amount of the Notes to be redeemed, or

the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of accrued and unpaid interest to the redemption date) on the Notes to be redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) using the applicable treasury rate (as defined below) plus basis points.

For purposes of calculating the redemption price in connection with the redemption of the Notes, on any redemption date, the following terms have the meanings set forth below:

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield-to-maturity of the comparable treasury issue (computed as of the third business day immediately preceding the redemption date), assuming a price for the comparable treasury

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issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date. The redemption price and the treasury rate will be determined by the Company.

"Comparable Treasury Issue" means the United States Treasury security selected by the reference treasury dealer as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financing practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes being redeemed.

"Comparable Treasury Price" means (1) the average of the remaining reference treasury dealer quotations for the redemption date, after excluding the highest and lowest reference treasury dealer quotations, or (2) if the quotation agent obtains fewer than four such reference treasury dealer quotations, the average of all such quotations.

"Quotation Agent" means a reference treasury dealer selected by the Company.

"Reference Treasury Dealer" means (1) Barclays Capital, Inc., (2) Goldman, Sachs & Co., (3) RBC Capital Markets, LLC and (4) UBS Securities LLC or their respective affiliates which are primary U.S. government securities dealers and their respective successors; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. government securities dealer in the United States (a "primary treasury dealer"), the Company shall select another primary treasury dealer.

"Reference Treasury Dealer Quotations" means, with respect to each reference treasury dealer and any redemption date, the average, as determined by the quotation agent, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the quotation agent by such reference treasury dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

All determinations made by any reference treasury dealer, including the quotation agent, with respect to determining the redemption price will be final and binding absent manifest error.

(b) Notice of redemption shall be given in writing and mailed, first-class postage prepaid or by overnight courier guaranteeing next-day delivery, to each holder of the Notes to be redeemed, not less than 30 nor more than 60 days prior to the redemption date, at the holder's address appearing in the security register. All notices of redemption shall contain the information set forth in Section 11.04 of the Indenture.

(c) Any exercise of the Company's option to redeem the Notes will be done in compliance with the 1940 Act, to the extent applicable.

(d) If the Company elects to redeem only a portion of the Notes, the particular Notes to be redeemed will be selected in accordance with the applicable procedures of the trustee and, so long as the Notes are registered to the depository or its nominee, the depository; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than \$1,000.

(e) Unless the Company defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes called for redemption hereunder.

### **Consolidation, Merger and Sale of Assets by the Company**

The Indenture will provide that we may not, in a single transaction or a series of related transactions, consolidate with or merge with or into any other person or sell, convey, transfer or lease our property and assets substantially as an entirety to another person, unless:

either (a) we are the continuing corporation or (b) the resulting, surviving or transferee person (if other than us) is a corporation or limited liability company organized and existing under the

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laws of the United States, any state thereof or the District of Columbia and such person assumes, by a supplemental indenture in a form reasonably satisfactory to the trustee, all of our obligations under the Notes and the Indenture;

immediately after giving effect to such transaction, no default or event of default has occurred and is continuing; and

we have delivered to the trustee certain certificates and opinions of counsel if so requested by the trustee.

In the event of any transaction described in and complying with the conditions listed in the immediately preceding paragraph in which the Company is not the continuing corporation, the successor person formed or remaining shall succeed, and be substituted for, and may exercise every right and power of, the Company, and the Company shall be discharged from its obligations, under the Notes and the Indenture.

This covenant includes a phrase relating to the sale, conveyance, transfer and lease of the property and assets of the Company "substantially as an entirety." There is no precise, established definition of the phrase "substantially as an entirety" under New York law, which governs the Indenture and the Notes, or under the laws of Maryland, the Company's state of incorporation. Accordingly, the ability of a holder of the Notes to require us to repurchase the Notes as a result of a sale, conveyance, transfer or lease of less than all of the property and assets of the Company may be uncertain.

An assumption by any person of the Company's obligations under the Notes and the Indenture might be deemed for U.S. federal income tax purposes to be an exchange of the Notes for new Notes by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

### **Events of Default; Notice and Waiver**

In addition to the events of default and the other information with respect to events of default, see "Description of Our Debt Securities Events of Default" beginning on page 178 of the accompanying prospectus, the following will be events of default under the Indenture:

we fail to pay the repurchase price payable in respect of any Notes when due;

we fail to provide notice of the effective date or actual effective date of a fundamental change on a timely basis as required in the Indenture;

we fail to perform or observe any other term, covenant or agreement in the Notes or the Indenture for a period of 60 calendar days after written notice of such failure is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding;

a failure to pay principal when due (whether at stated maturity or otherwise) or an uncured default that results in the acceleration of maturity, of any indebtedness for borrowed money of the Company or any of our "significant subsidiaries," (which term shall have the meaning specified in Rule 1-02(w) of Regulation S-X), other than subsidiaries that are non-recourse or limited recourse subsidiaries, bankruptcy remote special purpose vehicles and any subsidiaries that are not consolidated with us for GAAP purposes, in an aggregate amount in excess of \$50,000,000 (or its foreign currency equivalent), unless such indebtedness is discharged, or such acceleration is rescinded, stayed or annulled, within a period of 30 calendar days after written notice of such failure is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding; or

certain events involving our bankruptcy, insolvency or reorganization of the Company.

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We are required to notify the trustee promptly upon becoming aware of the occurrence of any default under the Indenture known to us. The trustee is then required within 90 calendar days of being notified by us of the occurrence of any default to give to the registered holders of the Notes notice of all uncured defaults known to it. However, the trustee may withhold notice to the holders of the Notes of any default, except defaults in payment of principal or interest (including additional interest, if any) on the Notes, if the trustee, in good faith, determines that the withholding of such notice is in the interests of the holders. We are also required to deliver to the trustee, on or before a date not more than 120 calendar days after the end of each fiscal year, a written statement as to compliance with the Indenture, including whether or not any default has occurred.

If an event of default specified in the last bullet point listed above occurs and continues, the principal amount of the Notes and accrued and unpaid interest (including additional interest, if any) on the outstanding Notes will automatically become due and payable. If any other event of default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding Notes may declare the principal amount of the Notes and accrued and unpaid interest (including additional interest, if any) on the outstanding Notes to be due and payable. Thereupon, the trustee may, in its discretion, proceed to protect and enforce the rights of the holders of the Notes by appropriate judicial proceedings.

After a declaration of acceleration, but before a judgment or decree for payment of the money due has been obtained by the trustee, the holders of a majority in aggregate principal amount of the Notes outstanding, by written notice to us and the trustee, may rescind and annul such declaration if:

we have paid (or deposited with the trustee a sum sufficient to pay) (1) all overdue interest (including additional interest, if any) on all Notes; (2) the principal amount of any Notes that have become due otherwise than by such declaration of acceleration; (3) to the extent that payment of such interest is lawful, interest upon overdue interest (including additional interest, if any); and (4) all sums paid or advanced by the trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the trustee, its agents and counsel; and

all events of default, other than the non-payment of the principal amount and any accrued and unpaid interest (including additional interest, if any) that have become due solely by such declaration of acceleration, have been cured or waived.

For more information on remedies if an event of default occurs, see "Description of Our Debt Securities Events of Default" beginning on page 178 of the accompanying prospectus.

Notwithstanding the foregoing and the description in the accompanying prospectus, the Indenture will provide, if we so elect, that the sole remedy for an event of default relating to the failure to comply with the reporting obligations in the Indenture, which are described below under the caption " Reports," and for any failure to comply with the requirements of Section 314(a)(1) of the Trust Indenture Act (which also relates to the provision of reports), will, at our option, for the 365 days after the occurrence of such an event of default consist exclusively of the right to receive additional interest on the Notes at an annual rate equal to 0.50% of the principal amount of the Notes. In the event we do not elect to pay the additional interest upon an event of default in accordance with this paragraph, the Notes will be subject to acceleration as provided above. The additional interest will accrue on all outstanding Notes from and including the date on which an event of default relating to a failure to comply with the reporting obligations in the Indenture first occurs to but not including the 365th day thereafter (or such earlier date on which the event of default relating to the reporting obligations shall have been cured or waived). On such 365th day (or earlier, if the event of default relating to the reporting obligations is cured or waived prior to such 365th day), such additional interest will cease to accrue and the Notes will be subject to acceleration as provided above if the event of default is continuing. The provisions of the Indenture described in this paragraph will not affect the rights of holders of Notes in the event of the occurrence of any other event of default.

*Waiver*

The holders of a majority in aggregate principal amount of the Notes outstanding may, on behalf of the holders of all the Notes, waive any past default or event of default under the Indenture and its consequences, except that a holder cannot waive our failure to pay the repurchase price on the repurchase date in connection with a holder exercising its repurchase rights. For other exceptions to a holder's waiver of past default or event of default under the Indenture, see "Description of Our Debt Securities Events of Default" beginning on page 178 of the accompanying prospectus.

**Modification**

*Changes Requiring Approval of Each Affected Holder*

The Indenture (including the terms and conditions of the Notes) may not be modified or amended without the written consent or the affirmative vote of the holder of each Note affected by such change to:

reduce any amount payable upon repurchase of any Notes;

to add to, delete from or revise the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication and delivery of debt securities, as set forth in the indenture;

change our obligation to repurchase any Notes upon a fundamental change in a manner adverse to the rights of the holders; and

change our obligation to maintain an office or agency in New York City.

For other changes requiring approval of each affected holder, see "Description of our Debt Securities Modification or Waiver" on page 180 of the accompanying prospectus.

*Changes Requiring Majority Approval*

The Indenture (including the terms and conditions of the Notes) may be modified or amended, except as described above, with the written consent or affirmative vote of the holders of a majority in aggregate principal amount of the Notes then outstanding. For such changes requiring majority approval, see "Description of Our Debt Securities Modification or Waiver" on page 180 of the accompanying prospectus.

*Changes Requiring No Approval*

The Indenture (including the terms and conditions of the Notes) may be modified or amended by us and the trustee, without the consent of the holder of any Notes, to, among other things:

provide for our repurchase obligations in connection with a fundamental change in the event of any reclassification of our common stock, merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entity;

secure the Notes;

provide for the assumption of our obligations to the holders of the Notes in the event of a merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entirety;

surrender any right or power conferred upon us;

add to our covenants for the benefit of the holders of the Notes;

cure any ambiguity or correct or supplement any inconsistent or otherwise defective provision contained in the Indenture;

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conform the provisions of the Indenture to the description of the Notes contained in this prospectus supplement;

make any provision with respect to matters or questions arising under the Indenture that we may deem necessary or desirable and that shall not be inconsistent with provisions of the Indenture; provided that such change or modification does not, in the good faith opinion of our board of directors, adversely affect the interests of the holders of the Notes in any material respect;

add guarantees of obligations under the Notes; and

provide for a successor trustee.

#### *Other*

The consent of the holders of Notes is not necessary under the Indenture to approve the particular form of any proposed modification or amendment. It is sufficient if such consent approves the substance of the proposed modification or amendment. After a modification or amendment under the Indenture becomes effective, we are required to mail to the holders a notice briefly describing such modification or amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the modification or amendment.

#### *Notes Not Entitled to Consent*

Any Notes held by us or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with us shall be disregarded (from both the numerator and the denominator) for purposes of determining whether the holders of the requisite aggregate principal amount of the outstanding Notes have consented to a modification, amendment or waiver of the terms of the Indenture.

#### **Reports**

We shall deliver to the trustee, within 30 days after filing with the SEC, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) that we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act; provided, that any such information, documents or reports filed electronically with the SEC pursuant to Section 13 or 15(d) of the Exchange Act shall be deemed filed with and delivered to the trustee and the holders at the same time as filed with the SEC.

If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end. All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.

#### **Satisfaction and Discharge**

The Indenture shall upon the written request or order signed in the name of the Company, or the "Company Request," cease to be of further effect with respect to any series of Notes specified in such Company Request (except as to any surviving rights of registration of transfer or exchange of Notes of such series expressly provided in the Indenture, any surviving rights of tender for repayment at the option of the holders and any right to receive additional amounts, as provided in the Indenture), and the trustee, upon receipt of a company order, and at the expense of the Company, shall execute proper



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instruments acknowledging satisfaction and discharge of the Indenture as to such series when (1) either:

(A) all Notes of such series theretofore authenticated and delivered and all coupons, if any, appertaining thereto (other than (i) coupons appertaining to bearer securities surrendered for exchange for registered securities and maturing after such exchange, whose surrender is not required or has been waived as provided in the Indenture, (ii) Notes and coupons of such series which have been destroyed, lost or stolen and which have been replaced or paid as provided in the Indenture, (iii) coupons appertaining to the Notes called for redemption and maturing after the relevant redemption date, whose surrender has been waived as provided in the Indenture, and (iv) Notes and coupons of such series for whose payment money has theretofore been deposited in trust with the trustee or any paying agent or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust), as provided in the Indenture have been delivered to the trustee for cancellation; or

(B) all Notes of such series and, in the case of (i) or (ii) below, any coupons appertaining thereto not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their stated maturity within one year, or

(iii) if redeemable at the option of the Company, are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the expense, of the Company, and the Company, in the case of (i), (ii) or (iii) above, has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust for such purpose, solely for the benefit of the holders, an amount in the currency in which the Notes of such series are payable, sufficient to pay and discharge the entire indebtedness on such Notes and such coupons not theretofore delivered to the trustee for cancellation, for principal (and premium, if any) and interest, if any, to the date of such deposit (in the case of Notes which have become due and payable) or to the stated maturity or redemption date, as the case may be;

(2) the Company has irrevocably paid or caused to be irrevocably paid all other sums payable under the Indenture by the Company; and

(3) the Company has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent in the Indenture provided for relating to the satisfaction and discharge of the Indenture as to such series have been complied with.

Notwithstanding the satisfaction and discharge of the Indenture, the obligations of the Company to the trustee and any predecessor trustee under the Indenture, the obligations of the Company to any authenticating agent under the Indenture and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1), the obligations of the trustee for application of the funds and the Notes deposited with the trustee and held in trust for payment shall survive any termination of the Indenture.

### **Governing Law**

The Notes and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

### **Form, Denomination and Registration**

The Notes will be issued:

in fully registered form;

without interest coupons; and

in denominations of \$1,000 principal amount and integral multiples of \$1,000.

**REGISTRATION AND SETTLEMENT**

**The Depository Trust Company**

The Notes will be issued in book-entry only form. This means that we will not issue certificates for the Notes, except in the limited case described below. Instead, we will issue the global note in registered form. The global note will be held through DTC and will be registered in the name of Cede & Co., as nominee of DTC.

Accordingly, Cede & Co. will be the holder of record of the Notes. The Notes represented by the global note evidences a beneficial interest in the global note.

Beneficial interest in the global note will be shown on, and transfers are effected through, records maintained by DTC or its participants. In order to own a beneficial interest in the Notes, you must be an institution that has an account with DTC or have a direct or indirect account with such an institution. Transfers of ownership interests in the Notes will be accomplished by making entries in DTC participants' books acting on behalf of beneficial owners.

So long as DTC or its nominee is the registered holder of the global note, DTC or its nominee, as the case may be, will be the sole holder and owner of the Notes represented thereby for all purposes, including payment of principal and interest, under the Indenture. Except as otherwise provided below, you will not be entitled to receive physical delivery of certificated Notes and will not be considered the holder of the Notes for any purpose under the indenture. Accordingly, you must rely on the procedures of DTC and the procedures of the DTC participant through which you own your Note in order to exercise any rights of a holder of a Note under the indenture. The laws of some jurisdictions require that certain purchasers of Notes take physical delivery of such Notes in certificated form. Those limits and laws may impair the ability to transfer beneficial interests in the Notes.

The global note representing the Notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global note or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global note shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the Notes under the Indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the Notes.

The following is based on information furnished by DTC:

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered Notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered global note will be issued for all of the principal amount of the Notes.

The global note representing the Notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global note or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global note shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the Notes under the Indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the Notes.

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The following is based on information furnished by DTC:

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered Notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered global note will be issued for all of the principal amount of the Notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's direct participants deposit with DTC.

DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Notes under the DTC system must be made by or through direct participants, which will receive a credit for the Notes on DTC's records. The beneficial interest of each actual purchaser of the Notes is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the Notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by direct participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Notes; DTC's records reflect only the identity of the direct participants to whose accounts such Notes will be credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the Notes may wish to take

certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemption, tenders, defaults, and proposed amendments to the security documents. For example, beneficial owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to beneficial owners. In the alternative, beneficial owners may wish to provide their names and addresses to the registrar of the Notes and request that copies of the notices be provided to them directly. Any such request may or may not be successful.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the regular record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

We will pay principal and or interest payments on the Notes in same-day funds directly to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records upon DTC's receipt of funds and corresponding detail information. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of these participants and not of DTC or any other party, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is our responsibility, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the direct or indirect participant.

We will send any redemption notices to DTC. If less than all of the Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

A beneficial owner, or its authorized representative, shall give notice to elect to have its Notes repaid by us, through its direct or indirect participant, to the trustee, and shall effect delivery of such Notes by causing the direct participant to transfer that participant's interest in the global note representing the Notes, on DTC's records, to the trustee. The requirement for physical delivery of the Notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing the Notes are transferred by the direct participants on DTC's records.

DTC may discontinue providing its services as securities depository for the Notes at any time by giving us reasonable notice. Under such circumstances, if a successor securities depository is not obtained, we will print and deliver certificated Notes. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, we will print and deliver certificated Notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but neither we, the underwriters nor any agent takes any responsibility for its accuracy.

#### **Registration, Transfer and Payment of Certificated Notes**

If we ever issue Notes in certificated form, those Notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have originally designated U.S. Bank National Association to act in those

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capacities for the Notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the Notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any Notes at any time.

We will not be required to: (1) issue, exchange or register the transfer of any Note to be redeemed for a period of 15 days after the selection of the Notes to be redeemed; (2) exchange or register the transfer of any Note that was selected, called or is being called for redemption, except the unredeemed portion of any Note being redeemed in part; or (3) exchange or register the transfer of any Note as to which an election for repayment by the holder has been made, except the unrepaid portion of any Note being repaid in part.

We will pay principal of and interest on any certificated Notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note by check on any interest payment date other than at stated maturity or upon earlier redemption or repayment to the person in whose name the note is registered at the close of business on the regular record date for that payment. We will pay principal and interest at stated maturity or upon earlier redemption or repayment in same-day funds against presentation and surrender of the applicable Notes.

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**SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following summary of certain U.S. federal income tax considerations supplements the discussion set forth under the heading "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus and is subject to the qualifications and assumptions set forth therein.

The following is a general summary of certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes and the exchange of Exchange Notes for Notes by a holder who acquired such Exchange Notes in their original issuance. This discussion is based upon the Code, Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations, possibly with retroactive effect. No opinion of Counsel will be rendered with respect to the tax aspects of the Notes and no ruling from the Internal Revenue Service ("IRS") has been sought regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

Except as otherwise described under "Consequences of an Exchange of Exchange Notes for Notes," this discussion applies only to a holder of Notes that acquires the Notes for cash pursuant to this offering at the initial offering price and who holds the Notes as a capital asset (generally, property held for investment) under the Code. This discussion does not address any U.S. federal estate or gift tax consequences or any state, local or non-U.S. tax consequences. In addition, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, including, but not limited to:

banks, insurance companies or other financial institutions;

persons subject to the alternative minimum tax;

cooperatives;

tax-exempt organizations;

dealers in securities;

expatriates;

foreign persons or entities (except to the extent set forth below);

persons deemed to sell the Notes under the constructive sale provisions of the Code; or

persons that hold the Notes as part of a straddle, hedge, conversion transaction or other integrated investment.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns Notes, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns the Notes should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

We encourage investors to consult their tax advisors regarding the specific consequences of an investment in our Notes, including tax reporting requirements, the applicability of U.S. federal, state, local and Non-U.S. tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

## Consequences to U.S. Noteholders

The following is a general summary of certain U.S. federal income tax consequences that will apply to you if you are a U.S. Noteholder. Certain U.S. federal income tax consequences to non-U.S. Noteholders are described under "Consequences to Non-U.S. Noteholders" below. For purposes of this summary, the term "U.S. Noteholder" means a beneficial owner of a Note that is, for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the U.S., any of the States or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

### *Stated Interest and Original Issue Discount*

Payments of stated interest on the Notes will be taxable to a U.S. Noteholder as ordinary interest income at the time such Noteholder receives or accrues such amounts, in accordance with its regular method of accounting. In addition, the Notes may be issued with original issue discount ("OID") for U.S. federal income tax purposes if the Notes' stated redemption price at maturity (which is equal to the sum of all payments to be made on the Notes other than "qualified stated interest") exceeds the issue price of the Notes (which is equal to the first price at which a substantial amount of Notes is sold for cash, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) by more than a statutorily defined de minimis amount.

If the Notes are issued with OID, each U.S. Noteholder, regardless of the U.S. Noteholder's accounting method, generally must include in ordinary income a portion of the OID for each day during each taxable year in which a Note is held, determined by using a constant yield-to-maturity method that reflects the compounding of interest. The amount of such inclusions generally will increase over time. This means that, if the Notes are issued with OID, each U.S. Noteholder will be required to include amounts in income without a corresponding receipt of cash attributable to such income. A U.S. Noteholder's adjusted tax basis in a Note generally will equal the amount the U.S. Noteholder pays for the Note, increased by any OID included in income with respect to the Note.

### *Sale, exchange, redemption or other taxable disposition of the Notes*

Upon the sale, exchange, redemption or other disposition of a Note, a U.S. Noteholder generally will recognize taxable capital gain or loss equal to the difference, if any, between the amount realized and the Noteholder's adjusted tax basis in the Note at the time of such disposition. Such gain or loss will be long-term capital gain or loss if the U.S. Noteholder's holding period with respect to the Note disposed of is more than one year. To the extent that amounts received include accrued but unpaid interest that the U.S. Noteholder has not yet included in income, such interest will not be taken into account in determining gain or loss, but will instead be taxable as ordinary interest income. The deductibility of capital losses is subject to limitations.

### *Medicare Tax*

Certain U.S. Noteholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on interest and other income, including interest on the Notes and capital gains from the sale or other disposition of the Notes.

**Consequences to Non-U.S. Noteholders**

The following is a general summary of certain U.S. federal income tax consequences that will apply to you if you are a non-U.S. Noteholder. A beneficial owner of a Note that is not a partnership for U.S. federal income tax purposes or a U.S. Noteholder is referred to herein as a "non-U.S. Noteholder."

*Stated interest and OID on the Notes*

Stated interest and OID, if any, paid or accrued to a non-U.S. Noteholder will generally not be subject to U.S. federal income or withholding tax if the interest or OID is not effectively connected with its conduct of a trade or business within the United States, and the non-U.S. Noteholder:

does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;

is not a "controlled foreign corporation" with respect to which we are, directly or indirectly, a "related person";

is not a bank whose receipt of interest on the Notes is described in section 881(c)(3)(A) of the Code; and

provides its name and address, and certifies, under penalties of perjury, that it is not a U.S. person (on a properly executed IRS Form W-8BEN or other applicable form), or holds its Notes through certain foreign intermediaries and satisfies the certification requirements of applicable Treasury Regulations.

If a non-U.S. Noteholder does not qualify for an exemption under these rules, interest income and OID, if any, from the Notes may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate). Stated interest and OID, if any, effectively connected with a non-U.S. Noteholder's conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, which is attributable to a United States permanent establishment), however, would not be subject to a 30% withholding tax so long as the non-U.S. Noteholder provides us or our paying agent with an adequate certification (currently on IRS Form W-8ECI); such payments of interest and OID, if any, generally would be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if a non-U.S. Noteholder is a foreign corporation and the stated interest and OID, if any, is effectively connected with its conduct of a U.S. trade or business, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. To claim the benefit of a tax treaty, a non-U.S. Noteholder must provide a properly executed IRS Form W-8BEN (or other applicable form) to us or our paying agent before the payment of stated interest and OID, if any, and may be required to obtain a U.S. taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

*Sale, exchange, redemption or other taxable disposition of the Notes*

Any gain recognized by a non-U.S. Noteholder on the sale, exchange, redemption or other taxable disposition of the Notes (except with respect to accrued and unpaid interest, which would be taxed as described under "Consequences to Non-U.S. Noteholders Stated interest and OID on the Notes" above) generally will not be subject to U.S. federal income tax unless:

the non-U.S. Noteholder's gain is effectively connected with its conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment); or



the non-U.S. Noteholder is a nonresident alien individual present in the U.S. for 183 or more days in the taxable year within which the sale, exchange, redemption or other disposition takes place and certain other requirements are met.

If a non-U.S. Noteholder is a holder described in the first bullet point above, the net gain derived from the sale, exchange, redemption or other taxable disposition of its Notes generally will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if such non-U.S. Noteholder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. If a non-U.S. Noteholder is a holder described in the second bullet point above, it will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, exchange, redemption or other taxable disposition of its Notes, which may be offset by U.S. source capital losses, even though it is not considered a resident of the United States.

Non-U.S. Noteholders should consult any applicable income tax treaties that may provide for different rules. In addition, non-U.S. Noteholders are urged to consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Notes.

### **Consequences of an Exchange of Exchange Notes for Notes**

The U.S. federal income tax consequences of an exchange of Exchange Notes for Notes depends on whether such an exchange qualifies as an exchange of "securities" pursuant to a "reorganization" within the meaning of the Code. Limited authority exists as to whether Notes such as the Exchange Notes or the Notes would be considered "securities" for U.S. federal income tax purposes. Consequently, no assurances can be provided that any exchange of the Exchange Notes would so qualify. Except as otherwise described below, this discussion assumes the exchange will so qualify.

#### *Consequences to U.S. Noteholders*

Assuming that the Exchange Notes and the Notes are both treated as "securities" and that the exchange is thus treated as a "reorganization," a U.S. Noteholder that exchanges its Exchange Notes generally would not recognize any gain or loss for U.S. federal income tax purposes. In that event, a U.S. Noteholder's adjusted tax basis in the Notes would equal its adjusted tax basis in the Exchanged Notes surrendered therefor, and its holding period in the Notes would include its holding period in the Exchanged Notes surrendered therefor.

In addition, the U.S. federal income tax consequences of owning Notes for a U.S. Noteholder who acquires Notes in an exchange will depend on the relationship of the U.S. Noteholder's adjusted tax basis in its Notes to the "issue price" and the stated principal amount of its Notes, as discussed below.

If a U.S. Noteholder has an adjusted tax basis in its Notes immediately after the exchange that exceeds the stated principal amount of its Notes, the U.S. Noteholder would be considered to have "amortizable bond premium" equal to such excess. In this case, the U.S. Noteholder would not be required to include OID accruals, if any, in its income and, in addition, could elect to amortize the premium using a constant yield method over the term of the Notes and thereby offset each payment of stated interest by the portion of the bond premium allocable to the payment. If such an election is made, it generally will apply to all debt instruments held at the time of the election, as well as any debt instruments subsequently acquired. The election may not be revoked without the consent of the IRS. A U.S. Noteholder who elects to amortize bond premium must reduce its tax basis in the Notes by the amount of the premium so amortized. If an election to amortize bond premium is not made and the Notes are held to maturity, then, in general, a U.S. Noteholder will recognize a capital loss equal to the amount of such premium when the Notes mature.

Alternatively, if a U.S. Noteholder has an adjusted tax basis in its Notes immediately after the exchange that exceeds the "issue price" of the Notes (as described above) but is less than or equal to the stated principal amount of the Notes, the U.S. Noteholder would be considered to have "acquisition premium" equal to such excess. In this case, the U.S. Noteholder would be required to include OID accruals, if any, with respect to the Notes (as described above) in its income, but each such accrual would be reduced by the portion of the premium allocable to such accrual, as determined using the methods described in Section 1272(a)(7) of the Code and the regulations thereunder, which in effect permit the noteholder to amortize the premium over the term of the Note.

Finally, if a U.S. Noteholder has an adjusted tax basis in its Notes immediately after the exchange that is less than the "issue price" of the Notes (as described above) by more than a statutorily defined de minimis threshold, the U.S. Noteholder generally would be considered to have "market discount" equal to the amount of such difference. In this case, the U.S. Noteholder would be required to include in its income the OID accruals, if any, otherwise includible with respect to the Notes (as described above) and also would be subject to the market discount rules with respect to the market discount. Under the market discount rules, market discount generally must be accrued over the term of the Note, and any partial payment of principal on a Note, or any gain on the sale, exchange, retirement or other disposition of a Note, generally must be treated as ordinary income to the extent of the accrued market discount (unless the holder makes an election to include the market discount in income as it accrues).

If the exchange did not qualify as an exchange of securities pursuant to a reorganization, a U.S. Noteholder generally would recognize gain or loss equal to the difference, if any, between the amount realized by the U.S. Noteholder on the exchange (generally, the "issue price" of the Notes, as described above) and the U.S. Noteholder's adjusted tax basis in the Exchange Notes. Except to the extent of amounts attributable to accrued but unpaid interest not previously included in income (which generally would be treated as ordinary income) or to accrued market discount not previously included in income (which, as described above, are generally treated as ordinary income), such gain would be short-term capital gain or loss because the holding period for the Exchange Notes is less than a year. This taxable transaction would result in a new holding period with respect to the Notes and would generally result in the Notes having a different tax basis than the Exchange Notes, equal to the issue price of the Notes (as described above).

Each noteholder that exchanges an Exchange Note for a Note is urged to consult its own tax advisor regarding the tax accounting and other tax consequences of such an exchange, including with respect to the application of the amortizable bond premium, acquisition premium, or market discount rules to Notes received in such an exchange.

#### *Consequences to Non-U.S. Noteholders*

Regardless of whether the exchange qualifies as an exchange of securities pursuant to a reorganization, a Non-U.S. Noteholder generally will not be subject to U.S. federal income tax on any gain realized on an exchange of Exchange Notes for Notes pursuant to an exchange except to the extent described above under "Consequences to Non-U.S. Noteholders Sale, exchange, redemption or other taxable disposition of the Notes". Amounts attributable to accrued but unpaid interest on the Exchange Notes will be treated as ordinary interest income and will generally be subject to the rules described above under "Consequences to Non-U.S. Noteholders Stated Interest and OID on the Notes" if the exchange is not treated as an exchange of securities pursuant to a reorganization. Non-U.S. Noteholders should consult their own tax advisors on the treatment of accrued but unpaid interest on the Exchange Notes.

**Information Reporting and Backup Withholding**

*U.S. Noteholders*

Payments of interest (including OID) on, or the proceeds of the sale or other disposition of, a Note are generally subject to information reporting unless the U.S. Noteholder is an exempt recipient (such as a corporation). Such payments, along with principal payments on the Note, may also be subject to U.S. federal backup withholding at the applicable rate if the recipient of such payment fails to supply a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise fails to establish an exemption from backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against that U.S. Noteholder's U.S. federal income tax liability *provided* the required information is furnished to the IRS.

*Non-U.S. Noteholders*

A non-U.S. Noteholder may be required to comply with certain certification procedures to establish that the holder is not a U.S. person in order to avoid backup withholding with respect to our payment of principal and interest (including OID) on, or the proceeds of the sale or other disposition of, a note. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against that non-U.S. Noteholder's U.S. federal income tax liability *provided* the required information is timely furnished to the IRS. In certain circumstances, the name and address of the beneficial owner and the amount of interest and OID, if any, paid on a Note, as well as the amount, if any, of tax withheld, may be reported to the IRS. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the non-U.S. Noteholder resides.

**CERTAIN CONSIDERATIONS APPLICABLE TO ERISA, GOVERNMENTAL AND  
OTHER PLAN INVESTORS**

A fiduciary of a pension plan or other employee benefit plan (including a governmental plan, an individual retirement account or a Keogh plan) proposing to invest in the Notes should consider this section carefully.

A fiduciary of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (commonly referred to as "ERISA"), should consider fiduciary standards under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the Notes. Such fiduciary should consider whether the investment is in accordance with the documents and instruments governing the plan.

In addition, ERISA and the Code prohibit certain transactions (referred to as "prohibited transactions") involving the assets of a plan subject to ERISA or the assets of an individual retirement account or plan subject to Section 4975 of the Code (referred to as an "ERISA plan"), on the one hand, and persons who have certain specified relationships to the plan ("parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code), on the other. If we (or an affiliate) are considered a party in interest or disqualified person with respect to an ERISA plan, then the investment in Notes by the ERISA plan may give rise to a prohibited transaction. The purchase and holding of Notes by an ERISA plan may be subject to one or more statutory or administrative exemptions from the prohibited transaction rules under ERISA and the Code. Even if the conditions for relief under such exemptions were satisfied, however, there can be no assurance that such exemptions would apply to all of the prohibited transactions that may be deemed to arise in connection with a plan's investment in the Notes.

By purchasing and holding the Notes, the person making the decision to invest on behalf of an ERISA plan is representing that the purchase and holding of the Notes will not result in a non-exempt prohibited transaction under ERISA or the Code. Therefore, an ERISA plan should not invest in the Notes unless the plan fiduciary or other person acquiring Notes on behalf of the ERISA plan determines that neither we nor an affiliate is or (at any time during the term of the investment) will become a party in interest or a disqualified person or, alternatively, that an exemption from the prohibited transaction rules is available. If an ERISA plan engages in a non-exempt prohibited transaction, the transaction may require "correction" and may cause the ERISA plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to excise taxes.

Employee benefit plans that are governmental plans and non-U.S. plans are not subject to ERISA requirements. However, non-U.S., federal, state or local laws or regulations governing the investment and management of the assets of governmental or non-U.S. plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and Section 4975 of the Code discussed above. By purchasing and holding the Notes, the person making the decision to invest on behalf of such plans is representing that the purchase and holding of the Notes will not violate any law applicable to such governmental or non-U.S. plan that is similar to the prohibited transaction provisions of ERISA or the Code.

If you are the fiduciary of an employee benefit plan or ERISA plan and you propose to invest in the Notes with the assets of such employee benefit plan or ERISA plan, you should consult your own legal counsel for further guidance. The sale of Notes to an employee benefit plan is in no respect a representation by us, the underwriters or any other person that such an investment meets all relevant legal requirements with respect to investments by employee benefit plans generally or any particular plan or that such an investment is appropriate for employee benefit plans generally or any particular plan.

**USE OF PROCEEDS**

We estimate that the net proceeds from this offering will be approximately \$ \_\_\_\_\_ after deducting estimated underwriting discounts and commissions and estimated offering expenses of approximately \$400,000 payable by us.

We expect to use the net proceeds from the sale of the Notes to paydown the outstanding balance on the credit facility.

As of March 28, 2014, we had \$629.0 million of borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately \$96.0 million was available to us for additional borrowing under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 275 basis points, with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise.

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## CAPITALIZATION

The following table sets forth Prospect's capitalization as of December 31, 2013:

on an actual basis;

on an as adjusted basis giving effect to the issuance of 290,934 shares in connection with Prospect's dividend reinvestment plan during the period from January 1, 2014 to March 28, 2014, Prospect's issuance of 29,721,167 shares of common stock during the period from January 1, 2014 to March 28, 2014 (with settlement through April 2, 2014) under Prospect's ATM Program, the issuance of \$166.7 million aggregate principal amount of Prospect Capital InterNotes® since January 1, 2014 (net of redemptions) and our borrowing of \$629 million under our credit facility; and

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of \$ million aggregate principal amount of Notes issued at % but without giving effect to the use of the cash proceeds from such sale as described in "Use of Proceeds" on page S-82.

	Actual	As of December 31, 2013 As Adjusted for Issuances and Dividends Paid After December 31, 2013	As Further Adjusted for this Offering
	(in thousands, except shares and per share data)		
	(unaudited)		
<b>Long-term debt, including current maturities:</b>			
Credit facility payable		629,000	629,000
Senior convertible notes	\$ 847,500	847,500	847,500
Senior unsecured notes	347,814	347,814	347,814
Prospect Capital InterNotes®	600,907	767,644	767,644(1)
Notes offered hereby			(1)
Amount owed to affiliates	49,849	49,849	49,849
Total long-term debt	1,846,070	2,641,807	
<b>Stockholders' equity:</b>			
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 301,259,436 shares outstanding actual, 331,271,537 shares outstanding as adjusted and 331,271,537 shares outstanding as further adjusted for the proposed transaction)	301	331(2)	331
Paid-in capital in excess of par value	3,332,469	3,663,270(2)	3,663,270
Undistributed net investment income	68,321	68,321	68,321
Accumulated realized losses on investments	(79,658)	(79,658)	(79,658)
Net unrealized depreciation on investments	(90,334)	(90,334)	(90,334)
Total stockholders' equity	3,231,099	3,561,930	3,561,930
Total capitalization	\$ 5,077,169	6,203,737	

- (1) Subject to decrease/increase by up to \$50,000,000 if the holders of Exchange Notes exercise their option to exchange their Exchange Notes for the Notes offered hereby. There are three original holders of Exchange Notes and each such holder holds \$40,000,000, \$5,000,000 and \$5,000,000 respectively. Accordingly, such decrease/increase noted hereby could be for an aggregate principal amount of \$5,000,000, \$10,000,000, \$40,000,000, \$45,000,000 or \$50,000,000.
- (2) Includes 290,934 shares of Prospect's common stock issued on January 23, 2014, February 20, 2014 and March 20, 2014 in connection with its dividend reinvestment plan, and 29,721,167 shares in connection with the ATM Program from January 1, 2014 to March 28, 2014 (with settlement through April 2, 2014), resulting in net proceeds of \$327.6 million to Prospect of which \$30,000 was recorded as common stock and \$327.6 million as paid-in capital in excess of par value.

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SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of December 31, 2013.

Credit Facility	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
Fiscal 2014 (as of December 31, 2013, unaudited)		N/A		
Fiscal 2013 (as of June 30, 2013)	\$ 124,000	\$ 34,996		
Fiscal 2012 (as of June 30, 2012)	96,000	22,668		
Fiscal 2011 (as of June 30, 2011)	84,200	18,065		
Fiscal 2010 (as of June 30, 2010)	100,300	8,093		
Fiscal 2009 (as of June 30, 2009)	124,800	5,268		
Fiscal 2008 (as of June 30, 2008)	91,167	5,712		
Fiscal 2007 (as of June 30, 2007)		N/A		
Fiscal 2006 (as of June 30, 2006)	28,500	4,799		
Fiscal 2005 (as of June 30, 2005)		N/A		
Fiscal 2004 (as of June 30, 2004)		N/A		

2015 Notes

Fiscal 2014 (as of December 31, 2013, unaudited)	\$ 150,000	\$ 33,515		
Fiscal 2013 (as of June 30, 2013)	150,000	28,930		
Fiscal 2012 (as of June 30, 2012)	150,000	14,507		
Fiscal 2011 (as of June 30, 2011)	150,000	10,140		

2016 Notes

Fiscal 2014 (as of December 31, 2013, unaudited)	\$ 167,500	\$ 30,014		
Fiscal 2013 (as of June 30, 2013)	167,500	25,907		
Fiscal 2012 (as of June 30, 2012)	167,500	12,992		
Fiscal 2011 (as of June 30, 2011)	172,500	8,818		

2017 Notes

Fiscal 2014 (as of December 31, 2013, unaudited)	\$ 130,000	\$ 38,672		
Fiscal 2013 (as of June 30, 2013)	130,000	33,381		
Fiscal 2012 (as of June 30, 2012)	130,000	16,739		

2018 Notes

Fiscal 2014 (as of December 31, 2013, unaudited)	\$ 200,000	\$ 25,137		
Fiscal 2013 (as of June 30, 2013)	200,000	21,697		

2019 Notes

Fiscal 2014 (as of December 31, 2013, unaudited)	\$ 200,000	\$ 25,137		
Fiscal 2013 (as of June 30, 2013)	200,000	21,697		

2022 Notes

Fiscal 2014 (as of December 31, 2013, unaudited)	\$ 100,000	\$ 50,273		\$ 102,680
Fiscal 2013 (as of June 30, 2013)	100,000	43,395		101,800
Fiscal 2012 (as of June 30, 2012)	100,000	21,761		99,560

2023 Notes

Fiscal 2014 (as of December 31, 2013, unaudited)	\$ 247,814	\$ 20,287		
Fiscal 2013 (as of June 30, 2013)	247,725	17,517		



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**Prospect Capital InterNotes®**

Fiscal 2014 (as of December 31, 2013, unaudited)	\$	600,907	\$	8,366
Fiscal 2013 (as of June 30, 2013)		363,777		11,929
Fiscal 2012 (as of June 30, 2012)		20,638		105,442

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**All Senior Securities(5)**

Fiscal 2014 (as of December 31, 2013, unaudited)	\$	1,796,221	\$	2,799
Fiscal 2013 (as of June 30, 2013)		1,683,002		2,578
Fiscal 2012 (as of June 30, 2012)		664,138		3,277
Fiscal 2011 (as of June 30, 2011)		406,700		3,740

- (1) Total amount of each class of senior securities outstanding at the end of the period presented (in 000's).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) This column is inapplicable.
- (4) This column is inapplicable, except for the 2022 Notes.
- (5) On February 16, 2012, we entered into the Selling Agent Agreement and began offering Notes (the "Prospect Capital InterNotes® Program"). On March 4, 2013, we entered into a Second Amended and Restated Selling Agent Agreement which continued the Prospect Capital InterNotes® Program on substantially similar terms and provides for our issuance of floating rate notes in addition to fixed rate notes. On October 15, 2013, we entered into a Third Amended and Restated Selling Agent Agreement on substantially similar terms to provide for such issuances under our current shelf registration statement. Through March 28, 2014, we had \$767.6 million aggregate principal amount of notes outstanding under the Prospect Capital InterNotes® Program. Amounts sold under the Prospect Capital InterNotes® Program after December 31, 2013 are not reflected in the table above.

**RATIO OF EARNINGS TO FIXED CHARGES**

For the three and six months ended December 31, 2013 and the years ended June 30, 2013, 2012, 2011, 2010 and 2009, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	<b>For the Three Months Ended December 31, 2013</b>	<b>For the Six Months Ended December 31, 2013</b>	<b>For the Year Ended June 30, 2013</b>	<b>For the Year Ended June 30, 2012</b>	<b>For the Year Ended June 30, 2011</b>	<b>For the Year Ended June 30, 2010</b>	<b>For the Year Ended June 30, 2009</b>
Earnings to Fixed Charges(1)	3.95	3.95	3.89	5.95	7.72	3.34	6.78

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1)

Earnings include the net change in unrealized appreciation or depreciation. Net change in unrealized appreciation or depreciation can vary substantially from year to year. Excluding the net change in unrealized appreciation or depreciation, the earnings to fixed charges ratio would be 3.99 for the three months ended December 31, 2013, 4.08 for the six months ended December 31, 2013, 4.91 for the year ended June 30, 2013, 6.79 for the year ended June 30, 2012, 7.29 for the year ended June 30, 2011, 2.87 for the year ended June 30, 2010 and 4.35 for the year ended June 30, 2009.

**UNDERWRITING**

Barclays Capital Inc., Goldman, Sachs & Co., RBC Capital Markets, LLC and UBS Securities LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in a purchase agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the aggregate principal amount of Notes set forth opposite its name below.

<b>Underwriter</b>	<b>Principal Amount of Notes</b>
Barclays Capital Inc.	\$
Goldman, Sachs & Co.	
RBC Capital Markets, LLC	
UBS Securities LLC	
BNP Paribas Securities Corp.	
BMO Capital Markets Corp.	
Total	\$

The underwriting agreement provides that the underwriters' obligation to purchase the Notes depends on the satisfaction of the conditions contained in the underwriting agreement including:

the obligation to purchase all of the Notes offered hereby, if any of the Notes are purchased;

the representations and warranties made by us to the underwriters are true;

there is no material change in our business or the financial markets; and

we deliver customary closing documents to the underwriters.

**Commissions and Expenses**

The following table shows the underwriting discount that we will pay to the underwriters in connection with this offering, expressed as a percentage of the principal amount of the Notes and in total:

	<b>Per Note</b>	<b>Total</b>
<b>Underwriting discount</b>	<b>%</b>	<b>\$</b>

The underwriters propose to offer some of the Notes to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Notes to certain dealers at the public offering price less a concession not in excess of % of the principal amount of the Notes. The underwriters may allow, and dealers may reallow, a concession not in excess of % of the principal amount of the Notes to certain other dealers. After the initial offering of the Notes to the public, the public offering price and such concessions may be changed. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement.

We estimate that our share of the total expenses of the offering, excluding the underwriting discount, will be approximately \$400,000.

**Indemnification**

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of those liabilities.

### **Stabilization and Short Positions**

In connection with this offering, the underwriters may engage in certain transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the underwriters may overallocate in connection with the offering of the Notes, creating a syndicate short position. In addition, the underwriters may bid for and purchase Notes in the open market to cover syndicate short positions or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market price of the Notes above what it would be in the absence of such activities. The underwriters are not required to engage in any of these activities, and it may end any of them at any time. We and the underwriters make no representation as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, we and the underwriters make no representation that anyone will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

### **Other Relationships**

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for the issuer and its affiliates, for which they received or may in the future receive customary fees and expenses. In particular, affiliates of certain of the underwriters are lenders under our credit facility and may receive a portion of the net proceeds from the offering made pursuant to this prospectus supplement and the accompanying prospectus through the repayment of any borrowings.

In the ordinary course of its various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer or its affiliates. If the underwriters or their affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. The underwriters and their affiliates may hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The underwriters and certain of their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Selling Restrictions**

This prospectus does not constitute an offer to sell to, or a solicitation of an offer to buy from, anyone in any country or jurisdiction (i) in which such an offer or solicitation is not authorized, (ii) in which any person making such offer or solicitation is not qualified to do so or (iii) in which any such offer or solicitation would otherwise be unlawful. No action has been taken that would, or is intended to, permit a public offer of the Notes or possession or distribution of this prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction (other than the United States) where any such action for that purpose is required. Accordingly, the underwriters have undertaken that they will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by the underwriters will be made on the same terms.

**LEGAL MATTERS**

The legality of the Notes will be passed upon for the Company by Joseph Ferraro, our General Counsel, Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden, Arps"), New York, New York, and Venable LLP, as special Maryland counsel, Baltimore, Maryland, will pass on certain matters for the Company. Troutman Sanders LLP will pass on certain matters for the underwriters. Skadden, Arps and Venable LLP each have from time to time acted as counsel for us and our subsidiaries and may do so in the future.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the Notes offered by this prospectus supplement and accompanying prospectus. The registration statement contains additional information about us and the Notes being registered by this prospectus supplement and accompanying prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2013, are available free of charge by contacting us at 10 East 40th Street, 44th floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

**December 31, 2013 and June 30, 2013**

(in thousands, except share and per share data)

	<b>December 31, 2013</b>	<b>June 30, 2013</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets (Note 4)</b>		
Investments at fair value:		
Control investments (amortized cost of \$1,236,286 and \$830,151, respectively)	\$ 1,163,300	\$ 811,634
Affiliate investments (amortized cost of \$49,278 and \$49,189, respectively)	38,880	42,443
Non-control/Non-affiliate investments (amortized cost of \$3,690,790 and \$3,376,438, respectively)	3,683,840	3,318,775
Total investments at fair value (amortized cost of \$4,976,354 and \$4,255,778, respectively) (Note 3)	4,886,020	4,172,852
Investments in money market funds	220,850	143,262
Cash	25,154	59,974
Receivables for:		
Interest, net	14,184	22,863
Other	2,067	4,397
Prepaid expenses	277	540
Deferred financing costs	45,470	44,329
<b>Total Assets</b>	<b>5,194,022</b>	<b>4,448,217</b>
<b>Liabilities</b>		
Credit facility payable (Notes 4 and 8)		124,000
Senior Convertible Notes (Notes 5 and 8)	847,500	847,500
Senior Unsecured Notes (Notes 6 and 8)	347,814	347,725
Prospect Capital InterNotes® (Notes 7 and 8)	600,907	363,777
Due to broker	44,826	43,588
Dividends payable	33,229	27,299
Due to Prospect Administration (Note 12)	1,741	1,366
Due to Prospect Capital Management (Note 12)	48,108	5,324
Accrued expenses	3,624	2,345
Interest payable	26,753	24,384
Other liabilities	8,421	4,415
<b>Total Liabilities</b>	<b>1,962,923</b>	<b>1,791,723</b>
<b>Net Assets</b>	<b>\$ 3,231,099</b>	<b>\$ 2,656,494</b>



**Components of Net Assets**

Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 301,259,436 and 247,836,965 issued and outstanding, respectively) (Note 9)	\$	301	\$	248
Paid-in capital in excess of par (Note 9)		3,332,469		2,739,864
Undistributed net investment income		68,321		77,084
Accumulated realized losses on investments		(79,658)		(77,776)
Unrealized depreciation on investments		(90,334)		(82,926)

<b>Net Assets</b>	<b>\$</b>	<b>3,231,099</b>	<b>\$</b>	<b>2,656,494</b>
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<b>Net Asset Value Per Share (Note 15)</b>	<b>\$</b>	<b>10.73</b>	<b>\$</b>	<b>10.72</b>
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See notes to consolidated financial statements.

## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended December 31, 2013 and 2012

(in thousands, except share and per share data)

(Unaudited)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2013	2012	2013	2012
<b>Investment Income</b>				
Interest income:				
Control investments	\$ 37,086	\$ 33,239	\$ 69,719	\$ 51,158
Affiliate investments	1,399	1,694	2,895	3,345
Non-control/Non-affiliate investments	79,420	58,513	157,532	103,540
CLO fund securities	29,198	23,420	55,378	37,133
<b>Total interest income</b>	<b>147,103</b>	<b>116,866</b>	<b>285,524</b>	<b>195,176</b>
Dividend income:				
Control investments	8,877	31,717	15,952	64,967
Non-control/Non-affiliate investments	9	230	12	3,185
Money market funds	6	8	17	11
<b>Total dividend income</b>	<b>8,892</b>	<b>31,955</b>	<b>15,981</b>	<b>68,163</b>
Other income: (Note 10)				
Control investments	17,928	5,095	27,149	5,097
Affiliate investments	5	605	7	613
Non-control/Non-affiliate investments	4,162	11,514	10,463	20,622
<b>Total other income</b>	<b>22,095</b>	<b>17,214</b>	<b>37,619</b>	<b>26,332</b>
<b>Total Investment Income</b>	<b>178,090</b>	<b>166,035</b>	<b>339,124</b>	<b>289,671</b>
<b>Operating Expenses</b>				
Investment advisory fees:				
Base management fee (Note 12)	25,075	16,306	48,120	29,534
Income incentive fee (Note 12)	23,054	24,804	43,638	43,311
<b>Total investment advisory fees</b>	<b>48,129</b>	<b>41,110</b>	<b>91,758</b>	<b>72,845</b>
Interest and credit facility expenses				

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	29,256	16,414	56,663	29,925
Legal fees	(42)	635	177	1,257
Valuation services	449	371	888	747
Audit, compliance and tax related fees	745	378	1,368	810
Allocation of overhead from Prospect Administration (Note 12)	3,986	2,139	7,972	4,323
Insurance expense	90	78	183	171
Directors' fees	75	75	150	150
Excise tax	1,000	4,500	2,000	4,500
Other general and administrative expenses	2,187	1,119	3,413	1,700
<b>Total Operating Expenses</b>	<b>85,875</b>	<b>66,819</b>	<b>164,572</b>	<b>116,428</b>
<b>Net Investment Income</b>	<b>92,215</b>	<b>99,216</b>	<b>174,552</b>	<b>173,243</b>
Net realized loss on investments (Note 3)	(5,671)	(8,123)	(1,882)	(6,348)
Net change in unrealized depreciation on investments (Note 3)	(1,182)	(44,604)	(7,408)	(73,157)
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 85,362</b>	<b>\$ 46,489</b>	<b>\$ 165,262</b>	<b>\$ 93,738</b>
Net increase in net assets resulting from operations per share (Notes 11 and 16)	\$ 0.30	\$ 0.24	\$ 0.61	\$ 0.52
Dividends declared per share	\$ 0.33	\$ 0.31	\$ 0.66	\$ 0.62

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

**For the Six Months Ended December 31, 2013 and 2012**

(in thousands, except share data)

(Unaudited)

	<b>For the Six Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Increase in Net Assets from Operations:</b>		
Net investment income	\$ 174,552	\$ 173,243
Net realized loss on investments	(1,882)	(6,348)
Net change in unrealized depreciation on investments	(7,408)	(73,157)
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>165,262</b>	<b>93,738</b>
<b>Dividends to Shareholders:</b>		
Distribution of net investment income	(183,315)	(114,093)
Distribution of return of capital		
<b>Total Dividends to Shareholders</b>	<b>(183,315)</b>	<b>(114,093)</b>
<b>Capital Share Transactions:</b>		
Proceeds from capital shares sold, net of underwriting costs	563,578	770,252
Less: Offering costs of public share offerings	(1,019)	(1,514)
Proceeds from shares issued to acquire controlled investments	21,006	59,251
Reinvestment of dividends	9,093	7,027
<b>Net Increase in Net Assets Resulting from Capital Share Transactions</b>	<b>592,658</b>	<b>835,016</b>
<b>Total Increase in Net Assets</b>	<b>574,605</b>	<b>814,661</b>
Net assets at beginning of period	2,656,494	1,511,974
<b>Net Assets at End of Period</b>	<b>\$ 3,231,099</b>	<b>\$ 2,326,635</b>
<b>Capital Share Activity:</b>		
Shares sold	50,700,067	69,407,632
Shares issued to acquire controlled investments	1,918,342	5,507,381
Shares issued through reinvestment of dividends	804,062	624,527

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Net increase in capital share activity	53,422,471	75,539,540
Shares outstanding at beginning of period	247,836,965	139,633,870
<b>Shares Outstanding at End of Period</b>	<b>301,259,436</b>	<b>215,173,410</b>

See notes to consolidated financial statements.

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## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended December 31, 2013 and 2012

(in thousands, except share data)

(Unaudited)

	For the Six Months Ended December 31,	
	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Net increase in net assets resulting from operations	\$ 165,262	\$ 93,738
Net realized loss on investments	1,882	6,348
Net change in unrealized depreciation on investments	7,408	73,157
Amortization of discounts and premiums, net	23,133	(11,422)
Amortization of deferred financing costs	5,087	3,724
Payment-in-kind interest	(9,845)	(4,048)
Structuring fees	(15,533)	(24,273)
Change in operating assets and liabilities		
Payments for purchases of investments	(1,118,612)	(1,432,490)
Proceeds from sale of investments and collection of investment principal	419,405	507,392
Net increase of investments in money market funds	(77,588)	(312,576)
Decrease (increase) in interest receivable, net	8,679	(2,312)
Decrease (increase) in other receivables	2,328	(1,636)
Decrease in prepaid expenses	263	194
Increase (decrease) in due to broker	1,238	(6,242)
Increase (decrease) in due to Prospect Administration	375	(285)
Increase (decrease) in due to Prospect Capital Management	42,784	(5,894)
Increase in accrued expenses	1,279	380
Increase in interest payable	2,369	6,516
Increase in other liabilities	4,006	7,487
<b>Net Cash Used In Operating Activities</b>	<b>(536,080)</b>	<b>(1,102,242)</b>
<b>Cash Flows from Financing Activities:</b>		
Borrowings under credit facility (Note 4)	96,000	99,000
Principal payments under credit facility (Note 4)	(220,000)	(195,000)
Issuance of Senior Convertible Notes (Note 5)		400,000
Issuance of Prospect Capital InterNotes® (Note 7)	238,780	144,355
Redemptions of Prospect Capital InterNotes® (Note 7)	(1,650)	
Financing costs paid and deferred	(6,139)	(17,880)
Proceeds from issuance of common stock, net of underwriting costs	563,578	770,252
Offering costs from issuance of common stock	(1,019)	(1,514)
Dividends paid	(168,290)	(97,577)
<b>Net Cash Provided By Financing Activities</b>	<b>501,260</b>	<b>1,101,636</b>
<b>Total Decrease in Cash</b>	<b>(34,820)</b>	<b>(606)</b>
Cash balance at beginning of period	59,974	2,825

<b>Cash Balance at End of Period</b>	\$	25,154	\$	2,219
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<b>Cash Paid For Interest</b>	\$	47,226	\$	17,442
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**Non-Cash Financing Activity:**

Proceeds from shares issued in connection with dividend reinvestment plan	\$	9,093	\$	7,027
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Proceeds from shares issued in conjunction with controlled investments	\$	21,006	\$	59,251
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See notes to consolidated financial statements.

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## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## CONSOLIDATED SCHEDULES OF INVESTMENTS

December 31, 2013 (Unaudited) and June 30, 2013 (Audited)

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2013 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (greater than 25.00% voting control)(42)</b>						
AIRMALL USA, Inc.(27)	Pennsylvania / Property Management	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3)(4)	\$ 27,881	\$ 27,881	\$ 27,881	0.9%
		Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)	19,698	19,698	19,698	0.6%
		Convertible Preferred Stock (9,919,684 shares)		9,920	1,888	0.1%
		Common Stock (100 shares)				0.0%
				<b>57,499</b>	<b>49,467</b>	<b>1.6%</b>
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(4)	19,536	19,536	19,536	0.6%
		Convertible Preferred Stock Series B (25,000 shares)		25,000	5,045	0.2%
		Convertible Preferred Stock Series A (6,142.6 shares)		6,057		0.0%
		Unrestricted Common Stock (6 shares)				0.0%
				<b>50,593</b>	<b>24,581</b>	<b>0.8%</b>
APH Property Holdings, LLC(32)	Florida / Real Estate	Senior Secured Note (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4)	161,662	161,662	161,662	5.0%
		Membership Units (100 shares)		32,240	32,240	1.0%
				<b>193,902</b>	<b>193,902</b>	<b>6.0%</b>
AWCNC, LLC(19)	North Carolina / Machinery	Members Units Class A (1,800,000 units)				0.0%
		Members Units Class B-1 (1 unit)				0.0%
		Members Units Class B-2 (7,999,999 units)				0.0%
						<b>0.0%</b>
Borga, Inc.	California / Manufacturing	Revolving Line of Credit \$1,150 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)(25)	1,150	1,095	474	0.0%



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Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)	1,612	1,501	0.0%
Senior Secured Term Loan C (12.00% plus 4.00% PIK plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)	9,940	707	0.0%
Common Stock (100 shares)(21)			0.0%
Warrants (33,750 warrants)(21)			0.0%
		<b>3,303</b>	<b>474</b>
			<b>0.0%</b>

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULES OF INVESTMENTS?(CONTINUED)**

**December 31, 2013 (Unaudited) and June 30, 2013 (Audited)**

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2013 (Unaudited)		% of Net Assets	
			Principal Value	Cost		Fair Value(2)
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (greater than 25.00% voting control)(42)</b>						
CCPI Holdings, Inc.(33)	Ohio / Manufacturing	Senior Secured Note (10.00%, due 12/31/2017)(3)	\$ 17,437	\$ 17,437	\$ 17,437	0.5%
		Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018)	8,075	8,075	8,075	0.2%
		Common Stock (100 shares)		8,581	13,790	0.4%
		Net Revenue Interest (4% of Net Revenue)			516	0.0%
				<b>34,093</b>	<b>39,818</b>	<b>1.1%</b>
CP Holdings of Delaware LLC(38)	Oklahoma / Oil & Gas Production	Senior Secured Note (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 8/2/2018)(4)	75,773	75,773	75,773	2.3%
		Senior Secured Note (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor), due 8/2/2018)(4)	22,400	22,400	22,400	0.7%
		Membership Units (100 shares)		15,228	20,955	0.6%
				<b>113,401</b>	<b>119,128</b>	<b>3.6%</b>
Credit Central Holdings of Delaware, LLC(22)(34)	South Carolina / Consumer Finance	Senior Secured Revolving Credit Facility \$60,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 12/31/2022)(4)(25)	38,082	38,082	38,082	1.2%
		Membership Units (100 shares)		9,581	10,957	0.3%
		Net Revenue Interest (5% of Net Revenue)			2,207	0.1%
				<b>47,663</b>	<b>51,246</b>	<b>1.6%</b>
Energy Solutions Holdings, Inc.(8)	Texas / Energy	Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.1%
		Senior Secured Debt to Vessel Holdings II, LLC (13.00%, in non-accrual status, due 11/25/2018)	13,000	13,000	11,928	0.4%
		Senior Secured Debt to Vessel Holdings III, LLC (13.00%, due 12/3/2018)	16,000	16,000	14,584	0.5%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449		0.0%
		Common Stock (100 shares)		8,318	3,539	0.1%
				<b>42,267</b>	<b>33,551</b>	<b>1.1%</b>

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First Tower Holdings of Delaware, LLC(22)(29)	Mississippi / Consumer Finance	Senior Secured Revolving Credit Facility \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(4)(25)	273,260	273,260	273,260	8.4%
		Membership Units (100 shares)		44,693	34,648	1.1%
		Net Revenue Interest (5% of Net Revenue & Distributions)			14,603	0.5%
				<b>317,953</b>	<b>322,511</b>	<b>10.0%</b>
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(4)	17,500	17,500	12,414	0.4%
		Convertible Preferred Stock Series A (99,900 shares)		25,950		0.0%
				<b>43,450</b>	<b>12,414</b>	<b>0.4%</b>

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULES OF INVESTMENTS?(CONTINUED)**

**December 31, 2013 (Unaudited) and June 30, 2013 (Audited)**

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2013 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (greater than 25.00% voting control)(42)</b>						
The Healing Staff, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, past due)	\$ 1,688	\$ 1,686		\$ 0.0%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170		0.0%
		Common Stock (1,000 shares)		975		0.0%
				<b>3,831</b>		<b>0.0%</b>
Manx Energy, Inc.(12)	Kansas / Oil & Gas Production	Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)	225	225		0.0%
		Preferred Stock (6,635 shares)				0.0%
		Common Stock (17,082 shares)				0.0%
				<b>225</b>		<b>0.0%</b>
MITY Holdings of Delaware Inc.(17)	Utah / Durable Consumer Products	Senior Secured Note (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 9/19/2019)(4)	22,968	22,968	22,968	0.7%
		Senior Secured Note (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)	18,250	18,250	18,250	0.6%
		Common Stock (100 shares)		6,943	6,943	0.2%