PROSPECT CAPITAL CORP
Form 497
December 16, 2013

# Prospect Capital Corporation
# Prospect Capital InterNotes®
## 4.000% Senior Notes due 2017 (the "2017 Notes")
## 5.000% Senior Notes due 2018 (the "2018 Notes")
## 5.500% Senior Notes due 2020 (the "2020 Notes")
## 6.000% Senior Notes due 2025 (the "2025 Notes")
## 6.500% Senior Notes due 2038 (the "2038 Notes" and together with the 2017 Notes, the 2018 Notes, the 2020 Notes and the 2025 Notes, the "Notes")

**Filed under Rule 497, Registration Statement No. 333-190850**

Pricing Supplement Nos. 217, 218, 219, 220 and 221 Dated Monday, December 16, 2013
(To: Prospectus Dated October 15, 2013, and Prospectus Supplement Dated November 4, 2013)

| CUSIP Number | ISIN Number | Principal Amount | Selling Price | Gross Concession | Net Proceeds | Coupon Type | Coupon Rate | Coupon Frequency | Maturity Date | 1st Coupon Date | 1st Coupon Amount | Survivor's Option | Product Ranking |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 74348YJY8 | US74348YJY86 | $2,132,000.00 | 100.000% | 1.150% | $2,107,482.00 | Fixed | 4.000% | Semi-Annual | 12/15/2017 | 6/15/2014 | $19.56 | Yes | Senior Unsecured Notes |

**Redemption Information: Callable at 100.000% on 12/15/2014 and every coupon date thereafter.**

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| CUSIP Number | ISIN Number | Principal Amount | Selling Price | Gross Concession | Net Proceeds | Coupon Type | Coupon Rate | Coupon Frequency | Maturity Date | 1st Coupon Date | 1st Coupon Amount | Survivor's Option | Product Ranking |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 74348YJZ5 | US74348YJZ51 | $5,815,000.00 | 100.000% | 1.500% | $5,727,775.00 | Fixed | 5.000% | Semi-Annual | 12/15/2018 | 6/15/2014 | $24.44 | Yes | Senior Unsecured Notes |

**Redemption Information: Callable at 100.000% on 12/15/2014 and every coupon date thereafter.**

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| CUSIP Number | ISIN Number | Principal Amount | Selling Price | Gross Concession | Net Proceeds | Coupon Type | Coupon Rate | Coupon Frequency | Maturity Date | 1st Coupon Date | 1st Coupon Amount | Survivor's Option | Product Ranking |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 74348YKA8 | US74348YKA81 | $2,049,000.00 | 100.000% | 1.750% | $2,013,142.50 | Fixed | 5.500% | Semi-Annual | 12/15/2020 | 6/15/2014 | $26.89 | Yes | Senior Unsecured Notes |

**Redemption Information: Callable at 100.000% on 12/15/2014 and every coupon date thereafter.**

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| CUSIP Number | ISIN Number | Principal Amount | Selling Price | Gross Concession | Net Proceeds | Coupon Type | Coupon Rate | Coupon Frequency | Maturity Date | 1st Coupon Date | 1st Coupon Amount | Survivor's Option | Product Ranking |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 74348YKB6 | US74348YKB64 | $244,000.00 | 100.000% | 2.450% | $238,022.00 | Fixed | 6.000% | Semi-Annual | 12/15/2025 | 6/15/2014 | $29.33 | Yes | Senior Unsecured Notes |

**Redemption Information: Callable at 100.000% on 12/15/2015 and every coupon date thereafter.**

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| CUSIP Number | ISIN Number | Principal Amount | Selling Price | Gross Concession | Net Proceeds | Coupon Type | Coupon Rate | Coupon Frequency | Maturity Date | 1st Coupon Date | 1st Coupon Amount | Survivor's Option | Product Ranking |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 74348YJKC4 | US74348YJKC48 | $1,106,000.00 | 100.000% | 3.650% | $1,065,631.00 | Fixed | 6.500% | Semi-Annual | 12/15/2038 | 6/15/2014 | $31.78 | Yes | Senior Unsecured Notes |

**Redemption Information: Callable at 100.000% on 12/15/2016 and every coupon date thereafter.**

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Trade Date: Monday, December 16, 2013 @ 12:00 PM ET
Settle Date: Thursday, December 19, 2013
Minimum Denomination/Increments: $1,000.00/$1,000.00
Initial trades settle flat and clear SDFS: DTC Book Entry only

The Notes will be issued pursuant to the Indenture, dated as of February 16, 2012, as amended and supplemented by that certain Two Hundred Seventeenth Supplemental Indenture, Two Hundred Eighteenth Supplemental Indenture, Two Hundred Nineteenth Supplemental Indenture, Two Hundred Twentieth Supplemental Indenture and Two Hundred Twenty-First Supplemental Indenture, respectively, each dated as of December 19, 2013.

The date from which interest shall accrue on the Notes is Thursday, December 19, 2013. The "Interest Payment Dates" for the Notes shall be December 15 and June 15 of each year, commencing June 15, 2014; the interest payable on any Interest Payment Date, will be paid to the Person in whose name the Note (or one or more predecessor Notes) is registered at the close of business on the Regular Record Date (as defined in the Indenture) for such interest, which shall be December 1 or June 1, as the case may be, next preceding such Interest Payment Date.

The 2017 Notes, the 2018 Notes, the 2020 Notes, the 2025 Notes, and the 2038 Notes will be redeemable in whole or in part at any time or from time to time, at the option of Prospect Capital Corporation, on or after December 15, 2014, December 15, 2014, December 15, 2014, December 15, 2015 and December 15, 2016, respectively, at a redemption price of $1,000 per Note plus accrued and unpaid interest payments otherwise payable for the then-current semi-annual interest period accrued to, but excluding, the date fixed for redemption and upon not less than 30 days nor more that 60 days prior notice to the noteholder and the trustee, as described in the prospectus.

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

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This pricing supplement relates only to the securities described in the accompanying prospectus supplement and prospectus, is only a summary of changes and should be read together with the accompanying prospectus supplement and prospectus, including among other things the section entitled "Risk Factors" beginning on page S-8 of such prospectus supplement and page 12 of such prospectus. This pricing supplement and the accompanying prospectus supplement and prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this pricing supplement. Any representation to the contrary is a criminal offense. Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

InterNotes® is a registered trademark of Incapital Holdings LLC.

**Recent Developments:**

On November 5, 2013, we made a $2.0 million follow-on investment in APH Property Holdings, LLC. ("APH").

On November 14, 2013, we made an investment of $26.1 million to purchase 61.30% of the subordinated notes in Sudbury Mill CLO Ltd.

On November 15, 2013, we made a $45.9 million follow-on investment in APH to acquire the Gulf Coast Portfolio, a portfolio of eight multi-family residential properties located in Alabama and Florida. We invested $7.4 million of equity and $38.5 million of debt in APH.

On November 19, 2013, we made a $66.2 million 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 $11.2 million of equity and $55.0 million of debt in APH.

On November 20, 2013, we made a secured debt investment of $1.0 million in Chromaflo Technologies, a producer of colorants and related specialty chemical products based in Ohio. On November 22, 2013, we fully exited the deal and realized a gain of $0.01 million on this investment.

On November 25, 2013, we restructured our loan to Jettco Marine Services, LLC (dba Freedom Marine Services). After the restructuring we currently hold a $13.0 million senior secured debt investment in Vessel Holdings II, LLC and a $3.5 million senior secured debt investment in Vessel Holdings, LLC, both subsidiaries of Freedom Marine Services Holdings, LLC, a subsidiary of Energy Solutions Holdings, Inc.

On November 8, 2013, we restructured our loan to Gulf Coast Machine & Supply Company. After the restructuring and a subsequent $1.0 million funding on November 29, 2013, we currently hold a $16.0 million senior secured term loan and $26.0 million in preferred equity.

On December 3, 2013, we made a $16.0 million senior secured investment in Vessel Holdings III, LLC, a subsidiary of Freedom Marine Services Holdings, LLC, a subsidiary of Energy Solutions Holdings, Inc.

On December 4, 2013, we made a $5.0 million follow-on investment in APH. We invested $0.75 million of equity and $4.25 million of debt in APH.

On December 6, 2013, we announced an increase of $62.5 million to our commitments to our credit facility. The commitments to the credit facility now stand at $650.0 million.

On December 12, 2013, we made a $22.5 million follow-on investment in APH to acquire the Stonemark Portfolio, a portfolio of six multi-family residential properties located in Atlanta, Georgia. We invested $3.7 million of equity and $18.8 million of debt in APH.

On December 13, 2013, we provided $8.1 million in preferred equity for the recapitalization of NMMB Holdings, Inc. After the restructuring, we received repayment of $2.8 million of subordinated term loan and $5.3 million of senior term loan previously outstanding.

During the period from November 15, 2013 to December 12, 2013, we issued $54.2 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $53.2 million.

**Legal Matters:** In the opinion of Joseph Ferraro, General Counsel of Prospect Administration, administrator for Prospect Capital Corporation, a Maryland corporation (the "Company"), the certificates evidencing the Notes (the "Note Certificates") constitute the valid and binding obligations of the Company, entitled to the benefits of the Indenture and enforceable against the Company in accordance with their terms under the laws of the State of New York subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date hereof and is limited to the law of the State of New York as in effect on the date hereof. In addition, this opinion is subject to the same assumptions and qualifications stated in the letter of Skadden, Arps, Slate, Meagher & Flom, LLP dated March 8, 2012, filed as Exhibit (l)(5) to the Company's registration statement on

Form N-2 (File No. 333-176637) and to the further assumptions that (i) the Note Certificates have been duly authorized by all requisite corporate action on the part of the Company and duly executed by the Company under Maryland law, and (ii) they were duly authenticated by the Trustee and issued and delivered by the Company against payment therefor in accordance with the terms of the Amended and Restated Selling Agent Agreement and the Indenture. Capitalized terms used in this paragraph without definition have the meanings ascribed to them in the accompanying prospectus supplement.

Prospect Capital Corporation
10 East 40th Street, 44th Floor
New York, New York 10016

In the opinion of Venable LLP, as Maryland counsel to the Company, (i) the execution and delivery by the Company of the Indenture, dated as of February 16, 2012, as supplemented through the Two Hundred Seventeenth Supplemental Indenture, between the Company and American Stock Transfer & Trust Company, the Two Hundred Eighteenth Supplemental Indenture, between the Company and American Stock Transfer & Trust Company, the Two Hundred Nineteenth Supplemental Indenture, between the Company and American Stock Transfer & Trust Company, the Two Hundredth Twentieth Supplemental Indenture, between the Company and American Stock Transfer & Trust Company, the Two Hundred Twenty-First Supplemental Indenture, between the Company and American Stock Transfer & Trust Company, and the global notes representing the Notes issued pursuant to each such Supplemental Indenture, and the performance by the Company of its obligations thereunder, have been duly authorized by the Company and (ii) the issuance of the Notes has been duly authorized by the Company. This opinion is given to the Company as of December 16, 2013 and is limited to the laws of the State of Maryland as in effect on December 16, 2013. In addition, this opinion is subject to the same assumptions, qualifications and limitations stated in the opinion letter to the Company of Venable LLP, dated March 8, 2012, filed as Exhibit (l)(4) to the Company's Registration Statement on Form N-2 (File No. 333-176637). Capitalized terms used in this paragraph without definition have the meanings ascribed to them in the accompanying prospectus supplement.

Very truly yours,
/s/ Venable LLP

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

PROSPECTUS SUPPLEMENT
(To Prospectus dated October 15, 2013)

# Prospect Capital Corporation

## Prospect Capital InterNotes®

We may offer to sell our Prospect Capital InterNotes® from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest. We may offer other debt securities from time to time other than the notes under our Registration Statement or in private placements.

We may offer the notes to or through agents for resale. The applicable pricing supplement will specify the purchase price, agent discounts and net proceeds of any particular offering of notes. The agents are not required to sell any specific amount of notes but will use their reasonable best efforts to sell the notes. We also may offer the notes directly. We have not set a date for termination of our offering.

The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

*Investing in the notes involves certain risks, including those described in the "Risk Factors" section beginning on page S-8 of this prospectus supplement and page 12 of the accompanying prospectus.*

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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

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

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

**Incapital LLC** **BofA Merrill Lynch** **Citigroup**

Prospectus Supplement dated November 4, 2013.

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## FORWARD-LOOKING STATEMENTS

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

the dependence of our future success on the general economy and its impact on the industries in which we invest,

the ability of our portfolio companies to achieve their objectives,

difficulty in obtaining financing or raising capital, especially in the current credit and equity environment,

the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets,

adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise,

a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us,

our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company,

the adequacy of our cash resources and working capital,

the timing of cash flows, if any, from the operations of our portfolio companies,

the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments,

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, Internal Revenue Service,

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

This prospectus supplement, including any pricing supplement included hereto, supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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**PROSPECTUS**


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## PROSPECTUS SUMMARY

*This section summarizes the legal and financial terms of the notes that are described in more detail in "Description of Notes" beginning on page S-13. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in "Description of Notes." In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.*

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

### The Company

Prospect Capital Corporation is 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 between $50 million and $2 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. This strategy has comprised approximately 50%-60% 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 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.

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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-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 represented 10%-20% of the portfolio.

Real Estate Investments We make investments in real estate through our wholly-owned tax-efficient real estate investment trust ("REIT"), American Property Holdings Corp. ("APHC"). 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 represented 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 represented approximately 5%-10% of the portfolio.

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.

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. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. Motivated sellers, including commercial finance companies, hedge funds, other business development companies, total return swap counterparties, banks, collateralized loan obligation funds, and other entities, are suffering from excess leverage, and we believe we are well positioned to capitalize as potential buyers of such assets at attractive prices. 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.

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As of September 30, 2013, we held investments in 129 portfolio companies. The aggregate fair value as of September 30, 2013 of investments in these portfolio companies held on that date is approximately $4.55 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 12.5% as of September 30, 2013.

## Recent Developments

***Dividends***

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.

***Recent Investment Activity***

On October 1, 2013, we made a $2.6 million follow-on investment in Airmall, a leading developer and manager of airport retail operations.

On October 2, 2013, we announced an increase of $20.0 million to our commitments to our credit facility. The commitments to the credit facility now stand at $587.5 million.

On October 7, 2013, Evanta Ventures, Inc. repaid the $10.5 million loan receivable to us.

On October 11, 2013, we made a $5.8 million follow-on senior debt and equity investment in CP Holdings of Delaware LLC, an energy services company based in western Oklahoma.

On October 11, 2013, we provided $25.0 million in preferred equity for the recapitalization of Ajax. After the financing, we received repayment of the $20.0 million loan previously outstanding.

On October 15, 2013, we made a secured debt investment of $2.0 million in Digital Insight, a leading 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 the same day, we fully exited the deal and realized a gain of $20,000 on this investment.

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 an additional $5.0 billion of debt and equity securities.

On October 16, 2013, we made a secured debt investment of $7.0 million in Renaissance Learning, Inc., a leading provider of technology based school improvement and student assessment programs. On November 4, 2013, we fully exited this investment and realized a gain of $140,000 on this investment.

On October 17, 2013, $19.7 million of the Apidos CLO VIII, Ltd. subordinated notes were called.

On October 22, 2013, we made an investment of $40.8 million to purchase 85.05% of the subordinated notes in CIFC Funding 2013-IV, Ltd.

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On October 29, 2013, we made a $2.0 million follow-on investment in APH Property Holdings, LLC ("APH").

On October 30, 2013, we made a secured debt investment of $2.5 million in Omnitracs, Inc., one of the world's largest providers of satellite and terrestrial-based connectivity and position location solutions to transportation and logistics companies. On the same day, we fully exited the deal and realized a gain of $25,000 on this investment.

On October 30, 2013, we made a secured debt investment of $6.0 million in The Petroleum Place, Inc. ("P2"), a provider of enterprise resource planning software focused on the oil & gas industry. On November 4, 2013 we fully exited this investment and realized a gain of $60,000 on the investment.

On October 31, 2013, we sold $18.8 million of the National Bankruptcy Services, LLC loan receivable. The loan receivable was sold at a discount, for which we realized a loss of $7.9 million.

On November 1, 2013, P2 repaid the $22.0 million second lien term loan receivable to us.

On November 1, 2013, we made a $9.9 million follow-on investment in APH, to acquire Bexley Apartment Houses, a multi-family residential property located in Marietta, Georgia. We invested $1.7 million of equity and $8.2 million of debt in APH.

On November 4, 2013, we sold $2.0 million of our $12.5 million investment in Photonis Technologies SAS, recognizing a gain of $50,000 on the sale.

***Debt Issuance***

During the period from October 1, 2013 to November 4, 2013, we issued $56.8 million in aggregate principal amount of our Prospect Capital InterNotes for net proceeds of $55.7 million. In addition, we sold $8.2 million in aggregate principal amount of our Prospect Capital InterNotes for net proceeds of $8.0 million with expected closing on November 7, 2013.

***Common Stock Issuance***

During the period from October 1, 2013 to November 4, 2013, we sold 12,652,811 shares of our common stock at an average price of $11.21 per share, and raised $141.8 million of gross proceeds, under our at-the-market offering program, or the "ATM Program." Net proceeds were $140.4 million after commissions to the broker-dealer on shares sold and offering costs.

On October 24, 2013, we issued 135,212 shares of our common stock in connection with the dividend reinvestment plan.

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**The Offering**

| | |
|---|---|
| **Issuer** | Prospect Capital Corporation |
| **Purchasing Agent** | Incapital LLC |
| **Agents** | Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. From time to time, we may sell the notes to or through additional agents. |
| **Title of Notes** | Prospect Capital InterNotes® |
| **Amount** | We may issue notes from time to time in various offerings up to $1.0 billion, the aggregate principal amount authorized by our board of directors for notes. As of November 4, 2013, $518.8 million aggregate principal amount of notes has been issued. In addition, we sold $8.2 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $8.0 million with expected closing on November 7, 2013. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act and the marginally more restrictive 175% asset coverage requirement under our credit facility. |
| **Denominations** | The notes will be issued and sold in denominations of $1,000 and multiples of $1,000 (unless otherwise stated in the pricing supplement). |
| **Status** | The notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding. |
| **Maturities** | Each note will mature 12 months or more from its date of original issuance. |
| **Interest** | Notes may be issued with a fixed or floating interest rate; a floating interest rate note will be based on the London Interbank Offered Rate ("LIBOR").<br><br>Interest on each fixed or floating interest rate note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repaid prior to its stated maturity in accordance with its terms.<br><br>Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months, often referred to as the 30/360 (ISDA) day count convention. |
| **Principal** | The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate. |

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| | |
|---|---|
| **Redemption and Repayment** | Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund. |
| **Survivor's Option** | Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or her estate at least six months prior to the request. This feature is referred to as a "Survivor's Option." Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor's Option. If the pricing supplement for your notes provides for the Survivor's Option, your right to exercise the Survivor's Option will be subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes  Survivor's Option." |
| **Sale and Clearance** | We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form. |
| **Trustee** | The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time. |
| **Selling Group** | The agents and dealers comprising the selling group are broker-dealers and securities firms. Each of the Purchasing Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc. entered into a Third Amended and Restated Selling Agent Agreement with us dated October 15, 2013 (as amended, the "Selling Agent Agreement"). Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at info@incapital.com for a list of selling group members. |

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## SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 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 months ended September 30, 2013 and 2012 has been derived from unaudited financial data. Interim results for the three months ended September 30, 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-25 for more information.

| | For the Three Months Ended September 30, | | For the Year Ended June 30, | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (in thousands except data relating to shares, per share and number of portfolio companies) | | | | | | |
| **Performance Data:** | | | | | | | |
| Interest income | $ 138,421 | $ 78,310 | $ 435,455 | $ 219,536 | $ 134,454 | $ 86,518 | $ 62,926 |
| Dividend income | 7,089 | 36,208 | 82,705 | 64,881 | 15,092 | 15,366 | 22,793 |
| Other income | 15,524 | 9,118 | 58,176 | 36,493 | 19,930 | 12,675 | 14,762 |
| Total investment income | 161,034 | 123,636 | 576,336 | 320,910 | 169,476 | 114,559 | 100,481 |
| Interest and credit facility expenses | (27,407) | (13,511) | (76,341) | (38,534) | (17,598) | (8,382) | (6,161) |
| Investment advisory expense | (43,629) | (31,735) | (151,031) | (82,507) | (46,051) | (30,727) | (26,705) |
| Other expenses | (7,661) | (4,363) | (24,040) | (13,185) | (11,606) | (8,260) | (8,452) |
| Total expenses | (78,697) | (49,609) | (251,412) | (134,226) | (75,255) | (47,369) | (41,318) |
| Net investment income | 82,337 | 74,027 | 324,924 | 186,684 | 94,221 | 67,190 | 59,163 |
| Realized and unrealized (losses) gains | (2,437) | (26,778) | (104,068) | 4,220 | 24,017 | (47,565) | (24,059) |
| Net increase in net assets from operations | $ 79,900 | $ 47,249 | $ 220,856 | $ 190,904 | $ 118,238 | $ 19,625 | $ 35,104 |
| **Per Share Data:** | | | | | | | |
| Net increase in net assets from operations(1) | $ 0.31 | $ 0.29 | $ 1.07 | $ 1.67 | $ 1.38 | $ 0.33 | $ 1.11 |
| Distributions declared per share | $ (0.33) | $ (0.30) | $ (1.28) | $ (1.22) | $ (1.21) | $ (1.33) | $ (1.62) |
| Average weighted shares outstanding for the period | 258,084,153 | 162,492,894 | 207,069,971 | 114,394,554 | 85,978,757 | 59,429,222 | 31,559,905 |
| **Assets and Liabilities Data:** | | | | | | | |
| Investments | $ 4,553,136 | $ 2,846,123 | $ 4,172,852 | $ 2,094,221 | $ 1,463,010 | $ 748,483 | $ 547,168 |
| Other assets | 230,435 | 66,474 | 275,365 | 161,033 | 86,307 | 84,212 | 119,857 |
| Total assets | 4,783,571 | 2,912,597 | 4,448,217 | 2,255,254 | 1,549,317 | 832,695 | 667,025 |
| Amount drawn on credit facility | 69,000 | | 124,000 | 96,000 | 84,200 | 100,300 | 124,800 |
| Senior convertible notes | 847,500 | 647,500 | 847,500 | 447,500 | 322,500 | | |
| Senior unsecured notes | 347,762 | 100,000 | 347,725 | 100,000 | | | |
| InterNotes® | 461,977 | 88,517 | 363,777 | 20,638 | | | |
| | 1,789 | 12,045 | 6,690 | 8,571 | 7,918 | 9,300 | 6,713 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Amount owed to related parties | | | | | | | |
| Other liabilities | 145,788 | 181,209 | 102,031 | 70,571 | 20,342 | 11,671 | 2,916 |
| Total liabilities | 1,873,816 | 1,029,271 | 1,791,723 | 743,280 | 434,960 | 121,271 | 134,429 |
| Net assets | $ 2,909,755 | $ 1,883,326 | $ 2,656,494 | $ 1,511,974 | $ 1,114,357 | $ 711,424 | $ 532,596 |
| **Investment Activity Data:** | | | | | | | |
| No. of portfolio companies at period end | 129 | 96 | 124 | 85 | 72 | 58 | 30 |
| Acquisitions | $ 556,843 | $ 747,937 | $ 3,103,217 | $ 1,120,659 | $ 953,337 | $ 364,788(2) | $ 98,305 |
| Sales, repayments, and other disposals | $ 164,167 | $ 158,123 | $ 931,534 | $ 500,952 | $ 285,562 | $ 136,221 | $ 27,007 |
| Total return based on market value(3) | 6.49% | 3.82% | 6.2% | 27.2% | 17.2% | 17.7% | (18.6)% |
| Total return based on net asset value(3) | 2.96% | 3.12% | 10.9% | 18.0% | 12.5% | (6.8)% | (0.6)% |
| Weighted average yield at end of period(4) | 12.5% | 13.3% | 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.

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## RISK FACTORS

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

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

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

As of November 4, 2013, we and our subsidiary had no secured indebtedness outstanding and approximately $1.7 billion of unsecured senior indebtedness outstanding.

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

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

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

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

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

The notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness, including without

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limitation, the $150.0 million aggregate principal amount of 6.25% Convertible Senior Notes due 2015 (the "2015 Notes"), the $167.5 million aggregate principal amount of 5.50% Convertible Senior Notes due 2016 (the "2016 Notes"), the $130.0 million aggregate principal amount of 5.375% Convertible Senior Notes due 2017 (the "2017 Notes"), the $200.0 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018 (the "2018 Notes"), the $200.0 million aggregate principal amount of 5.875% Convertible Senior Notes due 2019 (the "2019 Notes"), the $100.0 million aggregate principal amount of 6.95% Senior Notes due 2022 (the "2022 Notes") and the $250.0 million aggregate principal amount of 5.875% Senior Notes due 2023 (the "2023 Notes"). As a result, the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the notes. As of November 4, 2013, we had no 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, the 2022 Notes and the 2023 Notes may be due prior to the notes. We do not currently know whether we will be able to replace any of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes or the 2023 Notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes or the 2023 Notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the notes and our ability to qualify as a regulated investment company, or "RIC."

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

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

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the notes;

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sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

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

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

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

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

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

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

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

***Survivor's Option may be limited in amount.***

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

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assurance can be given that exercise of the Survivor's Option for the desired amount will be permitted in any single calendar year.

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

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

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

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

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

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

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

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

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

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## DESCRIPTION OF NOTES

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

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

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the notes from time to time, up to an aggregate principal amount of $1.0 billion. As of November 4, 2013, $518.8 million aggregate principal amount of notes has been issued. In addition, we sold $8.2 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $8.0 million with expected closing on November 7, 2013.

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

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

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

- the stated maturity;
- the denomination of your notes;
- the price at which we originally issue your notes, expressed as a percentage of the principal amount, and the original issue date;

whether your notes are fixed rate notes or floating rate notes;

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if your notes are fixed rate notes, the annual rate at which your notes will bear interest, or the periodic rates in the case of notes that bear different rates at different times during the term of the notes, and the interest payment dates, if different from those stated below under " Interest Rates Fixed Rate Notes;"

if your notes are floating rate notes, the interest rate, spread or spread multiplier or initial base rate, maximum rate and/or minimum rate; if there is more than one spread to be applied at different times during the term of the notes for your interest rate, which spread during which periods applies to your notes; and the interest reset, determination, calculation and payment dates, all of which we describe under " Interest Rates Floating Rate Notes" below;

if applicable, the circumstances under which your notes may be redeemed at our option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under " Redemption and Repayment" below;

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

any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and

any other significant terms of your notes, which could be different from those described in this prospectus supplement and the accompanying prospectus, but in no event inconsistent with the indenture.

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

**Types of Notes**

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

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

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

***Floating Rate Notes.*** Notes of this type will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding

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or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. The various interest rate formulas and these other features are described below in " Interest Rates Floating Rate Notes." If your notes are floating rate notes, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

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

**Interest Rates**

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

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

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

Each floating rate note will bear interest from its original issue date or from the most recent date to which interest on the note has been paid or made available for payment. Interest will accrue on the principal of a floating rate note at a rate per annum determined according to the interest rate formula stated in the pricing supplement during the applicable interest rate period specified in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under " Payment of Principal and Interest."

In addition, the following will apply to floating rate notes.

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**Initial Base Rate**

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

**Spread or Spread Multiplier**

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

by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or

by multiplying the base rate by a specified percentage, called the spread multiplier.

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

**Maximum and Minimum Rates**

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

a maximum rate ***i.e.***, a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or

a minimum rate ***i.e.***, a specified lower limit that the actual interest rate in effect at any time may not fall below.

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

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

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

**Interest Reset Dates**

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

for floating rate notes that reset daily, each London business day (as defined below);

for floating rate notes that reset weekly, the Wednesday of each week;

for floating rate notes that reset monthly, the third Wednesday of each month;

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for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as specified in your pricing supplement;

for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in your pricing supplement; and

for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in your pricing supplement.

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

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

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

**Interest Determination Dates**

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

**Interest Calculation Date**

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

**Interest Rate Calculations**

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

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

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change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

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

where:

"$Y_1$" is the year, expressed as a number, in which the first day of the interest period falls;

"$Y_2$" is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"$M_1$" is the calendar month, expressed as a number, in which the first day of the interest period falls;

"$M_2$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"$D_1$" is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case $D_1$ will be 30; and

"$D_2$" is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and $D_1$ is greater than 29, in which case $D_2$ will be 30.

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

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

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**Sources and Corrections**

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

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

**LIBOR Calculation**

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

If the rate described above does not so appear on the Reuters screen LIBOR page, then LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the calculation agent at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, to prime banks in the London interbank market for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the quotations.

If fewer than two of the requested quotations described above are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the calculation agent, at approximately 11:00 A.M., New York City time (or the time in the relevant principal financial center), on the relevant interest reset date, for loans in U.S. dollars (or the index currency) to leading European banks for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount.

If no quotation is provided as described in the preceding paragraph, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for that interest reset date in its sole discretion.

For the purpose of this section, we define the term "index maturity" as the interest rate period of LIBOR on which the interest rate formula is based as specified in your pricing supplement.

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

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**Business Days**

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

**Business Day Convention**

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

**Payment of Principal and Interest**

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

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

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

**Payment and Record Dates for Interest**

Interest on the notes will be paid as follows:

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

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note's stated maturity date or date of earlier redemption or repayment will be that particular date. For

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the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

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

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

**Redemption and Repayment**

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

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

If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in the pricing supplement. We also must receive the completed form entitled "Option to Elect Repayment." Exercise of the repayment option by the holder of a note is irrevocable.

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

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

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

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

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**Survivor's Option**

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

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

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

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

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

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of $2,000,000 or 2% of the principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to $250,000 in any calendar year the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of $1,000 and multiples of $1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2014, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on

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October 15, 2014, because the September 15, 2014 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment.

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

a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;

appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;

if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;

written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;

if applicable, a properly executed assignment or endorsement;

tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and

any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

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

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such

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beneficial interest can be established to the satisfaction of the trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

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

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

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

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

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

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

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

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

**Overview**

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. This strategy has comprised approximately 50%-60% 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 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. Our investments in these companies are generally structured as a combination of yield-producing debt

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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 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 represented 10%-20% of the portfolio.

Real Estate Investments We make investments in real estate through our wholly-owned tax-efficient REIT, American Property Holdings Corp. ("APHC"). 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 represented 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 represented approximately 5%-10% of the portfolio.

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 seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was $4,553,136 and $4,172,852 as of September 30, 2013 and June 30, 2013, respectively. During the three months ended September 30, 2013, our net cost of investments increased by $386,510 or 9.08%, as a result of thirteen new investments, five follow-on investments and one revolver advance of $552,262, accrued of payment-in-kind interest of $4,581, structuring fees of $8,660 and net amortization of discounts and premiums of $9,954, while we received full repayment on seven investments, sold two investments for which we realized a gain of $498, received $3,252 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 $18,394.

Compared to the end of last fiscal year (ended June 30, 2013), net assets increased by $253,261 or 9.53% during the three months ended September 30, 2013, from $2,656,494 to $2,909,755. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $256,043, dividend reinvestments of $3,994, and another $79,900 from operations. These increases, in turn, were offset by $86,676 in dividend distributions to our stockholders. The $79,900 increase in net assets resulting from operations is net of the following: net investment income of $82,337, net realized gain on investments of $3,789, and a decrease in net assets due to changes in net unrealized depreciation of investments of $6,226.

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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.

**First Quarter Highlights**

*Investment Transactions*

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 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 24, 2013, we sold our $2,000 investment in Carolina Beverage and realized a gain of $45 on this investment.

On July 26, 2013, we made a $2,000 follow-on senior secured debt investment in Spartan Energy Services, Inc., a provider of thru tubing and flow control services to oil and gas companies. 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"), a producer of proprietary, high-performance adhesives and sealants. 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., a franchiser of commercial cleaning businesses. 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 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 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 of Delaware LLC ("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

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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, a designer, distributer and retailer of high quality, branded functional accessories. 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.

On August 30, 2013, we made a $16,000 follow-on investment in System One Holdings, LLC, a provider of professional staffing services. 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), 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, 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, Seaton Corp. repaid the $13,310 loan receivable to us.

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 Holdings of Delaware Inc. ("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 sold our investment in ADAPCO, Inc. for net proceeds of $553, recognizing a realized gain of $413 on the sale.

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On September 30, 2013, we made an $18,818 follow-on investment in JHH Holdings, Inc., a provider of home healthcare services in Texas. 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.

*Equity Issuance*

During the period from July 1, 2013 to September 30, 2013, we sold 21,293,338 shares of our common stock at an average price of $11.18 per share, and raised $238,036 of gross proceeds, under the ATM Program. Net proceeds were $235,037 after commissions to the broker-dealer on shares sold and offering costs.

On July 22, 2013, August 22, 2013 and September 19, 2013, we issued 109,437, 113,610 and 132,597 shares of our common stock in connection with the dividend reinvestment plan, respectively.

*Dividend*

On August 21, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

$0.110325 per share for January 2014 to holders of record on January 31, 2014 with a payment date of February 20, 2014;

$0.110350 per share for February 2014 to holders of record on February 28, 2014 with a payment date of March 20, 2014; and

$0.110375 per share for March 2014 to holders of record on March 31, 2014 with a payment date of April 17, 2014.

*Credit Facility*

On August 15, 2013, we announced an increase of $15,000 to our commitments to our credit facility. The lenders have extended commitments of $567,500 as of September 30, 2013; which was increased to $587,500 in October 2013 (see *Recent Developments*).

*Debt Issuance*

During the quarter ended September 30, 2013, we issued $98,255 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $96,189, as follows:

| Date of Issuance | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date |
|---|---|---|---|---|
| July 5, 2013 July 25, 2013 | $ 18,557 | 4.75% 5.00% | 4.96% | July 15, 2018 |
| August 8, 2013 August 22, 2013 | 11,885 | 5.00% | 5.00% | August 15, 2018 |
| September 6, 2013 September 26, 2013 | 21,095 | 5.00% | 5.00% | September 15, 2018 |
| August 1, 2013 | 3,820 | 5.00% | 5.00% | February 15, 2019 |
| August 15, 2013 August 22, 2013 | 1,800 | 5.50% | 5.50% | February 15, 2020 |
| July 5, 2013 July 25, 2013 | 8,962 | 5.50% 5.75% | 5.65% | July 15, 2020 |
| August 8, 2013 | 851 | 5.50% | 5.50% | August 15, 2020 |
| September 6, 2013 September 26, 2013 | 4,586 | 5.50% | 5.50% | September 15, 2020 |
| August 1, 2013 | 1,996 | 5.75% | 5.75% | February 15, 2021 |
| August 15, 2013 August 22, 2013 | 940 | 6.00% | 6.00% | August 15, 2028 |
| July 5, 2013 July 25, 2013 | 2,960 | 6.25% | 6.25% | July 15, 2031 |
| August 1, 2013 August 8, 2013 | 1,102 | 6.00% 6.125% | 6.09% | August 15, 2031 |
| September 6, 2013 September 26, 2013 | 1,127 | 6.00% | 6.00% | September 15, 2033 |
| August 15, 2013 August 22, 2013 | 3,372 | 6.50% | 6.50% | August 15, 2038 |
| July 5, 2013 July 25, 2013 | 7,337 | 6.75% | 6.75% | July 15, 2043 |
| August 1, 2013 August 8, 2013 | 2,707 | 6.50% 6.625% | 6.57% | August 15, 2043 |

| | | | | | |
|---|---|---|---|---|---|
| September 6, 2013 | September 26, 2013 | 5,158 | 6.50% | 6.50% | September 15, 2043 |
| | | $ 98,255 | | | |

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**Investment Holdings**

As of September 30, 2013, we continue to pursue our diversified investment strategy. At September 30, 2013, approximately $4,553,136 or 156.5% of our net assets are invested in 129 long-term portfolio investments and CLOs and 5.2% of our net assets are invested in money market funds.

During the three months ended September 30, 2013, we originated $556,843 of new investments, primarily composed of $312,944 of secured lending to non-control investments, $144,912 of debt and equity financing to controlled investments, and $98,987 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 12.5% as of June 30, 2013 and September 30, 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 September 30, 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. ("Borga"), CCPI Holdings, Inc., CP Holdings, Credit Central Holdings of Delaware, LLC, Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Holdings of Delaware, LLC ("First Tower Delaware"), The Healing Staff, Inc. ("THS"), Manx Energy, Inc. ("Manx"), MITY Holdings of Delaware Inc. ("Mity"), Nationwide Acceptance Holdings, LLC, NMMB Holdings, Inc., R-V Industries, Inc. ("R-V"), 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 ("Boxercraft") and Smart, LLC.

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

| | September 30, 2013 | | | | June 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| **Level of Control** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** |
| Control | $ 970,400 | 20.9% | $ 947,572 | 20.8% | $ 830,151 | 19.5% | $ 811,634 | 19.5% |
| Affiliate | 49,324 | 1.1% | 37,425 | 0.8% | 49,189 | 1.2% | 42,443 | 1.0% |
| Non-control/Non-affiliate | 3,622,564 | 78.0% | 3,568,139 | 78.4% | 3,376,438 | 79.3% | 3,318,775 | 79.5% |
| Total Portfolio | $ 4,642,288 | 100.0% | $ 4,553,136 | 100.0% | $ 4,255,778 | 100.0% | $ 4,172,852 | 100.0% |

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The following is our investments in interest bearing securities presented by type of security at September 30, 2013 and June 30, 2013, respectively:

| | September 30, 2013 | | | | June 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Type of Investment | Cost | Percent of Portfolio | Fair Value | Percent of Portfolio | Cost | Percent of Portfolio | Fair Value | Percent of Portfolio |
| Revolving Line of Credit | $ 13,238 | 0.3% | $ 12,705 | 0.3% | $ 9,238 | 0.2% | $ 8,729 | 0.2% |
| Senior Secured Debt | 2,524,504 | 54.4% | 2,444,947 | 53.7% | 2,262,327 | 53.1% | 2,207,091 | 52.8% |
| Subordinated Secured Debt | 1,032,693 | 22.3% | 988,581 | 21.8% | 1,062,386 | 25.0% | 1,024,901 | 24.6% |
| Subordinated Unsecured Debt | 130,444 | 2.8% | 119,165 | 2.6% | 88,470 | 2.1% | 88,827 | 2.1% |
| CLO Debt | 27,776 | 0.6% | 29,320 | 0.6% | 27,667 | 0.7% | 28,589 | 0.7% |
| CLO Residual Interest | 749,019 | 16.1% | 777,678 | 17.1% | 660,619 | 15.5% | 658,086 | 15.8% |
| Preferred Stock | 24,904 | 0.5% | 4,827 | 0.1% | 25,016 | 0.6% | 14,742 | 0.4% |
| Common Stock | 137,221 | 2.9% | 141,910 | 3.1% | 117,678 | 2.7% | 108,494 | 2.6% |
| Membership Interests | 216 | 0.0% | 3,890 | 0.1% | 216 | 0.0% | 492 | 0.0% |
| Overriding Royalty Interests | | % | | % | | % | | % |
| Net Profits Interests | | % | 20,732 | 0.5% | | % | 20,959 | 0.5% |
| Escrows Receivable | | % | 2,031 | 0.0% | | % | 4,662 | 0.1% |
| Warrants | 2,273 | 0.1% | 7,350 | 0.1% | 2,161 | 0.1% | 7,280 | 0.2% |
| Total Portfolio | $ 4,642,288 | 100.0% | $ 4,553,136 | 100.0% | $ 4,255,778 | 100.0% | $ 4,172,852 | 100.0% |

The following is our investments in interest bearing securities presented by type of security at September 30, 2013 and June 30, 2013, respectively:

| | September 30, 2013 | | | | June 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Type of Investment | Cost | Percent of Debt Securities | Fair Value | Percent of Debt Securities | Cost | Percent of Debt Securities | Fair Value | Percent of Debt Securities |
| First Lien | $ 2,537,742 | 56.7% | $ 2,457,652 | 56.2% | $ 2,271,565 | 55.3% | $ 2,215,820 | 55.2% |
| Second Lien | 1,032,693 | 23.1% | 988,581 | 22.6% | 1,062,386 | 25.8% | 1,024,901 | 25.5% |
| Unsecured | 130,444 | 2.9% | 119,165 | 2.7% | 88,470 | 2.2% | 88,827 | 2.2% |
| CLO Residual Interest | 749,019 | 16.7% | 777,678 | 17.8% | 660,619 | 16.0% | 658,086 | 16.4% |
| CLO Debt | 27,776 | 0.6% | 29,320 | 0.7% | 27,667 | 0.7% | 28,589 | 0.7% |
| Total Debt Securities | $ 4,477,674 | 100.0% | $ 4,372,396 | 100.0% | $ 4,110,707 | 100.0% | $ 4,016,223 | 100.0% |

The following is our investment portfolio presented by geographic location of the investment at September 30, 2013 and June 30, 2013, respectively:

| | September 30, 2013 | | | | June 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Geographic Location | Cost | Percent of Portfolio | FairvValue | 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 | 776,795 | 16.7% | 806,998 | 17.7% | 688,286 | 16.2% | 686,675 | 16.5% |
| France | 12,126 | 0.3% | 12,323 | 0.3% | | % | | % |
| Ireland | 14,930 | 0.3% | 15,000 | 0.3% | 14,927 | 0.4% | 15,000 | 0.4% |
| Midwest US | 717,782 | 15.5% | 688,145 | 15.1% | 565,239 | 13.3% | 531,934 | 12.7% |
| Northeast US | 719,081 | 15.5% | 725,638 | 15.9% | 649,484 | 15.3% | 663,025 | 15.9% |
| Puerto Rico | 41,253 | 0.9% | 39,307 | 0.9% | 41,352 | 1.0% | 41,352 | 1.0% |
| Southeast US | 1,174,655 | 25.3% | 1,144,289 | 25.2% | 1,111,946 | 26.0% | 1,081,320 | 25.8% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Southwest US | 454,055 | 9.8% | 415,244 | 9.1% | 345,392 | 8.1% | 336,362 | 8.1% |
| Western US | 716,611 | 15.4% | 691,192 | 15.2% | 674,152 | 15.8% | 652,184 | 15.6% |
| Total Portfolio | $ 4,642,288 | 100.0% | $ 4,553,136 | 100.0% | $ 4,255,778 | 100.0% | $ 4,172,852 | 100.0% |

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

| | September 30, 2013 | | | | June 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| **Industry** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** |
| Aerospace and Defense | $ 12,182 | 0.3% | $ 12,323 | 0.3% | $ 56 | 0.0% | $ | % |
| Automobile / Auto Finance | 23,282 | 0.5% | 23,355 | 0.5% | 23,214 | 0.6% | 22,917 | 0.5% |
| Biotechnology | | % | 14 | 0.0% | | % | 14 | 0.0% |
| Business Services | 233,010 | 5.0% | 232,628 | 5.1% | 180,793 | 4.2% | 179,544 | 4.3% |
| Chemicals | 19,605 | 0.4% | 19,605 | 0.4% | 28,364 | 0.7% | 28,648 | 0.7% |
| Commercial Services | 251,311 | 5.4% | 251,522 | 5.5% | 252,073 | 5.9% | 252,073 | 6.0% |
| Construction and Engineering | 54,412 | 1.2% | 47,611 | 1.0% | 53,615 | 1.3% | 53,615 | 1.3% |
| Consumer Finance | 407,527 | 8.8% | 421,052 | 9.2% | 413,332 | 9.7% | 406,964 | 9.8% |
| Consumer Services | 329,741 | 7.1% | 331,728 | 7.3% | 330,343 | 7.8% | 332,394 | 8.0% |
| Contracting | 2,661 | 0.1% | | % | 2,145 | 0.1% | | % |
| Diversified Financial Services | 834,290 | 18.0% | 856,742 | 18.8% | 745,705 | 17.5% | 742,434 | 17.8% |
| Diversified / Conglomerate Service | | % | 318 | 0.1% | | % | 143 | 0.0% |
| Durable Consumer Products | 404,760 | 8.7% | 398,269 | 8.7% | 380,225 | 8.9% | 370,207 | 8.9% |
| Ecological | | % | | % | 141 | 0.0% | 335 | 0.0% |
| Electronics | | % | 135 | 0.0% | | % | 149 | 0.0% |
| Energy | 61,646 | 1.3% | 55,215 | 1.2% | 63,895 | 1.5% | 56,321 | 1.3% |
| Food Products | 174,535 | 3.8% | 174,540 | 3.8% | 177,423 | 4.2% | 177,428 | 4.3% |
| Healthcare | 279,354 | 6.0% | 275,362 | 6.1% | 275,124 | 6.5% | 273,838 | 6.6% |
| Hotel, Restaurant & Leisure | 11,772 | 0.3% | 12,000 | 0.3% | 11,764 | 0.3% | 12,000 | 0.3% |
| Machinery | 396 | 0.0% | 797 | 0.0% | 396 | 0.0% | 790 | 0.0% |
| Manufacturing | 163,800 | 3.5% | 134,520 | 2.9% | 163,431 | 3.8% | 167,584 | 4.0% |
| Media | 170,559 | 3.7% | 158,170 | 3.5% | 171,290 | 4.0% | 161,325 | 3.9% |
| Metal Services and Minerals | 60,297 | 1.3% | 60,405 | 1.3% | 60,162 | 1.4% | 60,274 | 1.4% |
| Oil and Gas Production | 150,015 | 3.2% | 97,692 | 2.2% | 75,126 | 1.8% | 24,420 | 0.6% |
| Personal and Nondurable Consumer Products | 84,230 | 1.8% | 84,087 | 1.9% | 39,000 | 0.9% | 39,630 | 0.9% |
| Pharmaceuticals | 74,000 | 1.6% | 74,000 | 1.6% | | % | | % |
| Property Management | 51,020 | 1.1% | 51,411 | 1.3% | 51,170 | 1.2% | 54,648 | 1.3% |
| Real Estate | 154,022 | 3.3% | 154,022 | 3.4% | 152,540 | 3.6% | 152,540 | 3.7% |
| Retail | 14,200 | 0.3% | 14,593 | 0.3% | 14,190 | 0.3% | 14,569 | 0.3% |
| Software & Computer Services | 306,213 | 6.6% | 307,371 | 6.7% | 307,734 | 7.2% | 309,308 | 7.4% |
| Specialty Minerals | 38,500 | 0.8% | 41,669 | 0.9% | 38,500 | 0.9% | 42,558 | 1.0% |
| Textiles, Apparel & Luxury Goods | 75,000 | 1.6% | 75,000 | 1.6% | 99,500 | 2.3% | 99,323 | 2.4% |
| Textiles and Leather | 116,045 | 2.5% | 104,518 | 2.3% | 16,760 | 0.4% | 9,385 | 0.2% |
| Transportation | 83,903 | 1.8% | 82,462 | 1.8% | 127,767 | 3.0% | 127,474 | 3.1% |
| Total Portfolio | $ 4,642,288 | 100.0% | $ 4,553,136 | 100.0% | $ 4,255,778 | 100.0% | $ 4,172,852 | 100.0% |

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**Portfolio Investment Activity**

During the three months ended September 30, 2013, we acquired $492,518 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately $55,743, funded $4,000 of revolver advances, and recorded PIK interest of $4,581, resulting in gross investment originations of $556,843. The more significant of these investments are discussed in the *First Quarter Highlights*.

In addition to the repayments noted in the *First Quarter Highlights*, during the three months ended September 30, 2013, we received principal amortization payments of $7,712 on several loans, and $10,683 of partial prepayments primarily related to Energy Solutions, Stauber Performance Ingredients, and Cinedigm DC Holdings, LLC.

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 September 30, 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. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. 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, 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 months ended September 30, 2013, Energy Solutions repaid $4,250 of senior and subordinated secured debt. We received $2,409 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the three months ended September 30, 2013. During the three months ended September 30, 2012, we received distributions of $33,250 from Energy Solutions which were recorded as dividend income. No such dividends were received during the three months ended September 30, 2013. Energy Solutions continues to hold $7,118 of cash for future investment and repayment of the remaining debt.

During the quarters ended September 30, 2013 and September 30, 2012, we recognized $240 and $284 of interest income due to purchase discount accretion from the assets acquired from Patriot Capital Funding, Inc. ("Patriot"), respectively. There was no accelerated accretion during the three months ended September 30, 2013 and September 30, 2012. We expect to recognize $160 of normal accretion during the three months ended December 31, 2013, after which, there will be $141 remaining to be accreted.

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

| Quarter-End | Acquisitions(1) | Dispositions(2) |
|---|---|---|
| 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 | $ 6,909,373 | $ 2,253,378 |

(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.

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**Investment Valuation**

In determining the fair value of our portfolio investments at September 30, 2013, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of $4,437,390 to $4,720,672 excluding money market investments.

In determining the range of value for debt instruments, management and the independent valuation firms generally shadow rated the investment and then based upon the range of ratings, determined appropriate yields to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

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 in accordance with the requirements of ASC 820. 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 $4,553,136, excluding money market investments.

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

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

*AIRMALL USA, Inc.*

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

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

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In September 2013, AIRMALL distributed $7,000 of earnings to us which was recorded as dividend income during the quarter ended September 30, 2013. As a result of the distribution of earnings, our Board of Directors decreased the fair value of our investment in AIRMALL to $51,411 as of September 30, 2013, a premium of $391 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. As of September 30, 2013, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was $19,636 and our subordinated debt was $20,008 as of September 30, 2013.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Ajax to $28,084 as of September 30, 2013, a reduction of $17,617 from its amortized cost, compared to the $6,057 unrealized depreciation recorded at June 30, 2013.

*APH Property Holdings, LLC*

We make investments in real estate through our investment in APH, a holding company that owns 100% of the common equity of APHC. APHC is a Maryland corporation and qualified REIT for federal income tax purposes.

As of September 30, 2013, we have provided $127,374 and $26,648 of debt and equity financing, respectively, to APH for the acquisition of various industrial and multi-family residential real estate properties in Florida and Georgia. As of September 30, 2013, APHC's real estate portfolio was comprised of seven investments. The following table shows the mortgages outstanding due to other parties for each of the seven properties:

| No. | Property Name | City | Date of Acquisition | Purchase Price | Mortgage Outstanding |
|---|---|---|---|---|---|
| 1 | 146 Forest Parkway | Forest Park, GA | 10/24/2012 | $ 7,400 | $ |
| 2 | Abbington Pointe | Marietta, GA | 12/28/2012 | 23,500 | 15,275 |
| 3 | Amberly Place | Tampa, FL | 1/17/2013 | 63,400 | 39,600 |
| 4 | Lofton Place | Tampa, FL | 4/30/2013 | 26,000 | 16,965 |
| 5 | Vista at Palma Sola | Bradenton, FL | 4/30/2013 | 27,000 | 17,550 |
| 6 | Arlington Park | Marietta, GA | 5/8/2013 | 14,850 | 9,650 |
| 7 | Arium Resort | Pembroke Pines, FL | 6/24/2013 | 225,000 | 157,500 |

The Board of Directors set the fair value of our investment in APH at $154,022 as of September 30, 2013, equal to its amortized cost.

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

Energy Solutions owns interests in other companies operating in the energy sector. These include operating offshore supply vessels and ownerships of a non-operating biomass plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in a gas gathering and processing system in 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 Holdings, LLC ("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 September 30, 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. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. 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, 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 months ended September 30, 2013, Energy Solutions repaid $4,250 of senior and subordinated secured debt. We received $2,409 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the three months ended September 30, 2013. During the three months ended September 30, 2012, we received distributions of $33,250 from Energy Solutions which were recorded as dividend income. No such dividends were received during the three months ended September 30, 2013. Energy Solutions continues to hold $7,118 of cash for future investment and repayment of the remaining debt.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be $23,590 for our debt and equity positions at September 30, 2013 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At September 30, 2013 and June 30, 2013, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at $6,431 and $7,574 below its amortized cost, respectively.

*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 ("First Tower") businesses for $110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of $11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately $270,771. 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

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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 June 30, 2012, we received $8,075 in structuring fee income. 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. As of August 31, 2013, First Tower had total assets of approximately $635,483 including $405,742 of finance receivables net of unearned charges. As of June 30, 2013, First Tower's total debt outstanding to parties senior to us was $264,760.

Due to improved operating results, the Board of Directors increased the fair value of our investment in First Tower to $313,673 as of September 30, 2013, a premium of $5,720 to its amortized cost, compared to the $9,869 unrealized depreciation recorded at June 30, 2013.

*Manx Energy, Inc.*

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

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. The assets of the three companies were combined under new common management. We funded $2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of $750 in Manx to support ongoing operations. On June 30, 2012, Manx assigned the membership interests and associated operating company debt of Coalbed and AEH to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed company owned by us. During the quarter ended June 30, 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of $9,397 for the amount that the amortized cost exceeded the fair value.

The Board of Directors set the fair value of our investment in Manx at $413 as of September 30, 2013, a reduction of $87 from its amortized cost, compared to the $154 unrealized depreciation recorded at June 30, 2013.

*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 ("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.

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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 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 three months ended September 30, 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.

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

*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.

Our Board of Directors set the fair value of our investment in Wolf at $5,256 as of September 30, 2013, a reduction of $2,785 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. Three of our portfolio companies, Ajax, First Tower Delaware, and Valley Electric experienced such volatility and experienced fluctuations in valuation during the three months ended September 30, 2013. The value of Ajax decreased to $28,084 as of September 30, 2013, a discount of $17,617 to its cost, compared to the $6,057 unrealized loss recorded at June 30, 2013 due to a decline in operating results. The value of our equity position in

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First Tower increased to $313,673 as of September 30, 2013, a premium of $5,720 to its cost, compared to the $9,869 unrealized loss recorded at June 30, 2013 as there has been improvement in operating results during the quarter. The value of Valley Electric decreased to $47,611 as of September 30, 2013, a discount of $6,801 to its cost, compared to the value of $53,615 recorded at June 30, 2013, equal to its cost, due to a decline in operating results. Six of the other controlled investments have been valued at discounts to the original investment. Seven of the control investments are valued at the original investment amounts or higher. Overall, at September 30, 2013, the control investments are valued at $22,828 below their amortized cost.

We hold three affiliate investments at September 30, 2013. One of our affiliate portfolio companies, Boxercraft, experienced a meaningful decrease in valuation during the three months ended September 30, 2013 due to declining operating results. As of September 30, 2013, Boxercraft is valued at $5,518, a reduction of $11,527 to its amortized cost. Overall, at September 30, 2013, affiliate investments are valued $11,899 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 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. As of September 30, 2013, three of our Non-control/Non-affiliate investments, Gulf Coast Machine & Supply Company ("Gulf Coast"), 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 September 30, 2013, other Non-control/Non-affiliate investments are valued at $21,250 above their amortized cost, excluding our investments in Gulf Coast, 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 Notes, Senior Unsecured Notes and Prospect Capital InterNotes® amounts and outstanding borrowings at September 30, 2013 and June 30, 2013:

| | As of September 30, 2013 | | As of June 30, 2013 | |
|---|---|---|---|---|
| | Maximum Draw Amount | Amount Outstanding | Maximum Draw Amount | Amount Outstanding |
| Revolving Credit Facility | $ 567,500 | $ 69,000 | $ 552,500 | $ 124,000 |
| Senior Convertible Notes | $ 847,500 | $ 847,500 | $ 847,500 | $ 847,500 |
| Senior Unsecured Notes | $ 347,762 | $ 347,762 | $ 347,725 | $ 347,725 |
| Prospect Capital InterNotes® | $ 461,977 | $ 461,977 | $ 363,777 | $ 363,777 |

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The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® at September 30, 2013:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 3 Years | 3 5 Years | After 5 Years |
| Revolving Credit Facility | $ 69,000 | $ | $ | $ 69,000 | $ |
| Senior Convertible Notes | 847,500 | | 317,500 | 330,000 | 200,000 |
| Senior Unsecured Notes | 347,762 | | | | 347,762 |
| Prospect Capital InterNotes® | 461,977 | | | 51,537 | 410,440 |
| Total contractual obligations | $ 1,726,239 | $ | $ 317,500 | $ 450,537 | $ 958,202 |

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 $3,000,000 less issuances to date. As of September 30, 2013, we can issue up to $1,406,927 of additional debt and equity securities in the public market under this shelf registration. On October 15, 2013, we were declared effective on a new shelf and at that time could issue an additional $5,000,000 of debt and equity securities. 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 $567,500 under the 2012 Facility as of September 30, 2013; which was increased to $587,500 in October 2013 (see *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to $650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At September 30, 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 September 30, 2013 and June 30, 2013, we had $498,675 and $473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was $69,000 and $124,000, respectively. As additional investments that are eligible are transferred to PCF and pledged

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under the 2012 Facility, PCF will generate additional availability up to the commitment amount of $587,500. At September 30, 2013, the investments used as collateral for the 2012 Facility had an aggregate fair value of $884,267, which represents 18.8% of our total investments at fair value. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at fair value as of September 30, 2013. 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 $11,399 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 $5,966 remains to be amortized.

During the three months ended September 30, 2013 and September 30, 2012, we recorded $2,476 and $2,168 of interest costs and amortization of financing costs on the 2012 Facility as interest expense, respectively.

*Senior Convertible Notes*

On December 21, 2010, we issued $150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds after underwriting expenses of approximately $145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 88.0902 and 88.1429 shares of common stock, respectively, per $1 principal amount of 2015 Notes, which is equivalent to an initial conversion price and conversion price at September 30, 2013 of approximately $11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (December 21, 2012) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes is increased if monthly cash dividends paid to common shares exceed the rate of $0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued $172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds after underwriting expenses of approximately $167,325. Between January 30, 2012 and February 2, 2012, we repurchased $5,000 of our 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. Interest on the remaining $167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 78.3699 and 78.5395 shares of common stock, respectively, per $1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately $12.76 and $12.73 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (February 14, 2013) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.101150 per share.

On April 16, 2012, we issued $130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds after underwriting expenses of

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approximately $126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 85.8442 and 86.1162 shares of common stock, respectively, per $1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately $11.65 and $11.61 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (April 16, 2013) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.10150 per share.

On August 14, 2012, we issued $200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds after underwriting expenses of approximately $193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 82.3451and 82.8631 of common stock, respectively, per $1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately $12.14 and $12.07 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (August 14, 2013) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.101600 per share.

On December 21, 2012, we issued $200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds after underwriting and other expenses of approximately $193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 79.7766 shares of common stock per $1 principal amount of 2019 Notes, which is equivalent to a conversion price of approximately $12.54 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (December 21, 2012) and will be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2019 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.110025 per share.

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

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate 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

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transaction such that in our reasonable best estimation, the conversion rate following the adjustment for such transaction will not be any closer to the conversion rate cap than it would have been in the absence of such transaction.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the Notes surrendered for conversion representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, and the 2019 Notes (collectively, the "Senior Convertible Notes").

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

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

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 $19,149 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2013.

During the three months ended September 30, 2013 and September 30, 2012, we recorded $13,310 and $8,667 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense, respectively.

*Senior Unsecured Notes*

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

On March 15, 2013, we issued $250,000 in aggregate principal amount of 5.875% senior unsecured notes due 2023 (the "2023 Notes") for net proceeds after underwriting and other expenses of approximately $245,885. Interest on the 2023 Notes is paid semi-annually. The 2023 Notes mature on March 15, 2023. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

In connection with the issuance of the 2022 Notes and 2023 Notes (collectively, the "Senior Unsecured Notes"), we incurred $7,364 of fees which are being amortized over the term of the notes,

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of which $6,866 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2013.

During the three months ended September 30, 2013 and September 30, 2012, we recorded $5,541 and $1,807 of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense, respectively.

*Prospect Capital InterNotes®*

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

These notes are direct unsecured senior obligations and will 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 three months ended September 30, 2013, we issued $98,255 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately $96,189. These notes were issued with stated interest rates ranging from 4.75% to 6.75% with a weighted average rate of 5.48%. These notes mature between July 15, 2018 and September 15, 2043.

The following is a summary of the notes outstanding at September 30, 2013:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | | Average Interest Rate | Maturity Date Range | |
|---|---|---|---|---|---|---|
| 5 | $ 51,537 | 4.75% | 5.00% | 4.95% | July 15, 2018 | September 15, 2018 |
| 6 | 5,134 | 5.00% | 5.50% | 5.25% | February 15, 2019 | February 15, 2020 |
| 7 | 209,767 | 4.00% | 6.55% | 5.15% | June 15, 2019 | September 15, 2020 |
| 8 | 1,996 | | 5.75% | 5.75% | | February 15, 2021 |
| 10 | 18,127 | 3.27% | 7.00% | 5.30% | March 15, 2022 | April 15, 2023 |
| 15 | 15,940 | 5.00% | 6.00% | 5.50% | May 15, 2028 | August 15, 2028 |
| 18 | 26,219 | 4.125% | 6.25% | 5.24% | December 15, 2030 | August 15, 2031 |
| 20 | 4,233 | 5.625% | 6.00% | 5.90% | November 15, 2032 | September 15, 2033 |
| 25 | 3,372 | | 6.50% | 6.50% | | August 15, 2038 |
| 30 | 125,652 | 5.50% | 6.75% | 6.13% | November 15, 2042 | September 15, 2043 |
| | $ 461,977 | | | | | |

In connection with the issuance of the Prospect Capital InterNotes®, we incurred $12,757 of fees which are being amortized over the term of the notes, of which $12,212 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2013.

During the three months ended September 30, 2013 and September 30, 2012, we recorded $6,044 and $869, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

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**Net Asset Value**

During the three months ended September 30, 2013, we issued $256,043 of additional equity, net of underwriting and offering costs, by issuing 23,211,680 shares of our common stock. The following table shows the calculation of net asset value per share as of September 30, 2013 and June 30, 2013:

| | As of September 30, 2013 | As of June 30, 2013 |
|---|---|---|
| Net Assets | $ 2,909,755 | $ 2,656,494 |
| Shares of common stock issued and outstanding | 271,404,289 | 247,836,965 |
| Net asset value per share | $ 10.72 | $ 10.72 |

At September 30, 2013, we had 271,404,289 of our common stock issued and outstanding.

**Results of Operations**

Net increase in net assets resulting from operations for the three months ended September 30, 2013 and September 30, 2012 was $79,900 and $47,249, respectively. The $32,651 increase is primarily the result of a $60,111 increase in interest income due to a larger income producing portfolio during the three months ended September 30, 2013. This increase is offset by a decrease of $29,119 in dividend income received from our investment in Energy Solutions. During the three months ended September 30, 2012, we received dividends of $33,250 from our investment in Energy Solutions. No such dividends were received from Energy Solutions during the three months ended September 30, 2013. This decrease in dividend income from our investment in Energy Solutions was partially offset by a $7,000 increase in dividend income from our investment in Airmall and a $22,327 decrease in the net change in unrealized depreciation on investments. During the quarter ended September 30, 2013, we experienced net unrealized losses of $6,226 primarily from significant write-downs of our investments in Ajax, Gulf Coast and Valley Electric. These instances of unrealized depreciation were partially offset by unrealized appreciation in First Tower. During the quarter ended September 30, 2012, we experienced net unrealized losses of $28,553 primarily from write-downs of our investments in Ajax and Energy Solutions. These instances of unrealized depreciation were partially offset by unrealized appreciation in R-V.

Net increase in net assets resulting from operations for the three months ended September 30, 2013 and September 30, 2012 was $0.31 and $0.29 per weighted average share, respectively. The $0.02 increase is primarily the result of a $0.16 per weighted average share favorable decrease in the net change in unrealized depreciation on investments. During the quarter ended September 30, 2013, we experienced net unrealized losses of $0.02 per weighted average share, primarily from write-downs of our investments in Ajax, Gulf Coast and Valley Electric. These instances of unrealized depreciation were partially offset by unrealized appreciation in First Tower. During the quarter ended September 30, 2012, we experienced net unrealized losses of $0.18 per average share primarily from write-downs of our investments in Ajax and Energy Solutions. These instances of unrealized depreciation were partially offset by unrealized appreciation in R-V. The net increase in net assets resulting from operations is also attributable to $0.03 per weighted average share decrease in advisory fees and a $0.03 per weighted average share increase in interest income, net of interest and credit facility expenses, as we have increased the leverage on our portfolio during the three months ended September 30, 2013. These instances of appreciation and additional income were partially offset by a $0.20 per weighted average share decline in dividend income, primarily due to our investment in Energy Solutions as discussed above.

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

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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 $161,034 and $123,636 for the three months ended September 30, 2013 and September 30, 2012, respectively. During the three months ended September 30, 2013, the increase in investment income is primarily the result of a larger income producing portfolio.

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

| | For The Three Months Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| Interest income | $ 138,421 | $ 78,310 |
| Dividend income | 7,089 | 36,208 |
| Other income | 15,524 | 9,118 |
| Total investment income | $ 161,034 | $ 123,636 |
| Average debt principal of performing investments | $ 4,179,192 | $ 2,144,554 |
| Weighted average interest rate earned on performing assets | 12.96% | 14.24% |

Average interest income producing assets have increased from $2,144,554 for the three months ended September 30, 2012 to $4,179,192 for the three months ended September 30, 2013. The average yield on interest bearing assets decreased from 14.24% for the three months ended September 30, 2012 to 12.96% for the three months ended September 30, 2013. 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, and to a lesser extent, originations at lower rates than our average portfolio yield.

Investment income is also generated from dividends and other income. Dividend income decreased from $36,208 for the three months ended September 30, 2012 to $7,089 for the three months ended September 30, 2013. The decrease in dividend income is primarily attributed to a 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

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$33,250 during the three months ended September 30, 2012. No such dividends were received during the three months ended September 31, 2013 related to our investment in Energy Solutions. The decrease in dividend income was partially offset by a $7,000 dividend received from our investment in Airmall during the three months ended September 30, 2013. No dividends were received from Airmall during the three months ended September 30, 2012.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Comparing the three months ended September 30, 2012 to the three months ended September 30, 2013, income from other sources increased from $9,118 to $15,524. This $6,406 increase is primarily due to $5,000 of legal cost reimbursement from a litigation settlement, which had been expensed in prior quarters and a $1,325 increase in royalty interests from our controlled investments, particularly APH, Credit Central, First Tower, and Nationwide.

**Operating Expenses**

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate Prospect Capital Management (the "Investment Adviser") for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions in accordance with our Administration Agreement with Prospect Administration. Operating expenses were $78,697 and $49,609 for the three months ended September 30, 2013 and September 30, 2012, respectively, holding consistent at approximately $0.30 per weighted average share outstanding.

The base management fee was $23,045 and $13,228 for the three months ended September 30, 2013 and September 30, 2012, respectively. This increase is directly related to our growth in total assets. For the three months ended September 30, 2013 and September 30, 2012, we incurred $20,584 and $18,507, respectively, of income incentive fees. The $2,077 increase in the income incentive fee for the respective three-month period is driven by an increase in pre-incentive fee net investment income from $92,534 for the three months ended September 30, 2012 to $102,921 for the three months ended September 30, 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. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended September 30, 2013 and September 30, 2012, we incurred $27,407 and $13,511, 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

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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 September 30, | |
|---|---|---|
| | 2013 | 2012 |
| Interest on borrowings | $ 23,524 | $ 10,470 |
| Amortization of deferred financing costs | 2,472 | 1,774 |
| Commitment and other fees | 1,411 | 1,267 |
| Total | $ 27,407 | $ 13,511 |
| Weighted-average debt outstanding | $ 1,615,894 | $ 710,676 |
| Weighted-average interest rate | 5.70% | 5.89% |
| Weighted-average interest rate including amortization of deferred financing costs | 6.29% | 6.89% |
| 2012 Facility amount at beginning of period | $ 552,500 | $ 492,500 |

The increase in interest expense for the three months ended September 30, 2013 is primarily due to the issuance of additional Prospect Capital InterNotes®, the 2023 Notes and the 2019 Notes, for which we incurred $11,077 of collective interest expense. The weighted average interest rate on borrowings (excluding amortization and undrawn facility fees) decreased from 5.89% to 5.70% as of September 30, 2012 and September 30, 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 6.25% to 5.69% as of September 30, 2012 and September 30, 2013, respectively.

The allocation of overhead expense from Prospect Administration was $3,986 and $2,184 for the three months ended September 30, 2013 and September 30, 2012, respectively. As our portfolio continues to grow, we expect Prospect Administration to continue to increase the size of its administrative and financial staff.

Total operating expenses, net of investment advisory fees, interest costs, excise tax and allocation of overhead from Prospect Administration were $2,675 and $2,179 for the three months ended September 30, 2013, and September 30, 2012, respectively.

**Net Investment Income**

Net investment income represents the difference between investment income and operating expenses. Our net investment income was $82,337 and $74,027 for the three months ended September 30, 2013 and September 30, 2012, respectively, or $0.32 per weighted average share and $0.46 per weighted average share, respectively. The $8,310 increase for the three months ended September 30, 2013 is primarily the result of a $37,398 increase in investment income due to a larger income producing portfolio partially offset by a decrease in dividend income from our investment in Energy Solutions. The $37,398 increase in investment income is offset by an increase in operating expenses of $29,088, primarily due to an $11,894 increase in advisory fees due to the growing size of our portfolio and related income and $13,896 of additional interest and credit facility expenses. The $0.14 per share decrease in net investment income for the three months ended September 30, 2013 is primarily due to a $0.20 per weighted average share decrease in dividend income primarily due to a decline in the level of dividends received from our investment in Energy Solutions. This decrease is partially offset by a $0.03 per weighted average share decrease in advisory fees and a $0.04 per weighted average share increase in interest income, net of interest and credit facility expenses, as we have increased the leverage on our portfolio during the three months ended September 30, 2013 over those for the three months ended September 30, 2012.

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**Net Realized Gains, Increase in Net Assets from Net Changes in Unrealized Depreciation**

Net realized gains were $3,789 and $1,775 for the three months ended September 30, 2013 and September 30, 2012, respectively. The net realized gain of $3,789 for the three months ended September 30, 2013 was due primarily to a $3,252 gain realized from the release of escrowed amount to us related to our investment in NRG Manufacturing, Inc. The net realized gain of $1,775 for the three months ended September 30, 2012 was due primarily to the sale of our common stock in Iron Horse Coiled Tubing, Inc.

Net increase in net assets from changes in unrealized depreciation was $6,226 and $28,553 for the three months ended September 30, 2013 and September 30, 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 September 30, 2013, the $6,226 decrease was driven by significant write-downs of our equity investments in Airmall, Ajax, Boxercraft 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 three months ended September 30, 2013 and September 30, 2012, our operating activities used $245,448 and $491,413 of cash, respectively. There were no investing activities for the three months ended September 30, 2013 and September 30, 2012. Financing activities provided $195,873 and $490,975 of cash during the three months ended September 30, 2013 and September 30, 2012, respectively, which included the payments of dividends of $80,064 and $43,932, during the three months ended September 30, 2013 and September 30, 2012, 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 three months ended September 30, 2013, we borrowed $96,000 and made repayments totaling $151,000 under our revolving credit facility. As of September 30, 2013, we had $69,000 outstanding on our revolving credit facility, $847,500 outstanding on our Senior Convertible Notes, Senior Unsecured Notes with a carrying value of $347,762 and $461,977 outstanding on our Prospect Capital InterNotes®. (See *Capitalization*.)

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of September 30, 2013 and June 30, 2013, we have $206,684 and $202,518 of undrawn revolver commitments to our portfolio companies, respectively.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to an additional $1,406,927 of debt and equity securities in the public market at September 30, 2013.

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC as detailed in *Recent Developments*. Under this Shelf Registration Statement, we can issue up to an additional $5,000,000 of debt and equity securities.

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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, of 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 $106,823 after commissions to BB&T Capital Markets, BMO Capital Markets, and KeyBanc Capital Markets on shares sold.

On August 22, 2013, we entered into an ATM Program with BMO Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, of up to 45,000,000 shares of our common stock. During the period from August 29, 2013 to September 30, 2013, we sold 11,474,431 shares of our common stock at an average price of $11.36 per share, and raised $130,311 of gross proceeds, under the ATM Program. Net proceeds were $129,008 after commissions to BMO Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets on shares sold. During the period from October 1, 2013 to November 4, 2013, we sold 12,652,811 shares of our common stock at an average price of $11.21 per share, and raised $141,804 of gross proceeds, under the ATM Program. Net proceeds were $140,416 after commissions to BMO Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets on shares sold. (See *Recent Developments*.)

**Off-Balance Sheet Arrangements**

At September 30, 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 October 1, 2013 to November 4, 2013, we issued $56,771 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $55,739. In addition, we sold $8,158 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $8,005 with expected closing on November 7, 2013.

During the period from October 1, 2013 to November 4, 2013, we sold 12,652,811 shares of our common stock at an average price of $11.21 per share, and raised $141,804 of gross proceeds, under the ATM Program. Net proceeds were $140,416 after commissions to the broker-dealer on shares sold and offering costs.

On October 1, 2013, we made a $2,600 follow-on investment in Airmall, a leading developer and manager of airport retail operations.

On October 2, 2013, we announced an increase of $20,000 to our commitments to our credit facility. The commitments to the credit facility now stand at $587,500.

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

On October 11, 2013, we made a $5,846 follow-on senior debt and equity investment in CP Holdings of Delaware LLC, an energy services company based in western Oklahoma.

On October 11, 2013, we provided $25,000 in preferred equity for the recapitalization of Ajax. After the financing, we received repayment of the $20,009 loan previously outstanding.

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On October 15, 2013, we made a secured debt investment of $2,000 in Digital Insight, a leading 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 the same day, we fully exited the deal and realized a gain of $20 on this investment.

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 an additional $5,000,000 of debt and equity securities.

On October 16, 2013, we made a secured debt investment of $7,000 in Renaissance Learning, Inc., a leading provider of technology based school improvement and student assessment programs. On November 4, 2013, we fully exited the investment and realized a gain of $140 on this investment.

On October 17, 2013, $19,730 of the Apidos CLO VIII, Ltd. subordinated notes were called.

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 24, 2013, we issued 135,212 shares of our common stock in connection with the dividend reinvestment plan.

On October 29, 2013, we made a $2,000 follow-on investment in APH.

On October 30, 2013, we made a secured debt investment of $2,500 in Omnitracs, Inc., one of the world's largest providers of satellite and terrestrial-based connectivity and position location solutions to transportation and logistics companies. On the same day, we fully exited the deal and realized a gain of $25 on this investment.

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 4, 2013, we fully exited the investment and realized a gain of $60 on the investment.

On October 31, 2013, we sold $18,755 of the National Bankruptcy Services, LLC loan receivable. The loan receivable was sold at a discount, for which we realized a loss of $7,854.

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

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.

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

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.

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**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 months ended September 30, 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 Accounting Standards Codification ("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.

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*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.

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 shadow bond approach, a market approach, an income approach, a liquidation approach, or a combination of approaches, as appropriate. The shadow bond and market approaches use prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted) calculated based on an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable

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market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, 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 was 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 proper 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*

ASC Subtopic 825-10-25, *The Fair Value Option for Financial Assets and Financial Liabilities* ("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. We have elected not to value some assets and liabilities 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 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 325-40-35, *Beneficial Interests in Securitized Financial Assets*. We monitor the expected cash inflows from our CLO equity investments, including the expected residual payments, and the effective yield is determined and updated periodically.

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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 September 30, 2013, approximately 0.5% of our net 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.

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 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

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statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of September 30, 2013 and for the three 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.

*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 will be 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 assets 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 September 30, 2013, we did not engage in hedging activities.

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## REGISTRATION AND SETTLEMENT

**The Depository Trust Company**

All of the notes we offer will be issued in book-entry only form. This means that we will not issue certificates for notes, except in the limited case described below. Instead, we will issue global notes in registered form. Each 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. Each note represented by a global note evidences a beneficial interest in that global note.

Beneficial interests in a 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 a note, 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 a 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.

Each global note representing 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 depositary for the global notes 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 notes 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 depositary 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. Generally, 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 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,

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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.

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 each note 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 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

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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 such notes, on DTC's records, to the trustee. The requirement for physical delivery of notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing such 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 depositary 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 depositary). 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 Purchasing Agent 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 American Stock Transfer & Trust Company, LLC to act in those 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 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 the material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the notes. 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 ruling from the Internal Revenue Service ("IRS") has been or will be 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.

This discussion applies only to a holder of notes that acquires the notes pursuant to this offering at their "issue price" within the meaning of the applicable provisions of the Code 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;

pension plans or trusts;

U.S. noteholders (as defined below) whose functional currency is not the U.S. dollar;

real estate investment trusts;

regulated investment companies;

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 or local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

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**Consequences to U.S. Noteholders**

The following is a general summary of the material U.S. federal income tax consequences that will apply to you if you are a U.S. noteholder. Material 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 OID on the notes*

Except as discussed below, a U.S. noteholder generally will be required to recognize stated interest as ordinary income at the time it is paid or accrued on the notes in accordance with its regular method of accounting for U.S. federal income tax purposes. In addition, if the notes' "issue price" (the first price at which a substantial amount of the notes is sold to investors) is less than their "stated redemption price at maturity" (the sum of all payments to be made on the notes other than "qualified stated interest") by more than a statutorily defined de minimis threshold, the notes will be issued with original issue discount ("OID") for U.S. federal income tax purposes. The term "qualified stated interest" generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, if certain requirements are met (as described below), certain variable rates.

If the notes are issued with OID, a U.S. noteholder generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such holder's regular method of tax accounting. Such OID will be included in gross income for each day during each taxable year in which the note is held using a constant yield-to-maturity method that reflects the compounding of interest. This means that the holder will have to include in income increasingly greater amounts of OID over time. Notice will be given in the applicable pricing supplement if we determine that a particular note will be issued with OID. We are required to provide information returns stating the amount of OID accrued on the notes held by persons of record other than certain exempt holders.

If the notes are "step-up notes" (i.e., notes with a fixed interest rate that increases at pre-determined intervals), the tax treatment described in the first sentence under " Consequences to U.S. Noteholders Stated interest and OID on the notes" assumes that we will have the right to call the notes at par (plus accrued but unpaid interest) on each date that the interest rate increases. If this is not the case, interest that exceeds the lowest rate payable under the step-up note may not be treated as qualified stated interest and, depending on the amount of such excess, may thus cause the step-up note to be treated as issued with OID, in which case the notes generally would be subject to the OID rules discussed above. Prospective investors are urged to consult their own tax advisors regarding the treatment of step-up notes or similar notes.

If you own a note issued with de minimis OID (i.e., discount that is not OID), you generally must include the de minimis OID in income at the time principal payments on the notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

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*Short-term notes*

Notes that have a fixed maturity of one year or less ("short-term notes") will be subject to the following special rules.

All of the interest on a short-term note is treated as part of the short-term note's stated redemption price at maturity, thereby giving rise to OID. Thus, all short-term notes will be OID debt securities. OID will be treated as accruing on a short-term debt instrument ratably or, at the election of a U.S. noteholder, under a constant yield method.

A U.S. noteholder that uses the cash method of tax accounting (with certain exceptions) will generally not be required to include OID in respect of the short-term note in income on a current basis, though they may be required to include stated interest in income as the income is received. Such a U.S. noteholder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such a short-term note until the maturity of the note or its earlier disposition in a taxable transaction. In addition, such a U.S. noteholder will be required to treat any gain realized on a disposition of the note as ordinary income to the extent of the holder's accrued OID on the note, and short-term capital gain to the extent the gain exceeds accrued OID. A U.S. noteholder that uses the cash method of tax accounting may, however, elect to include OID on a short-term note in income on a current basis. In such case, the limitation on the deductibility of interest described above will not apply. A U.S. noteholder that uses the accrual method of tax accounting and certain cash method holders generally will be required to include OID on a short-term note in income on a current basis.

*Floating Rate Notes*

In the case of a note that is a floating rate note (including a note based on LIBOR), special rules apply. In general, if a note qualifies for treatment as a "variable rate debt instrument" under Treasury Regulations and provides for stated interest that is unconditionally payable at least annually at a variable rate that, subject to certain exceptions, is a single "qualified floating rate" or "objective rate," each as defined below, all stated interest on the note is treated as qualified stated interest. In that case, both the note's "yield to maturity" and "qualified stated interest" will be determined, for purposes of calculating the accrual of OID, if any, as though the note will bear interest in all periods throughout its term at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its issue date or, in the case of an objective rate (other than a "qualified inverse floating rate"), the rate that reflects the yield to maturity that is reasonably expected for the note. A U.S. noteholder of a variable rate debt instrument would then recognize OID, if any, that is calculated based on the note's assumed yield to maturity. If the interest actually accrued or paid during an accrual period exceeds or is less than the assumed fixed interest, the qualified stated interest allocable to that period is increased or decreased under rules set forth in Treasury Regulations. Special rules apply for determining the amount of OID for other variable rate debt instruments, such as instruments with more than one qualified floating rate or instruments with a single fixed rate and one or more qualified floating rates. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding any investment in a note that qualifies a "variable rate debt instrument."

A note will generally qualify as a variable rate debt instrument if (a) the note's issue price does not exceed the total noncontingent principal payments by more than the lesser of: (i) .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or (ii) 15% of the total noncontingent principal payments; (b) the note provides for stated interest, compounded or paid at least annually, only at one or more qualified floating rates, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) the value of

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the rate on any date during the term of the note is set no earlier than three months prior to the first day on which that value is in effect or no later than one year following that first day.

Generally, a rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated. A rate that equals LIBOR or LIBOR plus or minus a fixed spread is, in general, a qualified floating rate. However, a rate (including a rate based on LIBOR) will generally not be a qualified floating rate if, among other circumstances:

- the rate is subject to one or more minimum or maximum rate floors or ceilings or one or more governors limiting the amount of increase or decrease in each case which are not fixed throughout the term of the note and which are reasonably expected as of the issue date to cause the rate in some accrual periods to be significantly higher or lower than the overall expected return on the note determined without the floor, ceiling, or governor; or

- the rate is a multiple of a qualified floating rate unless the multiple is a fixed multiple that is greater than 0.65 but not more than 1.35 (provided, however, that if a multiple of a qualified floating rate is not within such limits and thus is not itself a qualified floating rate, it may nevertheless qualify as an "objective rate").

If a note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of the note, the qualified floating rates together constitute a single qualified floating rate.

Generally, an objective rate is a rate that is determined using a single fixed formula that is based on objective financial or economic information such as one or more qualified floating rates. An objective rate is a qualified inverse floating rate if that rate is equal to a fixed rate minus a qualified floating rate and variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. A variable rate will generally not qualify as an objective rate if, among other circumstances, it is reasonably expected that the average value of the variable rate during the first half of the term of the note will be either significantly less than or significantly greater than the average value of the rate during the final half of the term of the note.

If a floating rate note does not qualify as a "variable rate debt instrument," the note generally will be subject to taxation under special rules applicable to contingent payment debt instruments. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding such notes.

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

Subject to the special rules for short-term notes discussed above, upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. noteholder generally will recognize capital gain or loss in an amount equal to the difference between (1) the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which, to the extent not previously included in income, generally will be taxable as ordinary income) and (2) its adjusted tax basis in the note. A U.S. noteholder's adjusted tax basis in a note generally will equal the price the U.S. noteholder paid for the note increased by OID (including with respect to a short-term note), if any, previously included in income with respect to that note, and reduced by any cash payments on the note other than qualified stated interest. Such capital gain or loss will be long-term capital gain or loss if, at the time of such taxable disposition, the U.S. noteholder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

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*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 all or a portion of their "net investment income," which includes interest on the notes and capital gains from the sale or other disposition of the notes.

*Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to certain payments of principal and interest (including OID) and to the proceeds of sale of a note paid to a U.S. noteholder (unless such noteholder is an exempt recipient). A backup withholding tax may apply to such payments if a U.S. noteholder fails to provide a taxpayer identification number or certification of exempt status, or if it is otherwise subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

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

The following is a general summary of the material 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 (including any entity or arrangement otherwise treated as 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 is not considered contingent interest within the meaning of Section 871(h)(4)(A) of the Code (generally relating to interest payments that are determined by reference to the income, profits, receipts, cash flow, changes in the value of non-publicly-traded property or other attributes of, or distributions or similar payments paid by, the debtor or a related party), 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

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long as the non-U.S. noteholder provides us or our paying agent an adequate certification (currently on IRS Form W-8ECI); such payments of interest 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 or OID, 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 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.

*Information Reporting and Backup Withholding*

Generally, we must report to the IRS and to a non-U.S. noteholder the amount of interest (including OID) on the notes paid to a non-U.S. noteholder and the amount of tax, if any, withheld with respect to those payments if the notes are in registered form. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which a non-U.S. noteholder resides under the provisions of an applicable income tax treaty.

In general, a non-U.S. noteholder will not be subject to backup withholding with respect to payments on the notes that we make to such noteholder provided that we do not have actual knowledge or reason to know that such noteholder is a U.S. person as defined under the Code, and we have received from you the statement described above under the fourth bullet point under "Consequences to Non-U.S. Noteholders Stated interest and OID on the notes".

In addition, no information reporting requirements or backup withholding will be required regarding the proceeds of the sale of a note made within the United States or conducted through certain United States-related financial intermediaries, if the payor receives the statement described

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above and does not have actual knowledge or reason to know that the non-U.S. noteholder is a U.S. person as defined under the Code, or the non-U.S. noteholder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a non-U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

*Other withholding rules*

After June 30, 2014, withholding at a rate of 30% will be required on interest in respect of, and after December 31, 2016, withholding at a rate of 30% will be required on gross proceeds from the sale of, notes held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in, and accounts maintained by, the institution to the extent such shares or accounts are held by certain United States persons or by certain non-U.S. entities that are wholly or partially owned by United States persons and to withhold on certain payments. Accordingly, the entity through which notes are held will affect the determination of whether such withholding is required. An intergovernmental agreement between the United States and an applicable foreign country, or future guidance, may modify these requirements. Similarly, interest in respect of, and gross proceeds from the sale of, notes held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any "substantial United States owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we will in turn provide to the Secretary of the Treasury. Current law provides that obligations that are outstanding on July 1, 2014 are exempt from the withholding and reporting requirements under a grandfathering provision. Non-U.S. noteholders are encouraged to consult with their tax advisors regarding the possible implications of these requirements on their investment in notes.

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.

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## 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 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 securities on behalf of the ERISA plan determines that neither we nor an affiliate is 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 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 Purchasing Agent 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.

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## USE OF PROCEEDS

Unless otherwise indicated in a pricing supplement for the notes, we expect to use the net proceeds from the sale of the notes initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. We anticipate that substantially all of the net proceeds from each offering will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

As of November 4, 2013, we had no borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately $532.0 million was available to us for 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 used or 100 basis points otherwise.

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## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of September 30, 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 September 30, 2013, unaudited) | $ 69,000 | $ 67,188 | | |
| 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 September 30, 2013, unaudited) | $ 150,000 | $ 30,907 | | |
| 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 September 30, 2013, unaudited) | $ 167,500 | $ 27,678 | | |
| 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 September 30, 2013, unaudited) | $ 130,000 | $ 35,661 | | |
| 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 September 30, 2013, unaudited) | $ 200,000 | $ 23,180 | | |
| Fiscal 2013 (as of June 30, 2013) | 200,000 | 21,697 | | |
| **2019 Notes** | | | | |
| Fiscal 2014 (as of September 30, 2013, unaudited) | $ 200,000 | $ 23,180 | | |
| Fiscal 2013 (as of June 30, 2013) | 200,000 | 21,697 | | |
| **2022 Notes** | | | | |
| Fiscal 2014 (as of September 30, 2013, unaudited) | $ 100,000 | $ 46,360 | | |
| Fiscal 2013 (as of June 30, 2013) | 100,000 | 43,395 | | |
| Fiscal 2012 (as of June 30, 2012) | 100,000 | 21,761 | | |
| **2023 Notes** | | | | |

| | | | | |
|---|---|---|---|---|
| Fiscal 2014 (as of September 30, 2013, unaudited) | $ | 247,762 | $ | 18,711 |
| Fiscal 2013 (as of June 30, 2013) | | 247,725 | | 17,517 |

**Prospect Capital InterNotes®**

| | | | | |
|---|---|---|---|---|
| Fiscal 2014 (as of September 30, 2013, unaudited) | $ | 461,977 | $ | 10,035 |
| 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 September 30, 2013, unaudited) | $ | 1,726,239 | $ | 2,686 |
| 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.

(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 November 4, 2013, we have sold $518.8 million aggregate principal amount of notes. Amounts sold under the Prospect Capital InterNotes® Program after September 30, 2013 are not reflected in the table above.

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**RATIO OF EARNINGS TO FIXED CHARGES**

For the three months ended September 30, 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:

| | For the Three Months Ended September 30, 2013 | For the Year Ended June 30, 2013 | For the Year Ended June 30, 2012 | For the Year Ended June 30, 2011 | For the Year Ended June 30, 2010 | For the Year Ended June 30, 2009 |
|---|---|---|---|---|---|---|
| Earnings to Fixed Charges(1) | 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 4.18 for the three months ended September 30, 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.

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## PLAN OF DISTRIBUTION

Under the terms of the Third Amended and Restated Selling Agent Agreement dated October 15, 2013, which we refer to as the "Selling Agent Agreement," the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to agents, including Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated and other dealers who are broker-dealers and securities firms. The agents, including the Purchasing Agent, and the additional agents named from time to time pursuant to the Selling Agent Agreement, are, or will be, parties to the Selling Agent Agreement. The notes will be offered for sale in the United States only. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. We also may appoint additional agents to sell the notes. Any sale of the notes through those additional agents, however, will be on the same terms and conditions to which the original agents have agreed. The Purchasing Agent will purchase the notes at a discount ranging from 0.4% to 3.8% of the non-discounted price for each note sold. However, we also may sell the notes to the Purchasing Agent at a discount greater than or less than the range specified above. The discount at which we sell the notes to the Purchasing Agent will be set forth in the applicable pricing supplement. The Purchasing Agent also may sell notes to dealers at a concession not in excess of the discount it received from us. In certain cases, the Purchasing Agent and the other agents and dealers may agree that the Purchasing Agent will retain the entire discount. We will disclose any particular arrangements in the applicable pricing supplement.

Following the solicitation of orders, each of the agents, severally and not jointly, may purchase notes as principal for its own account from the Purchasing Agent. Unless otherwise set forth in the applicable pricing supplement, these notes will be purchased by the agents and resold by them to one or more investors at a fixed public offering price. After the initial public offering of notes, the public offering price (in the case of notes to be resold at a fixed public offering price), discount and concession may be changed.

We have the sole right to accept offers to purchase notes and may reject any proposed offer to purchase notes in whole or in part. Each agent also has the right, in its discretion reasonably exercised, to reject any proposed offer to purchase notes in whole or in part. We reserve the right to withdraw, cancel or modify any offer without notice. We also may change the terms, including the interest rate we will pay on the notes, at any time prior to our acceptance of an offer to purchase.

Each agent, including the Purchasing Agent, may be deemed to be an "underwriter" within the meaning of the Securities Act. We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act, or to contribute to any payments they may be required to make in respect of such liabilities. We also have agreed to reimburse the agents for certain expenses.

No note will have an established trading market when issued. We do not intend to apply for the listing of the notes on any securities exchange. However, we have been advised by the agents that they may purchase and sell notes in the secondary market as permitted by applicable laws and regulations. The agents are not obligated to make a market in the notes, and they may discontinue making a market in the notes at any time without notice. Neither we nor the agents can provide any assurance regarding the development, liquidity or maintenance of any trading market for any notes. All secondary trading in the notes will settle in same-day funds. See "Registration and Settlement."

In connection with certain offerings of notes, the rules of the SEC permit the Purchasing Agent to engage in transactions that may stabilize the price of the notes. The Purchasing Agent will conduct these activities for the agents. These transactions may consist of short sales, stabilizing transactions and purchases to cover positions created by short sales. A short sale is the sale by the Purchasing Agent of a greater amount of notes than the amount the Purchasing Agent has agreed to purchase in connection with a specific offering of notes. Stabilizing transactions consist of certain bids or purchases made by the Purchasing Agent to prevent or retard a decline in the price of the notes while an offering of notes

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is in process. In general, these purchases or bids for the notes for the purpose of stabilization or to reduce a syndicate short position could cause the price of the notes to be higher than it might otherwise be in the absence of those purchases or bids. Neither we nor the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that these transactions may have on the price of any notes. In addition, neither we nor the Purchasing Agent makes any representation that, once commenced, these transactions will not be discontinued without notice. The Purchasing Agent is not required to engage in these activities and may end any of these activities at any time.

Some of the agents and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The agents and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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## 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 agents. 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, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

**September 30, 2013 and June 30, 2013**

**(in thousands, except share and per share data)**

| | September 30, 2013 (Unaudited) | June 30, 2013 (Audited) |
|---|---|---|
| **Assets (Note 4)** | | |
| Investments at fair value: | | |
| Control investments (amortized cost of $970,400 and $830,151, respectively) | $ 947,572 | $ 811,634 |
| Affiliate investments (amortized cost of $49,324 and $49,189, respectively) | 37,425 | 42,443 |
| Non-control/Non-affiliate investments (amortized cost of $3,622,564 and $3,376,438, respectively) | 3,568,139 | 3,318,775 |
| Total investments at fair value (amortized cost of $4,642,288 and $4,255,778, respectively) (Note 3) | 4,553,136 | 4,172,852 |
| Investments in money market funds | 151,995 | 143,262 |
| Cash | 10,399 | 59,974 |
| Receivables for: | | |
| Interest, net | 21,470 | 22,863 |
| Other | 1,995 | 4,397 |
| Prepaid expenses | 382 | 540 |
| Deferred financing costs | 44,194 | 44,329 |
| **Total Assets** | 4,783,571 | 4,448,217 |
| **Liabilities** | | |
| Credit facility payable (Notes 4 and 8) | 69,000 | 124,000 |
| Senior convertible notes (Notes 5 and 8) | 847,500 | 847,500 |
| Senior unsecured notes (Notes 6 and 8) | 347,762 | 347,725 |
| Prospect Capital InterNotes® (Notes 7 and 8) | 461,977 | 363,777 |
| Due to broker | 87,662 | 43,588 |
| Dividends payable | 29,916 | 27,299 |
| Due to Prospect Administration (Note 12) | 55 | 1,366 |
| Due to Prospect Capital Management (Note 12) | 1,734 | 5,324 |
| Accrued expenses | 3,000 | 2,345 |
| Interest payable | 18,687 | 24,384 |
| Other liabilities | 6,523 | 4,415 |
| **Total Liabilities** | 1,873,816 | 1,791,723 |
| **Net Assets** | $ 2,909,755 | $ 2,656,494 |
| **Components of Net Assets** | | |
| Common stock, par value $0.001 per share (500,000,000 common shares authorized; 271,404,289 and 247,836,965 issued and outstanding, respectively) (Note 9) | $ 271 | $ 248 |
| Paid-in capital in excess of par (Note 9) | 2,999,878 | 2,739,864 |
| Undistributed net investment income | 72,745 | 77,084 |
| Accumulated realized losses on investments | (73,987) | (77,776) |
| Unrealized depreciation on investments | (89,152) | (82,926) |

| | | | | |
|---|---|---|---|---|
| **Net Assets** | $ | 2,909,755 | $ | 2,656,494 |
| **Net Asset Value Per Share (Note 14)** | $ | 10.72 | $ | 10.72 |

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For The Three Months Ended September 30, 2013 and 2012**

**(in thousands, except share and per share data)**

**(Unaudited)**

| | For The Three Months Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| **Investment Income** | | |
| Interest income: | | |
| Control investments | $ 32,633 | $ 17,919 |
| Affiliate investments | 1,496 | 1,651 |
| Non-control/Non-affiliate investments | 78,112 | 45,027 |
| CLO Fund securities | 26,180 | 13,713 |
| Total interest income | 138,421 | 78,310 |
| Dividend income: | | |
| Control investments | 7,075 | 33,250 |
| Non-control/Non-affiliate investments | 3 | 2,955 |
| Money market funds | 11 | 3 |
| Total dividend income | 7,089 | 36,208 |
| Other income: (Note 10) | | |
| Control investments | 9,221 | 2 |
| Affiliate investments | 2 | 8 |
| Non-control/Non-affiliate investments | 6,301 | 9,108 |
| Total other income | 15,524 | 9,118 |
| **Total Investment Income** | 161,034 | 123,636 |
| **Operating Expenses** | | |
| Investment advisory fees: | | |
| Base management fee (Note 12) | 23,045 | 13,228 |
| Income incentive fee (Note 12) | 20,584 | 18,507 |
| Total investment advisory fees | 43,629 | 31,735 |
| Interest and credit facility expenses | 27,407 | 13,511 |
| Legal fees | 219 | 622 |
| Valuation services | 439 | 376 |
| Audit, compliance and tax related fees | 623 | 432 |
| Allocation of overhead from Prospect Administration (Note 12) | 3,986 | 2,184 |
| Insurance expense | 93 | 93 |
| Directors' fees | 75 | 75 |
| Excise tax | 1,000 | |

| | | |
|---|---|---|
| Other general and administrative expenses | 1,226 | 581 |
| **Total Operating Expenses** | 78,697 | 49,609 |
| **Net Investment Income** | 82,337 | 74,027 |
| Net realized gain on investments (Note 3) | 3,789 | 1,775 |
| Net change in unrealized depreciation on investments (Note 3) | (6,226) | (28,553) |
| **Net Increase in Net Assets Resulting from Operations** | $ 79,900 | $ 47,249 |
| Net increase in net assets resulting from operations per share (Notes 11 and 15) | $ 0.31 | $ 0.29 |
| Dividends declared per share | $ 0.33 | $ 0.30 |

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

**For The Three Months Ended September 30, 2013 and 2012**

**(in thousands, except share data)**

**(Unaudited)**

| | For The Three Months Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| **Increase in Net Assets from Operations:** | | |
| Net investment income | $ 82,337 | $ 74,027 |
| Net realized gain on investments | 3,789 | 1,775 |
| Net change in unrealized depreciation on investments | (6,226) | (28,553) |
| **Net Increase in Net Assets Resulting from Operations** | 79,900 | 47,249 |
| **Dividends to Shareholders:** | | |
| Distribution of net investment income | (86,676) | (51,380) |
| Distribution of return of capital | | |
| **Total Dividends to Shareholders** | (86,676) | (51,380) |
| **Capital Share Transactions:** | | |
| Proceeds from capital shares sold, net of underwriting costs | 256,836 | 372,083 |
| Less: Offering costs of public share offerings | (793) | (631) |
| Reinvestment of dividends | 3,994 | 4,031 |
| **Net Increase in Net Assets Resulting from Capital Share Transactions** | 260,037 | 375,483 |
| **Total Increase in Net Assets** | 253,261 | 371,352 |
| Net assets at beginning of period | 2,656,494 | 1,511,974 |
| **Net Assets at End of Period** | $ 2,909,755 | $ 1,883,326 |
| **Capital Share Activity:** | | |
| Shares sold | 21,293,338 | 33,161,977 |
| Shares issued to acquire controlled investments | 1,918,342 | |
| Shares issued through reinvestment of dividends | 355,644 | 355,871 |
| Net increase in capital share activity | 23,567,324 | 33,517,848 |
| Shares outstanding at beginning of period | 247,836,965 | 139,633,870 |
| **Shares Outstanding at End of Period** | 271,404,289 | 173,151,718 |

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For The Three Months Ended September 30, 2013 and 2012**

**(in thousands, except share data)**

**(Unaudited)**

| | For The Three Months Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| **Cash Flows from Operating Activities:** | | |
| Net increase in net assets resulting from operations | $ 79,900 | $ 47,249 |
| Net realized gain on investments | (3,789) | (1,775) |
| Net change in unrealized depreciation on investments | 6,226 | 28,553 |
| Amortization of discounts and premiums, net | 9,954 | (6,708) |
| Amortization of deferred financing costs | 2,471 | 1,774 |
| Payment-in-kind interest | (4,581) | (1,873) |
| Structuring fees | (8,660) | (8,959) |
| Change in operating assets and liabilities | | |
| Payments for purchases of investments | (522,595) | (737,105) |
| Proceeds from sale of investments and collection of investment principal | 164,167 | 158,123 |
| Net increase of investments in money market funds | (8,733) | (63,789) |
| Decrease (increase) in interest receivable, net | 1,393 | (17,150) |
| Decrease in other receivables | 2,402 | 10 |
| Increase (decrease) in prepaid expenses | 158 | (458) |
| Increase in due to broker | 44,074 | 101,213 |
| Decrease in due to Prospect Administration | (1,311) | (348) |
| (Decrease) increase in due to Prospect Capital Management | (3,590) | 3,822 |
| Increase in accrued expenses | 655 | 4,615 |
| Decrease in interest payable | (5,697) | |
| Increase in other liabilities | 2,108 | 1,393 |
| **Net Cash Used In Operating Activities** | (245,448) | (491,413) |
| **Cash Flows from Financing Activities:** | | |
| Borrowings under credit facility (Note 4) | 96,000 | 58,000 |
| Principal payments under credit facility (Note 4) | (151,000) | (154,000) |
| Issuance of Senior Convertible Notes (Note 5) | | 200,000 |
| Issuance of Prospect Capital InterNotes® (Note 7) | 98,200 | 67,879 |
| Financing costs paid and deferred | (2,300) | (8,424) |
| Proceeds from issuance of common stock, net of underwriting costs | 235,830 | 372,083 |
| Offering costs from issuance of common stock | (793) | (631) |
| Dividends paid | (80,064) | (43,932) |
| **Net Cash Provided By Financing Activities** | 195,873 | 490,975 |
| **Total Decrease in Cash** | (49,575) | (438) |
| Cash balance at beginning of period | 59,974 | 2,825 |
| **Cash Balance at End of Period** | $ 10,399 | $ 2,387 |
| **Cash Paid For Interest** | | |

| | | | | |
|---|---|---|---|---|
| | $ | 30,165 | $ | 6,983 |
| **Non-Cash Financing Activity:** | | | | |
| Amount of shares issued in connection with dividend reinvestment plan | $ | 3,994 | $ | 4,031 |
| Amount of shares issued in conjunction with controlled investments | $ | 21,006 | $ | |

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Control Investments (greater than 25.00% voting control)(40)** | | | | | | |
| 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) | $ 28,600 | $ 28,600 | $ 28,600 | 1.0% |
| | | Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015) | 12,500 | 12,500 | 12,500 | 0.4% |
| | | Convertible Preferred Stock (9,919.684 shares) | | 9,920 | 8,920 | 0.3% |
| | | Common Stock (100 shares) | | | 1,391 | 0.1% |
| | | | | **51,020** | **51,411** | **1.8%** |
| Ajax Rolled Ring & Machine, Inc. | South Carolina / Manufacturing | Senior Secured Note Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(4) | 19,636 | 19,636 | 19,636 | 0.7% |
| | | Subordinated Unsecured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 3/30/2018)(4) | 20,008 | 20,008 | 8,448 | 0.3% |
| | | Convertible Preferred Stock Series A (6,142.6 shares) | | 6,057 | | 0.0% |
| | | Unrestricted Common Stock (6 shares) | | | | 0.0% |
| | | | | **45,701** | **28,084** | **1.0%** |
| APH Property Holdings, LLC(32) | Georgia / Real Estate | Senior Secured Note (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4) | 127,374 | 127,374 | 127,374 | 4.4% |
| | | Common Stock (148,951 shares) | | 26,648 | 26,648 | 0.9% |
| | | | | **154,022** | **154,022** | **5.3%** |
| 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% |
| | | | | | | **0.0%** |
| 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 | 562 | 0.0% |

| | | | | | |
|---|---|---|---|---|---|
| | 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) | 9,839 | 707 | | 0.0% |
| | Common Stock (100 shares)(21) | | | | 0.0% |
| | Warrants (33,750 warrants)(21) | | | | 0.0% |
| | | | **3,303** | **562** | **0.0%** |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Control Investments (greater than 25.00% voting control)(40)** | | | | | | |
| CCPI Holdings Inc.(33) | Ohio / Manufacturing | Senior Secured Note (10.00%, due 12/31/2017)(3) | $ 17,550 | $ 17,550 | $ 17,550 | 0.6% |
| | | Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018) | 7,933 | 7,933 | 7,933 | 0.3% |
| | | Common Stock (100 shares) | | 8,581 | 8,012 | 0.3% |
| | | Net Revenue Interest (4% of Net Revenue) | | | 428 | 0.0% |
| | | | | **34,064** | **33,923** | **1.2%** |
| 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) | 58,773 | 58,773 | 58,773 | 2.0% |
| | | Senior Secured Note (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor), due 8/2/2018)(4) | 22,500 | 22,500 | 22,500 | 0.8% |
| | | Common Stock (100 shares) | | 12,741 | 10,750 | 0.4% |
| | | | | **94,014** | **92,023** | **3.2%** |
| Credit Central Holdings of Delaware, LLC(22), (34) | Ohio / 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 | 1.3% |
| | | Common Stock (100 shares) | | 9,581 | 12,237 | 0.4% |
| | | Net Revenue Interest (5% of Net Revenue) | | | 3,040 | 0.1% |
| | | | | **47,663** | **53,359** | **1.8%** |
| Energy Solutions Holdings, Inc.(8) | Texas / Energy | Junior Secured Note (18.00%, due 12/12/2016) | 4,250 | 4,250 | 4,250 | 0.2% |
| | | Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016) | 3,500 | 3,500 | 3,500 | 0.1% |
| | | Subordinated Secured Note to Freedom Marine Holdings, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, past due)(4) | 14,048 | 12,504 | 9,750 | 0.3% |
| | | 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 | 6,090 | 0.2% |
| | | | | **30,021** | **23,590** | **0.8%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| 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) | 264,760 | 264,760 | 264,760 | 9.1% |
| | | Common Stock (83,729,323 shares) | | 43,193 | 34,937 | 1.2% |
| | | Net Revenue Interest (5% of Net Revenue & Distributions) | | | 13,976 | 0.5% |
| | | | | **307,953** | **313,673** | **10.8**% |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Control Investments (greater than 25.00% voting control)(40)** | | | | | | |
| 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% |
| | | | | **3,831** | | **0.0%** |
| Manx Energy, Inc.(12) | Kansas / Oil & Gas Production | Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due) | 500 | 500 | 413 | 0.0% |
| | | Preferred Stock (6,635 shares) | | | | 0.0% |
| | | Common Stock (17,082 shares) | | | | 0.0% |
| | | | | **500** | **413** | **0.0%** |
| 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) | 22,792 | 22,792 | 22,792 | 0.8% |
| | | Senior Secured Note (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(4) | 18,250 | 18,250 | 18,250 | 0.6% |
| | | Common Stock (100 shares) | | 6,943 | 6,943 | 0.2% |
| | | | | **47,985** | **47,985** | **1.6%** |
| Nationwide Acceptance Holdings, LLC (22), (36) | Illinois / Consumer Finance | Senior Secured Revolving Credit Facility $30,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 1/31/2023)(4), (25) | 21,308 | 21,308 | 21,308 | 0.7% |
| | | Membership Units (100 shares) | | 3,843 | 3,843 | 0.1% |
| | | Net Revenue Interest (5% of Net Revenue) | | | 1,869 | 0.1% |
| | | | | **25,151** | **27,020** | **0.9%** |
| NMMB Holdings, Inc.(24) | New York / Media | Senior Term Loan (14.00%, due 5/6/2016) | 16,000 | 16,000 | 10,727 | 0.4% |
| | | Senior Subordinated Term Loan (15.00%, due 5/6/2016) | 2,800 | 2,800 | | 0.0% |
| | | Series A Preferred Stock (4,400 shares) | | 4,400 | | 0.0% |
| | | | | **23,200** | **10,727** | **0.4%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| R-V Industries, Inc. | Pennsylvania / Manufacturing | Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3), (4) | 32,750 | 32,750 | 32,750 | 1.1% |
| | | Warrants (200,000 warrants, expiring 6/30/2017) | | 1,682 | 6,754 | 0.2% |
| | | Common Stock (545,107 shares) | | 5,087 | 18,409 | 0.7% |
| | | | | **39,519** | **57,913** | **2.0%** |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Control Investments (greater than 25.00% voting control)(40)** | | | | | | |
| Valley Electric Holdings I, Inc.(35) | Washington / Construction & Engineering | Senior Secured Note (9.00% (LIBOR + 6.00%, with 3.00% LIBOR floor) plus 9.00% PIK, due 12/31/2018)(4) | $ 34,846 | $ 34,846 | $ 33,533 | 1.2% |
| | | Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3), (4) | 10,040 | 10,040 | 10,040 | 0.3% |
| | | Common Stock (50,000 shares) | | 9,526 | 3,139 | 0.1% |
| | | Net Revenue Interest (5% of Net Revenue) | | | 899 | 0.0% |
| | | | | **54,412** | **47,611** | **1.6%** |
| Wolf Energy Holdings, Inc.(12), (37) | Kansas / Oil & Gas Production | Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018) | 22,000 | | 4,210 | 0.2% |
| | | Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, past due) | 2,698 | 2,000 | 474 | 0.0% |
| | | Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status, past due) | 52 | 50 | 52 | 0.0% |
| | | Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6) | 8,098 | 5,991 | | 0.0% |
| | | Common Stock (100 shares) | | | | 0.0% |
| | | Net Profits Interest (8.00% payable on Equity distributions)(7) | | | 520 | 0.0% |
| | | | | **8,041** | **5,256** | **0.2%** |
| **Total Control Investments** | | | | **970,400** | **947,572** | **32.6%** |
| **Affiliate Investments (5.00% to 24.99% voting control)(41)** | | | | | | |
| BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork) | Michigan / Healthcare | Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(3), (4) | 29,400 | 29,400 | 29,400 | 1.0% |
| | | Preferred Stock Series A (9,925.455 shares)(13) | | 2,300 | 1,805 | 0.1% |
| | | Preferred Stock Series B (1,753.64 shares)(13) | | 579 | 384 | 0.0% |
| | | | | **32,279** | **31,589** | **1.1%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Boxercraft Incorporated(20) | Georgia / Textiles & Leather | Senior Secured Term Loan A (10.00% plus 1.00% PIK, due 9/15/2015) | 1,717 | 1,717 | 1,717 | 0.1% |
| | | Senior Secured Term Loan B (10.00% plus 1.00% PIK, due 9/15/2015) | 4,905 | 4,905 | 3,801 | 0.1% |
| | | Senior Secured Term Loan C (10.00% plus 1.00% PIK, due 9/15/2015) | 2,377 | 2,377 | | 0.0% |
| | | Senior Secured Term Loan (10.00% plus 1.00% PIK, due 9/15/2015) | 8,346 | 8,046 | | 0.0% |
| | | Preferred Stock (1,000,000 shares) | | | | 0.0% |
| | | Common Stock (10,000 shares) | | | | 0.0% |
| | | Warrants (1 warrant, expiring 8/31/2022) | | | | 0.0% |
| | | | | **17,045** | **5,518** | **0.2**% |

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Affiliate Investments (5.00% to 24.99% voting control)(41)** | | | | | | |
| Smart, LLC(14) | New York / Diversified / Conglomerate Service | Membership Interest | | $ | $ 318 | 0.0% |
| | | | | | **318** | **0.0%** |
| **Total Affiliate Investments** | | | | **49,324** | **37,425** | **1.3%** |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| ADAPCO, Inc. | Florida / Ecological | Common Stock (5,000 shares) | | | | 0.0% |
| | | | | | | **0.0%** |
| Aderant North America, Inc. | Georgia / Software & Computer Services | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4) | $ 7,000 | 6,904 | 7,000 | 0.2% |
| | | | | **6,904** | **7,000** | **0.2%** |
| Aircraft Fasteners International, LLC | California / Machinery | Convertible Preferred Stock (32,500 units) | | 396 | 570 | 0.0% |
| | | | | **396** | **570** | **0.0%** |
| ALG USA Holdings, LLC | Pennsylvania / Hotels, Restaurants & Leisure | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4) | 12,000 | 11,772 | 12,000 | 0.4% |
| | | | | **11,772** | **12,000** | **0.4%** |
| Allied Defense Group, Inc. | Virginia / Aerospace & Defense | Common Stock (10,000 shares) | | 56 | | 0.0% |
| | | | | **56** | | **0.0%** |
| American Broadband Holding Company and Cameron Holdings of NC, Inc. | North Carolina / Telecommunication Services | Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(4) | 75,000 | 75,000 | 75,000 | 2.6% |
| | | | | **75,000** | **75,000** | **2.6%** |
| American Gilsonite Company | Utah / Specialty Minerals | Second Lien Term Loan (11.50%, due 9/1/2017) | 38,500 | 38,500 | 38,500<br>3,169 | 1.3%<br>0.1% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Membership Interest in AGC/PEP, LLC (99.9999%)(15) | | | | |
| | | | | **38,500** | **41,669** | **1.4%** |
| Apidos CLO VIII, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 19,730 | 19,888 | 20,367 | 0.7% |
| | | | | **19,888** | **20,367** | **0.7%** |
| Apidos CLO IX, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 20,525 | 19,194 | 20,073 | 0.7% |
| | | | | **19,194** | **20,073** | **0.7%** |
| Apidos CLO XI, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 38,340 | 36,157 | 38,528 | 1.3% |
| | | | | **36,157** | **38,528** | **1.3%** |
| Apidos CLO XII, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 44,063 | 43,710 | 41,339 | 1.4% |
| | | | | **43,710** | **41,339** | **1.4%** |

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**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Apidos CLO XV, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | $ 36,515 | $ 36,515 | $ 36,402 | 1.3% |
| | | | | **36,515** | **36,402** | **1.3%** |
| Arctic Glacier U.S.A, Inc.(3), (4) | Minnesota / Food Products | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 11/10/2019) | 150,000 | 150,000 | 150,000 | 5.2% |
| | | | | **150,000** | **150,000** | **5.2%** |
| Armor Holding II LLC(16) | New York / Diversified Financial Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3), (4) | 7,000 | 6,864 | 6,864 | 0.2% |
| | | | | **6,864** | **6,864** | **0.2%** |
| Atlantis Healthcare Group (Puerto Rico), Inc.(4) | Puerto Rico / Healthcare | Revolving Line of Credit $7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014)(25), (26) | 2,000 | 2,000 | 2,000 | 0.1% |
| | | Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3) | 39,253 | 39,253 | 37,307 | 1.3% |
| | | | | **41,253** | **39,307** | **1.4%** |
| Babson CLO Ltd 2011-I(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 35,000 | 35,301 | 35,724 | 1.2% |
| | | | | **35,301** | **35,724** | **1.2%** |
| Babson CLO Ltd 2012-IA(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 29,075 | 25,083 | 28,208 | 1.0% |
| | | | | **25,083** | **28,208** | **1.0%** |
| Babson CLO Ltd 2012-IIA(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 27,850 | 28,403 | 28,571 | 1.0% |
| | | | | **28,403** | **28,571** | **1.0%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Blue Coat Systems, Inc.(16) | Massachusetts / Software & Computer Services | Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(4) | 11,000 | 10,893 | 10,893 | 0.4% |
| | | | | **10,893** | **10,893** | **0.4%** |

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| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Broder Bros., Co. | Pennsylvania / Textiles, Apparel & Luxury Goods | Senior Secured Notes (10.75% (LIBOR + 9.00% with 1.75% LIBOR floor), due 6/27/2018)(3), (4) | $ 99,000 | $ 99,000 | $ 99,000 | 3.4% |
| | | | | **99,000** | **99,000** | **3.4%** |
| Brookside Mill CLO Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 26,000 | 24,235 | 25,162 | 0.9% |
| | | | | **24,235** | **25,162** | **0.9%** |
| Byrider Systems Acquisition Corp.(22) | Indiana / Auto Finance | Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3) | 10,972 | 10,972 | 10,855 | 0.4% |
| | | | | **10,972** | **10,855** | **0.4%** |
| Caleel + Hayden, LLC(14), (31) | Colorado / Personal & Nondurable Consumer Products | Membership Units (13,220 shares) | | | 147 | 0.0% |
| | | Escrow Receivable | | | 89 | 0.0% |
| | | | | | **236** | **0.0%** |
| Capstone Logistics, LLC(4) | Georgia / Commercial Services | Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016) | 96,683 | 96,683 | 96,683 | 3.4% |
| | | Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3) | 100,000 | 100,000 | 100,000 | 3.4% |
| | | | | **196,683** | **196,683** | **6.8%** |
| Cargo Airport Services USA, LLC | New York / Transportation | Common Equity (1.6 units) | | 1,639 | 1,833 | 0.1% |
| | | | | **1,639** | **1,833** | **0.1%** |
| Cent 17 CLO Limited(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 24,870 | 23,837 | 25,818 | 0.9% |
| | | | | **23,837** | **25,818** | **0.9%** |
| CIFC Funding 2011-I, Ltd.(4), (22) | Cayman Islands / Diversified Financial | Secured Class D Notes (5.27% (LIBOR + 5.00%), due 1/19/2023) | 19,000 | 15,096 | 16,144 | 0.5% |

| | | | | | |
|---|---|---|---|---|---|
| Services | | | | | |
| | Unsecured Class E Notes (7.27% (LIBOR + 7.00%), due 1/19/2023) | 15,400 | 12,680 | 13,176 | 0.5% |
| | | | **27,776** | **29,320** | **1.0**% |

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|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| CIFC Funding 2013-III, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | $ 44,100 | $ 41,528 | $ 42,852 | 1.5% |
| | | | | **41,528** | **42,852** | **1.5%** |
| Cinedigm DC Holdings, LLC(4) | New York / Software & Computer Services | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021) | 69,315 | 69,315 | 69,315 | 2.4% |
| | | | | **69,315** | **69,315** | **2.4%** |
| The Copernicus Group, Inc. | North Carolina / Healthcare | Escrow Receivable | | | 131 | 0.0% |
| | | | | | **131** | **0.0%** |
| Correctional Healthcare Holding Company, Inc. | Colorado / Healthcare | Second Lien Term Loan (11.25%, due 1/11/2020)(3) | 27,100 | 27,100 | 27,100 | 0.9% |
| | | | | **27,100** | **27,100** | **0.9%** |
| Coverall North America, Inc. | Florida / Commercial Services | Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3), (4) | 44,122 | 44,122 | 44,122 | 1.5% |
| | | | | **44,122** | **44,122** | **1.5%** |
| CRT MIDCO, LLC | Wisconsin / Media | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3), (4) | 70,731 | 70,731 | 70,731 | 2.4% |
| | | | | **70,731** | **70,731** | **2.4%** |
| Deltek, Inc. | Virginia / Software & Computer Services | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(4) | 12,000 | 11,837 | 12,000 | 0.4% |
| | | | | **11,837** | **12,000** | **0.4%** |
| Diamondback Operating, LP | Oklahoma / Oil & Gas Production | Net Profits Interest (15.00% payable on Equity distributions)(7) | | | | 0.0% |
| | | | | | | **0.0%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Edmentum, Inc. (f/k/a Archipelago Learning, Inc.)(4) | Minnesota / Consumer Services | Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)(3) | 50,000 | 48,271 | 50,000 | 1.7% |
| | | | | **48,271** | **50,000** | **1.7%** |

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| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| EIG Investors Corp. | Massachusetts / Software & Computer Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 5/09/2020)(4), (16) | $ 22,000 | $ 21,798 | $ 22,000 | 0.8% |
| | | | | **21,798** | **22,000** | **0.8%** |
| Empire Today, LLC | Illinois / Durable Consumer Products | Senior Secured Note (11.375%, due 2/1/2017) | 15,700 | 15,353 | 14,180 | 0.5% |
| | | | | **15,353** | **14,180** | **0.5%** |
| Evanta Ventures, Inc.(11) | Oregon / Commercial Services | Subordinated Unsecured (12.00% plus 1.00% PIK, due 9/28/2018) | 10,506 | 10,506 | 10,717 | 0.4% |
| | | | | **10,506** | **10,717** | **0.4%** |
| EXL Acquisition Corp. | South Carolina / Biotechnology | Escrow Receivable | | | 14 | 0.0% |
| | | | | | **14** | **0.0%** |
| Fairchild Industrial Products, Co. | North Carolina / Electronics | Escrow Receivable | | | 135 | 0.0% |
| | | | | | **135** | **0.0%** |
| Fischbein, LLC | North Carolina / Machinery | Escrow Receivable | | | 227 | 0.0% |
| | | | | | **227** | **0.0%** |
| Focus Brands, Inc.(4) | Georgia / Consumer Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018) | 18,000 | 17,742 | 18,000 | 0.6% |
| | | | | **17,742** | **18,000** | **0.6%** |
| FPG, LLC | Illinois / Durable Consumer Products | Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(4) | 21,125 | 21,125 | 20,822 | 0.7% |
| | | Common Stock (5,638 shares) | | 27 | 13 | 0.0% |
| | | | | **21,152** | **20,835** | **0.7%** |
| Galaxy XII CLO, Ltd.(22) | | | 22,000 | 20,506 | 23,346 | 0.8% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | | | | |
| | | | | **20,506** | **23,346** | **0.8**% |
| Galaxy XV CLO, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 35,025 | 32,307 | 31,750 | 1.1% |
| | | | | **32,307** | **31,750** | **1.1**% |
| Galaxy XVI CLO, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 22,575 | 20,945 | 20,484 | 0.7% |
| | | | | **20,945** | **20,484** | **0.7**% |

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|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Grocery Outlet, Inc. | California / Retail | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4) | $ 14,457 | $ 14,137 | $ 14,457 | 0.5% |
| | | | | **14,137** | **14,457** | **0.5%** |
| GTP Operations, LLC (f/k/a CI (Transplace) Holdings, LLC)(4) | Texas / Software & Computer Services | Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 6/11/2019)(3), (10) | 114,425 | 114,425 | 114,425 | 3.9% |
| | | | | **114,425** | **114,425** | **3.9%** |
| Gulf Coast Machine & Supply Company | Texas / Manufacturing | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(4) | 41,213 | 41,213 | 12,998 | 0.4% |
| | | | | **41,213** | **12,998** | **0.4%** |
| Halcyon Loan Advisors Funding 2012-I, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 23,188 | 21,685 | 23,596 | 0.8% |
| | | | | **21,685** | **23,596** | **0.8%** |
| Halcyon Loan Advisors Funding 2013-I, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 40,400 | 42,890 | 39,564 | 1.4% |
| | | | | **42,890** | **39,564** | **1.4%** |
| Hoffmaster Group, Inc.(4) | Wisconsin / Personal & Nondurable | Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019) | 20,000 | 19,837 | 19,122 | 0.7% |
| | Consumer Products | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019) | 1,000 | 991 | 932 | 0.0% |
| | | | | **20,828** | **20,054** | **0.7%** |
| ICON Health & Fitness, Inc. | Utah / Durable Consumer Products | Senior Secured Note (11.875%, due 10/15/2016)(3) | 43,100 | 43,297 | 37,497 | 1.3% |
| | | | | **43,297** | **37,497** | **1.3%** |
| IDQ Holdings, Inc. | Texas / Automobile | | 12,500 | 12,310 | 12,500 | 0.4% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Senior Secured Note (11.50%, due 4/1/2017) | | | | |
| | | | | **12,310** | **12,500** | **0.4%** |
| ING IM CLO 2012-II, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 38,070 | 33,518 | 38,477 | 1.3% |
| | | | | **33,518** | **38,477** | **1.3%** |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| ING IM CLO 2012-III, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | $ 46,632 | $ 42,614 | $ 47,322 | 1.6% |
| | | | | **42,614** | **47,322** | **1.6%** |
| ING IM CLO 2012-IV, Ltd.(22) | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest) | 40,613 | 37,855 | 41,867 | 1.4% |
| | | | | **37,855** | **41,867** | **1.4%** |
| Injured Workers Pharmacy LLC | Massachusetts / Healthcare | Second Lien Debt (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3), (4) | 22,506 | 22,506 | 22,506 | 0.8% |
| | | | | **22,506** | **22,506** | **0.8%** |
| Interdent, Inc.(4) | California / Healthcare | Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017) | 53,131 | 53,131 | 53,131 | 1.8% |
| | | Senior Secured Term Loan B (13.00% (LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3) | 55,000 | 55,000 | 55,000 | 1.9% |
| | | | | **108,131** | **108,131** | **3.7%** |
| JHH Holdings, Inc. | Texas / Healthcare | Second Lien Debt (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor) plus 0.50% PIK, due 3/30/2019)(3), (4) | 35,000 | 35,000 | 35,000 | 1.2% |
| | | | | **35,000** | **35,000** | **1.2%** |
| LaserShip, Inc.(4) | Virginia / Transportation | Revolving Line of Credit $5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(25) | | | | 0.0% |
| | | Senior Secured Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2017)(3) | 36,797 | 36,797 | 36,797 | 1.3% |
| | | | | **36,797** | **36,797** | **1.3%** |
| LCM XIV CLO Ltd.(22) | | | 26,500 | 26,161 | 25,732 | 0.9% |

| | | | | |
|---|---|---|---|---|
| Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | | | |
| | | **26,161** | **25,732** | **0.9%** |

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| LHC Holdings Corp. | Florida / Healthcare | Revolving Line of Credit $750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4), (25), (26) | $ | $ | $ | 0.0% |
| | | Senior Subordinated Debt (10.50%, due 5/31/2015)(3) | 2,665 | 2,665 | 2,665 | 0.1% |
| | | Membership Interest (125 units) | | 216 | 256 | 0.0% |
| | | | | **2,881** | **2,921** | **0.1%** |
| Madison Park Funding IX, Ltd.(22) | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest) | 31,110 | 26,061 | 27,703 | 1.0% |
| | | | | **26,061** | **27,703** | **1.0%** |
| Material Handling Services, LLC(4) | Ohio / Business Services | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 7/5/2017)(3) | 27,300 | 27,300 | 27,322 | 0.9% |
| | | Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017) | 37,578 | 37,578 | 37,174 | 1.3% |
| | | | | **64,878** | **64,496** | **2.2%** |
| Matrixx Initiatives, Inc.(4) | New Jersey / Pharmaceuticals | Revolving Line of Credit $10,000 Commitment (10.00% (LIBOR + 8.50% with 1.50% LIBOR floor), due 2/9/2014)(25) | 4,000 | 4,000 | 4,000 | 0.1% |
| | | Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018) | 35,000 | 35,000 | 35,000 | 1.2% |
| | | Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018) | 35,000 | 35,000 | 35,000 | 1.2% |
| | | | | **74,000** | **74,000** | **2.5%** |
| Maverick Healthcare, LLC | Arizona / Healthcare | Preferred Units (1,250,000 units) | | 1,252 | 677 | 0.0% |
| | | Common Units (1,250,000 units) | | | | 0.0% |
| | | | | **1,252** | **677** | **0.0%** |
| Mountain View CLO 2013-I Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 43,650 | 44,523 | 43,056 | 1.5% |

| | | |
|---|---|---|
| **44,523** | **43,056** | **1.5%** |

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**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| National Bankruptcy Services, LLC(4) | Texas / Diversified Financial Services | Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 1.50% PIK, due 7/17/2017) | $ 18,755 | $ 18,755 | $ 11,004 | 0.4% |
| | | | | **18,755** | **11,004** | **0.4%** |
| Naylor, LLC(4) | Florida / Media | Revolving Line of Credit $2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25) | | | | 0.0% |
| | | Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(3) | 45,562 | 45,562 | 45,562 | 1.6% |
| | | | | **45,562** | **45,562** | **1.6%** |
| NCP Finance Limited Partnership(22), (23) | Ohio / Consumer Finance | Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(4), (16) | 12,000 | 11,760 | 12,000 | 0.4% |
| | | | | **11,760** | **12,000** | **0.4%** |
| New Century Transportation, Inc. | New Jersey / Transportation | Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 3.00% PIK, due 2/3/2018) (3), (4) | 45,467 | 45,467 | 43,832 | 1.5% |
| | | | | **45,467** | **43,832** | **1.5%** |
| New Star Metals, Inc. | Indiana / Metal Services & Minerals | Senior Subordinated Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 1.00% PIK, due 2/2/2018)(4) | 50,405 | 50,405 | 50,405 | 1.7% |
| | | | | **50,405** | **50,405** | **1.7%** |
| Nixon, Inc. | California / Durable Consumer Products | Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16) | 14,325 | 14,078 | 14,325 | 0.5% |
| | | | | **14,078** | **14,325** | **0.5%** |
| NRG Manufacturing, Inc. | Texas / Manufacturing | Escrow Receivable | | | 1,040 | 0.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | **1,040** | **0.0%** |
| Pegasus Business Intelligence, LP(4) | Texas / Diversified Financial Services | Revolving Line of Credit $2,500 Commitment (9.00% (LIBOR + 7.75% with 1.25% LIBOR floor), due 4/18/2014)(25) | | | | 0.0% |
| | | Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018) | 15,938 | 15,938 | 15,938 | 0.5% |
| | | Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018) | 15,938 | 15,938 | 15,938 | 0.5% |
| | | | | **31,876** | **31,876** | **1.0%** |
| Octagon Investment Partners XV, Ltd.(22) | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest) | 26,901 | 25,578 | 26,032 | 0.9% |
| | | | | **25,578** | **26,032** | **0.9%** |
| Pelican Products, Inc.(16) | California / Durable Consumer Products | Subordinated Secured (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019)(3), (4) | 15,000 | 14,736 | 15,000 | 0.5% |
| | | | | **14,736** | **15,000** | **0.5%** |
| The Petroleum Place, Inc. | Colorado / Software & Computer Services | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 5/20/2019)(4) | 22,000 | 21,698 | 22,000 | 0.8% |
| | | | | **21,698** | **22,000** | **0.8%** |

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

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**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Photonis Technologies SAS(22) | France / Aerospace & Defense | First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(4), (16) | $ 12,500 | $ 12,126 | $ 12,323 | 0.4% |
| | | | | **12,126** | **12,323** | **0.4%** |
| Pinnacle (US) Acquisition Co Limited(16) | Texas / Software & Computer Services | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4) | 10,000 | 9,819 | 10,000 | 0.3% |
| | | | | **9,819** | **10,000** | **0.3%** |
| Prince Mineral Holding Corp. | New York / Metal Services & Minerals | Senior Secured Term Loan (11.50%, due 12/15/2019) | 10,000 | 9,892 | 10,000 | 0.3% |
| | | | | **9,892** | **10,000** | **0.3%** |
| Progrexion Holdings, Inc.(4), (28) | Utah / Consumer Services | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3) | 240,277 | 240,277 | 240,277 | 8.3% |
| | | | | **240,277** | **240,277** | **8.3%** |
| Rocket Software, Inc.(3), (4) | Massachusetts / Software & Computer Services | Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019) | 20,000 | 19,729 | 19,738 | 0.7% |
| | | | | **19,729** | **19,738** | **0.7%** |
| Royal Adhesives & Sealants, LLC | Indiana / Chemicals | Second Lien Term Loan (9.75% (LIBOR + 8.50% with 1.25% LIBOR floor), due 1/31/2019)(4), (16) | 20,000 | 19,605 | 19,605 | 0.7% |
| | | | | **19,605** | **19,605** | **0.7%** |
| Ryan, LLC(4) | Texas / Business Services | Subordinated Unsecured (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018) | 70,000 | 70,000 | 70,000 | 2.4% |
| | | | | **70,000** | **70,000** | **2.4%** |
| Sandow Media, LLC | Florida / Media | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 1.50% PIK, due 5/8/2018)(3), (4) | 25,150 | 25,150 | 25,150 | 0.9% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | **25,150** | **25,150** | **0.9%** |
| SESAC Holdco II LLC | Tennessee / Media | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 7/12/2019)(4), (16) | 6,000 | 5,916 | 6,000 | 0.2% |
| | | | | **5,916** | **6,000** | **0.2%** |
| Skillsoft Public Limited Company(22) | Ireland / Software & Computer Services | Senior Unsecured (11.125%, due 6/1/2018) | 15,000 | 14,930 | 15,000 | 0.5% |
| | | | | **14,930** | **15,000** | **0.5%** |
| Snacks Holding Corporation | Minnesota / Food Products | Series A Preferred Stock (4,021.45 shares) | | 56 | 56 | 0.0% |
| | | Series B Preferred Stock (1,866.10 shares) | | 56 | 56 | 0.0% |
| | | Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020) | | 479 | 484 | 0.0% |
| | | | | **591** | **596** | **0.0%** |

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| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Spartan Energy Services, Inc.(3) | Louisiana / Energy | Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)(4) | $ 31,625 | $ 31,625 | $ 31,625 | 1.1% |
| | | | | **31,625** | **31,625** | **1.1%** |
| Speedy Group Holdings Corp. | Canada / Consumer Finance | Senior Unsecured (12.00%, due 11/15/2017)(22) | 15,000 | 15,000 | 15,000 | 0.5% |
| | | | | **15,000** | **15,000** | **0.5%** |
| Sport Helmets Holdings, LLC(14) | New York / Personal & Nondurable Consumer Products | Escrow Receivable | | | 395 | 0.0% |
| | | | | | **395** | **0.0%** |
| Stauber Performance Ingredients, Inc.(3), (4) | California / Food Products | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016) | 13,772 | 13,772 | 13,772 | 0.5% |
| | | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017) | 10,172 | 10,172 | 10,172 | 0.3% |
| | | | | **23,944** | **23,944** | **0.8%** |
| Stryker Energy, LLC | Ohio / Oil & Gas Production | Subordinated Secured Revolving Credit Facility $50,300 Commitment (12.25% (LIBOR + 10.75% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4), (25) | 35,072 | 32,710 | | 0.0% |
| | | Overriding Royalty Interests(18) | | | | 0.0% |
| | | | | **32,710** | | **0.0%** |
| Symphony CLO IX Ltd.(22) | Cayman Islands / Diversified Financial Services | LP Certificates (Residual Interest)) | 45,500 | 40,525 | 45,705 | 1.6% |
| | | | | **40,525** | **45,705** | **1.6%** |
| System One Holdings, LLC(3), (4) | Pennsylvania / Business Services | Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR | 48,000 | 48,000 | 48,000 | 1.6% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | floor), due 12/31/2018) | | | | |
| | | | | **48,000** | **48,000** | **1.6%** |
| TB Corp.(3) | Texas / Consumer Service | Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018) | 23,451 | 23,451 | 23,451 | 0.8% |
| | | | | **23,451** | **23,451** | **0.8%** |
| Targus Group International, Inc.(16) | California / Durable Consumer Products | First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor) plus 1.0% PIK, due 5/24/2016)(3), (4) | 22,604 | 22,316 | 22,604 | 0.8% |
| | | | | **22,316** | **22,604** | **0.8%** |
| TGG Medical Transitory, Inc. | New Jersey / Healthcare | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4), (16) | 8,000 | 7,782 | 8,000 | 0.3% |
| | | | | **7,782** | **8,000** | **0.3%** |

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**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

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| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Totes Isotoner Corporation | Ohio / Personal & Nondurable Consumer Products | Second Lien Term Loan (10.75%, (LIBOR + 9.25% with 1.50% LIBOR floor), due 1/8/2018)(3), (4) | $ 53,000 | $ 52,828 | $ 52,828 | 1.8% |
| | | | | **52,828** | **52,828** | **1.8%** |
| Traeger Pellet Grills LLC(4) | Oregon / Durable Consumer Products | Revolving Line of Credit $10,000 Commitment (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 6/18/2014)(25) | 6,143 | 6,143 | 6,143 | 0.3% |
| | | Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018) | 29,775 | 29,775 | 29,775 | 1.0% |
| | | Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)(3) | 29,925 | 29,925 | 29,925 | 1.0% |
| | | | | **65,843** | **65,843** | **2.3%** |
| TransFirst Holdings, Inc.(4) | New York / Software & Computer Services | Second Lien Term Loan (11.00%, (LIBOR + 9.75% with 1.25% LIBOR floor), due 6/27/2018) | 5,000 | 4,865 | 5,000 | 0.2% |
| | | | | **4,865** | **5,000** | **0.2%** |
| United Bank Card, Inc. (d/b/a Harbortouch) | Pennsylvania / Business Services | Senior Secured Term Loan (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 9/5/2018)(4) | 50,132 | 50,132 | 50,132 | 1.7% |
| | | | | **50,132** | **50,132** | **1.7%** |
| United Sporting Companies, Inc.(5) | South Carolina / Durable Consumer Products | Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(3), (4) | 160,000 | 160,000 | 160,000 | 5.5% |
| | | | | **160,000** | **160,000** | **5.5%** |
| Water Pik, Inc.(16) | Colorado / Personal & Nondurable Consumer Products | Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(4) | 11,000 | 10,574 | 10,574 | 0.4% |
| | | | | **10,574** | **10,574** | **0.4%** |
| | | | 15,000 | 14,750 | | 0.0% |

| | | | | | |
|---|---|---|---|---|---|
| Wind River Resources Corporation(39) | Utah / Oil & Gas Production | Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal, 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4) | | | |
| | | Net Profits Interest (5.00% payable on Equity distributions)(7) | | | 0.0% |
| | | | **14,750** | | **0.0%** |
| **Total Non-control/Non-affiliate Investments (Level 3 Investments)** | | | **3,622,501** | **3,568,003** | **122.6%** |
| **Total Level 3 Portfolio Investments** | | | **4,642,225** | **4,553,000** | **156.5%** |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | September 30, 2013 (Unaudited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 1 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Dover Saddlery, Inc. | Massachusetts / Retail | Common Stock (30,974 shares) | | $ 63 | $ 136 | 0.0% |
| | | | | **63** | **136** | **0.0%** |
| **Total Non-control/Non-affiliate Investments (Level 1 Investments)** | | | | **63** | **136** | **0.0%** |
| **Total Portfolio Investments** | | | | **4,642,288** | **4,553,136** | **156.5%** |
| **SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)** | | | | | | |
| Fidelity Institutional Money Market Funds | Government Portfolio (Class I) | | | 138,573 | 138,573 | 4.8% |
| Fidelity Institutional Money Market Funds | Government Portfolio (Class I)(3) | | | 13,422 | 13,422 | 0.4% |
| Victory Government Money Market Funds | | | | | | 0.0% |
| **Total Money Market Funds** | | | | **151,995** | **151,995** | **5.2%** |
| **Total Investments** | | | | **$ 4,794,283** | **$ 4,705,131** | **161.7%** |

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**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Control Investments (greater than 25.00% voting control)(42)** | | | | | | |
| 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) | $ 28,750 | $ 28,750 | $ 28,750 | 1.1% |
| | | Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015) | 12,500 | 12,500 | 12,500 | 0.5% |
| | | Convertible Preferred Stock (9,919.684 shares) | | 9,920 | 9,920 | 0.4% |
| | | Common Stock (100 shares) | | | 3,478 | 0.1% |
| | | | | **51,170** | **54,648** | **2.1%** |
| Ajax Rolled Ring & Machine, Inc. | South Carolina / Manufacturing | Senior Secured Note Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(3), (4) | 19,737 | 19,737 | 19,737 | 0.7% |
| | | Subordinated Unsecured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 3/30/2018)(4) | 19,700 | 19,700 | 19,700 | 0.7% |
| | | Convertible Preferred Stock Series A (6,142.6 shares) | | 6,057 | | 0.0% |
| | | Unrestricted Common Stock (6 shares) | | | | 0.0% |
| | | | | **45,494** | **39,437** | **1.4%** |
| APH Property Holdings, LLC(32) | Georgia / Real Estate | Senior Secured Note (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4) | 125,892 | 125,892 | 125,892 | 4.8% |
| | | Common Stock (148,951 shares) | | 26,648 | 26,648 | 1.0.% |
| | | | | **152,540** | **152,540** | **5.8%** |
| 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% |
| | | | | | | **0.0%** |

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**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Control Investments (greater than 25.00% voting control)(42)** | | | | | | |
| 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 | $ 586 | 0.0% |
| | | 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) | 1,611 | 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) | 9,738 | 706 | | 0.0% |
| | | Common Stock (100 shares)(21) | | | | 0.0% |
| | | Warrants (33,750 warrants)(21) | | | | 0.0% |
| | | | | **3,302** | **586** | **0.0%** |
| CCPI Holdings, Inc.(33) | Ohio / Manufacturing | Senior Secured Note (10.00%, due 12/31/2017)(3) | 17,663 | 17,663 | 17,663 | 0.7% |
| | | Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018) | 7,659 | 7,659 | 7,659 | 0.3% |
| | | Common Stock (100 shares) | | 8,581 | 7,977 | 0.3% |
| | | Net Revenue Interest (4% of Net Revenue) | | | 604 | 0.0% |
| | | | | **33,903** | **33,903** | **1.3%** |
| Credit Central Holdings of Delaware, LLC (22), (34) | Ohio / 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 | 1.4% |
| | | Common Stock (100 shares) | | 9,581 | 8,361 | 0.3% |
| | | Net Revenue Interest (5% of Net Revenue) | | | 4,019 | 0.2% |
| | | | | **47,663** | **50,462** | **1.9%** |

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**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Control Investments (greater than 25.00% voting control)(42)** | | | | | | |
| Energy Solutions Holdings, Inc.(8) | Texas / Gas Gathering and Processing | Junior Secured Note (18.00%, due 12/12/2016) | $ 8,500 | $ 8,500 | $ 8,500 | 0.3% |
| | | Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016) | 3,500 | 3,500 | 3,500 | 0.1% |
| | | Subordinated Secured Note to Freedom Marine Holdings, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, past due)(4) | 13,906 | 12,503 | 8,449 | 0.3% |
| | | Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due) | 1,449 | 1,449 | | 0.0% |
| | | Escrow Receivable | | | | 0.0% |
| | | Common Stock (100 shares) | | 8,318 | 6,247 | 0.2% |
| | | | | **34,270** | **26,696** | **0.9%** |
| 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) | 264,760 | 264,760 | 264,760 | 10.0% |
| | | Common Stock (83,729,323 shares) | | 43,193 | 20,447 | 0.8% |
| | | Net Revenue Interest (5% of Net Revenue & Distributions) | | | 12,877 | 0.5% |
| | | | | **307,953** | **298,084** | **11.3%** |
| Manx Energy, Inc. ("Manx")(12) | Kansas / Oil & Gas Production | Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due) | 500 | 500 | 346 | 0.0% |
| | | Preferred Stock (6,635 shares) | | | | 0.0% |
| | | Common Stock (17,082 shares) | | | | 0.0% |
| | | | | **500** | **346** | **0.0%** |
| Nationwide Acceptance Holdings, LLC (22), (36) | Chicago / Consumer Finance | Senior Secured Revolving Credit Facility $30,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 1/31/2023)(4), (25) | 21,308 | 21,308 | 21,308 | 0.8% |
| | | Membership Units (100 shares) | | 3,843 | 2,142 | 0.1% |
| | | Net Revenue Interest (5% of Net Revenue) | | | 1,701 | 0.1% |
| | | | | **25,151** | **25,151** | **1.0%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| NMMB Holdings, Inc.(24) | New York / Media | Senior Term Loan (14.00%, due 5/6/2016) | 16,000 | 16,000 | 13,149 | 0.5% |
| | | Senior Subordinated Term Loan (15.00%, due 5/6/2016) | 2,800 | 2,800 | | 0.0% |
| | | Series A Preferred Stock (4,400 shares) | | 4,400 | | 0.0% |
| | | | | **23,200** | **13,149** | **0.5**% |

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**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Control Investments (greater than 25.00% voting control)(42)** | | | | | | |
| R-V Industries, Inc. | Pennsylvania / Manufacturing | Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(4) | $ 32,750 | $ 32,750 | $ 32,750 | 1.2% |
| | | Warrants (200,000 warrants, expiring 6/30/2017) | | 1,682 | 6,796 | 0.3% |
| | | Common Stock (545,107 shares) | | 5,087 | 18,522 | 0.7% |
| | | | | **39,519** | **58,068** | **2.2%** |
| 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% |
| | | | | **3,831** | | **0.0%** |
| Valley Electric Holdings I, Inc.(35) | Washington / Construction & Engineering | Senior Secured Note (9.00% (LIBOR + 6.00%, with 3.00% LIBOR floor) plus 9.00% PIK, due 12/31/2018)(4) | 34,063 | 34,063 | 34,063 | 1.3% |
| | | Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3), (4) | 10,026 | 10,026 | 10,026 | 0.4% |
| | | Common Stock (50,000 shares) | | 9,526 | 8,288 | 0.3% |
| | | Net Revenue Interest (5% of Net Revenue) | | | 1,238 | 0.1% |
| | | | | **53,615** | **53,615** | **2.1%** |
| Wolf Energy Holdings, Inc.(12), (37) | Kansas / Oil & Gas Production | Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018) | 22,000 | | 3,832 | 0.1% |
| | | Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, past due) | 2,642 | 2,000 | 546 | 0.0% |
| | | Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status, past due) | 51 | 50 | 51 | 0.0% |
| | | Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6) | 7,930 | 5,990 | | 0.0% |

| | | | |
|---|---|---|---|
| Common Stock (100 shares) | | | 0.0% |
| Net Profits Interest (8.00% payable on Equity distributions)(7) | | 520 | 0.0% |
| | **8,040** | **4,949** | **0.1%** |
| **Total Control Investments** | **830,151** | **811,634** | **30.6%** |

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**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **Affiliate Investments (5.00% to 24.99% voting control)(43)** | | | | | | |
| BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork) | Michigan / Healthcare | Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(3), (4) | $ 29,550 | $ 29,550 | $ 29,550 | 1.1% |
| | | Preferred Stock Series A (9,925.455 shares)(13) | | 2,300 | 2,832 | 0.1% |
| | | Preferred Stock Series B (1,753.64 shares)(13) | | 579 | 533 | 0.0% |
| | | | | **32,429** | **32,915** | **1.2%** |
| Boxercraft Incorporated(20) | Georgia / Textiles & Leather | Senior Secured Term Loan A (10.00% plus 1.00% PIK, due 9/15/2015) | 1,712 | 1,702 | 1,712 | 0.1% |
| | | Senior Secured Term Loan B (10.00% plus 1.00% PIK, due 9/15/2015) | 4,892 | 4,809 | 4,892 | 0.2% |
| | | Senior Secured Term Loan C (10.00% plus 1.00% PIK, due 9/15/2015) | 2,371 | 2,371 | 2,371 | 0.1% |
| | | Senior Secured Term Loan (10.00% plus 1.00% PIK, due 9/15/2015) | 8,325 | 7,878 | 410 | 0.0% |
| | | Preferred Stock (1,000,000 shares) | | | | 0.0% |
| | | Common Stock (10,000 shares) | | | | 0.0% |
| | | Warrants (1 warrant, expiring 8/31/2022) | | | | 0.0% |
| | | | | **16,760** | **9,385** | **0.4%** |
| Smart, LLC(14) | New York / Diversified / Conglomerate Service | Membership Interest | | | 143 | 0.0% |
| | | | | | **143** | **0.0%** |
| **Total Affiliate Investments** | | | | **49,189** | **42,443** | **1.6%** |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| ADAPCO, Inc. | Florida / Ecological | Common Stock (5,000 shares) | | 141 | 335 | 0.0% |
| | | | | **141** | **335** | **0.0%** |
| Aderant North America, Inc. | Georgia / Software & Computer Services | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4) | 7,000 | 6,900 | 7,000 | 0.3% |
| | | | | **6,900** | **7,000** | **0.3%** |
| Aircraft Fasteners International, LLC | California / Machinery | Convertible Preferred Stock (32,500 units) | | 396 | 565 | 0.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | **396** | **565** | **0.0%** |
| ALG USA Holdings, LLC | Pennsylvania / Hotels, Restaurants & Leisure | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4) | 12,000 | 11,764 | 12,000 | 0.4% |
| | | | | **11,764** | **12,000** | **0.4%** |

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|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Allied Defense Group, Inc. | Virginia / Aerospace & Defense | Common Stock (10,000 shares) | | $ 56 | $ | 0.0% |
| | | | | **56** | | **0.0%** |
| American Gilsonite Company | Utah / Specialty Minerals | Second Lien Term Loan (11.50%, due 9/1/2017) | $ 38,500 | 38,500 | 38,500 | 1.4% |
| | | Membership Interest in AGC/PEP, LLC (99.9999%)(15) | | | 4,058 | 0.2% |
| | | | | **38,500** | **42,558** | **1.6%** |
| Apidos CLO VIII, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 19,730 | 19,931 | 19,718 | 0.7% |
| | | | | **19,931** | **19,718** | **0.7%** |
| Apidos CLO IX, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 20,525 | 19,609 | 19,294 | 0.7% |
| | | | | **19,609** | **19,294** | **0.7%** |
| Apidos CLO XI, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 38,340 | 39,239 | 37,972 | 1.4% |
| | | | | **39,239** | **37,972** | **1.4%** |
| Apidos CLO XII, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 44,063 | 43,480 | 40,294 | 1.5% |
| | | | | **43,480** | **40,294** | **1.5%** |
| Arctic Glacier U.S.A, Inc.(4) | Canada / Food Products | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 11/10/2019) | 150,000 | 150,000 | 150,000 | 5.6% |
| | | | | **150,000** | **150,000** | **5.6%** |
| Armor Holding II LLC(4), (16) | New York / Diversified Financial Services | Second Lien Term Loan (9.25% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/26/2020) | 7,000 | 6,860 | 7,000 | 0.3% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | **6,860** | **7,000** | **0.3%** |
| Atlantis Healthcare Group (Puerto Rico), Inc.(4) | Puerto Rico / Healthcare | Revolving Line of Credit $7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014)(25), (26) | 2,000 | 2,000 | 2,000 | 0.1% |
| | | Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3) | 39,352 | 39,352 | 39,352 | 1.5% |
| | | | | **41,352** | **41,352** | **1.6%** |
| Babson CLO Ltd 2011-I(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 35,000 | 34,499 | 34,450 | 1.3% |
| | | | | **34,499** | **34,450** | **1.3%** |

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| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Babson CLO Ltd 2012-IA(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | $ 29,075 | $ 25,917 | $ 27,269 | 1.0% |
| | | | | **25,917** | **27,269** | **1.0%** |
| Babson CLO Ltd 2012-IIA(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 27,850 | 28,863 | 27,510 | 1.0% |
| | | | | **28,863** | **27,510** | **1.0%** |
| Blue Coat Systems, Inc. (16) | Massachusetts / Software & Computer Services | Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(4) | 11,000 | 10,890 | 11,000 | 0.4% |
| | | | | **10,890** | **11,000** | **0.4%** |
| Broder Bros., Co. | Pennsylvania / Textiles, Apparel & Luxury Goods | Senior Secured Notes (10.75% (LIBOR + 9.00% with 1.75% LIBOR floor), due 6/27/2018)(3), (4) | 99,500 | 99,500 | 99,323 | 3.7% |
| | | | | **99,500** | **99,323** | **3.7%** |
| Brookside Mill CLO Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 26,000 | 23,896 | 23,743 | 0.9% |
| | | | | **23,896** | **23,743** | **0.9%** |
| Byrider Systems Acquisition Corp.(22) | Indiana / Auto Finance | Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3) | 10,914 | 10,914 | 10,417 | 0.4% |
| | | | | **10,914** | **10,417** | **0.4%** |
| Caleel + Hayden, LLC(14), (31) | Colorado / Personal & Nondurable Consumer Products | Membership Units (13,220 shares) | | | 104 | 0.0% |
| | | Escrow Receivable | | | 137 | 0.0% |
| | | | | | **241** | **0.0%** |
| Capstone Logistics, LLC(4) | | | 97,291 | 97,291 | 97,291 | 3.7% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Georgia / Commercial Services | Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)<br>Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3) | 100,000 | 100,000 | 100,000 | 3.8% |
| | | | | **197,291** | **197,291** | **7.5%** |
| Cargo Airport Services USA, LLC | New York / Transportation | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/31/2016)(3), (4) | 43,977 | 43,977 | 44,417 | 1.7% |
| | | Common Equity (1.6 units) | | 1,639 | 1,860 | 0.1% |
| | | | | **45,616** | **46,277** | **1.8%** |
| Cent 17 CLO Limited(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 24,870 | 24,615 | 25,454 | 1.0% |
| | | | | **24,615** | **25,454** | **1.0%** |
| CI Holdings(4) | Texas / Software & Computer Services | Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 6/11/2019) | 114,713 | 114,713 | 114,713 | 4.3% |
| | | | | **114,713** | **114,713** | **4.3%** |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| CIFC Funding 2011-I, Ltd.(4), (22) | Cayman Islands / Diversified Financial Services | Secured Class D Notes (5.32% (LIBOR + 5.00%), due 1/19/2023) | $ 19,000 | $ 15,029 | $ 15,844 | 0.6% |
| | | Unsecured Class E Notes (7.32% (LIBOR + 7.00%), due 1/19/2023) | 15,400 | 12,638 | 12,745 | 0.5% |
| | | | | **27,667** | **28,589** | **1.1%** |
| Cinedigm DC Holdings, LLC(4) | New York / Software & Computer Services | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021) | 70,595 | 70,595 | 70,595 | 2.7% |
| | | | | **70,595** | **70,595** | **2.7%** |
| The Copernicus Group, Inc. | North Carolina / Healthcare | Escrow Receivable | | | 130 | 0.0% |
| | | | | | **130** | **0.0%** |
| Correctional Healthcare Holding Company, Inc. | Colorado / Healthcare | Second Lien Term Loan (11.25%, due 1/11/2020)(3) | 27,100 | 27,100 | 27,100 | 1.0% |
| | | | | **27,100** | **27,100** | **1.0%** |
| Coverall North America, Inc. | Florida / Commercial Services | Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3), (4) | 39,303 | 39,303 | 39,303 | 1.5% |
| | | | | **39,303** | **39,303** | **1.5%** |
| CP Well Testing, LLC | Oklahoma / Oil & Gas Products | Senior Secured Term Loan (13.50% (LIBOR + 11.00% with 2.50% LIBOR floor), due 10/03/2017)(4) | 19,125 | 19,125 | 19,125 | 0.7% |
| | | | | **19,125** | **19,125** | **0.7%** |
| CRT MIDCO, LLC | Wisconsin / Media | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3), (4) | 71,106 | 71,106 | 71,106 | 2.7% |
| | | | | **71,106** | **71,106** | **2.7%** |
| Deltek, Inc. | Virginia / Software & Computer Services | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR | 12,000 | 11,833 | 12,000 | 0.5% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | floor), due 10/10/2019)(4) | | | | |
| | | | | **11,833** | **12,000** | **0.5%** |
| Diamondback Operating, LP | Oklahoma / Oil & Gas Production | Net Profits Interest (15.00% payable on Equity distributions)(7) | | | | 0.0% |
| | | | | | | **0.0%** |
| Edmentum, Inc (f/k/a Archipelago Learning, Inc.)(4) | Minnesota / Consumer Services | Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019) | 50,000 | 48,218 | 50,000 | 1.9% |
| | | | | **48,218** | **50,000** | **1.9%** |
| EIG Investors Corp. | Massachusetts / Software & Computer Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 5/09/2020)(4), (16) | 22,000 | 21,792 | 22,000 | 0.8% |
| | | | | **21,792** | **22,000** | **0.8%** |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Empire Today, LLC | Illinois / Durable Consumer Products | Senior Secured Note (11.375%, due 2/1/2017) | $ 15,700 | $ 15,332 | $ 14,650 | 0.6% |
| | | | | **15,332** | **14,650** | **0.6%** |
| EXL Acquisition Corp. | South Carolina / Biotechnology | Escrow Receivable | | | 14 | 0.0% |
| | | | | | **14** | **0.0%** |
| Evanta Ventures, Inc.(11) | Oregon / Commercial Services | Subordinated Unsecured (12.00% plus 1.00% PIK, due 9/28/2018) | 10,479 | 10,479 | 10,479 | 0.4% |
| | | | | **10,479** | **10,479** | **0.4%** |
| Fairchild Industrial Products, Co. | North Carolina / Electronics | Escrow Receivable | | | 149 | 0.0% |
| | | | | | **149** | **0.0%** |
| Fischbein, LLC | North Carolina / Machinery | Escrow Receivable | | | 225 | 0.0% |
| | | | | | **225** | **0.0%** |
| Focus Brands, Inc.(4) | Georgia / Consumer Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018) | 18,000 | 17,731 | 18,000 | 0.7% |
| | | | | **17,731** | **18,000** | **0.7%** |
| FPG, LLC | Illinois / Durable Consumer Products | Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(4) | 21,401 | 21,401 | 21,401 | 0.8% |
| | | Common Stock (5,638 shares) | | 27 | 19 | 0.0% |
| | | | | **21,428** | **21,420** | **0.8%** |
| Galaxy XII CLO, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 22,000 | 20,792 | 21,657 | 0.8% |
| | | | | **20,792** | **21,657** | **0.8%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Galaxy XV CLO, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 35,025 | 32,119 | 30,227 | 1.1% |
| | | | | **32,119** | **30,227** | **1.1%** |
| Grocery Outlet, Inc. | California / Retail | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4) | 14,457 | 14,127 | 14,457 | 0.5% |
| | | | | **14,127** | **14,457** | **0.5%** |
| 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)(3), (4) | 41,213 | 41,213 | 31,972 | 1.2% |
| | | | | **41,213** | **31,972** | **1.2%** |
| Halcyon Loan Advisors Funding 2012-I, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 23,188 | 22,279 | 22,724 | 0.9% |
| | | | | **22,279** | **22,724** | **0.9%** |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Halcyon Loan Advisors Funding 2013-I, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | $ 40,400 | $ 41,085 | $ 38,291 | 1.4% |
| | | | | **41,085** | **38,291** | **1.4%** |
| Hoffmaster Group, Inc.(4) | Wisconsin / Personal & Nondurable Consumer Products | Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019) | 20,000 | 19,831 | 19,598 | 0.7% |
| | | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019) | 1,000 | 991 | 955 | 0.0% |
| | | | | **20,822** | **20,553** | **0.7%** |
| ICON Health & Fitness, Inc. | Utah / Durable Consumer Products | Senior Secured Note (11.875%, due 10/15/2016)(3) | 43,100 | 43,310 | 33,929 | 1.3% |
| | | | | **43,310** | **33,929** | **1.3%** |
| IDQ Holdings, Inc. | Texas / Automobile | Senior Secured Note (11.50%, due 4/1/2017) | 12,500 | 12,300 | 12,500 | 0.5% |
| | | | | **12,300** | **12,500** | **0.5%** |
| ING IM CLO 2012-II, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 38,070 | 34,904 | 36,848 | 1.4% |
| | | | | **34,904** | **36,848** | **1.4%** |
| ING IM CLO 2012-III, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 46,632 | 44,454 | 46,361 | 1.7% |
| | | | | **44,454** | **46,361** | **1.7%** |
| ING IM CLO 2012-IV, Ltd.(22) | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest) | 40,613 | 39,255 | 41,153 | 1.5% |
| | | | | **39,255** | **41,153** | **1.5%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Injured Workers Pharmacy LLC | Massachusetts / Healthcare | Second Lien Debt (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3), (4) | 22,430 | 22,430 | 22,430 | 0.8% |
| | | | | **22,430** | **22,430** | **0.8%** |
| Interdent, Inc.(4) | California / Healthcare | Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017) | 53,475 | 53,475 | 53,475 | 2.0% |
| | | Senior Secured Term Loan B (13.00% (LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3) | 55,000 | 55,000 | 55,000 | 2.1% |
| | | | | **108,475** | **108,475** | **4.1%** |
| JHH Holdings, Inc. | Texas / Healthcare | Second Lien Debt (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 1.50% PIK, due 6/23/2018)(3), (4) | 16,119 | 16,119 | 16,119 | 0.6% |
| | | | | **16,119** | **16,119** | **0.6%** |

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| LaserShip, Inc.(4) | Virginia / Transportation | Revolving Line of Credit $5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(25) | $ | $ | $ | 0.0% |
| | | Senior Secured Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2017)(3) | 37,031 | 37,031 | 37,031 | 1.4% |
| | | | | **37,031** | **37,031** | **1.4%** |
| LCM XIV CLO Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 26,500 | 25,838 | 25,838 | 1.0% |
| | | | | **25,838** | **25,838** | **1.0%** |
| LHC Holdings Corp. | Florida / Healthcare | Revolving Line of Credit $750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4), (25), (26) | | | | 0.0% |
| | | Senior Subordinated Debt (10.50%, due 5/31/2015)(3) | 2,865 | 2,865 | 2,865 | 0.1% |
| | | Membership Interest (125 units) | | 216 | 245 | 0.0% |
| | | | | **3,081** | **3,110** | **0.1%** |
| Madison Park Funding IX, Ltd.(22) | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest) | 31,110 | 26,401 | 26,596 | 1.0% |
| | | | | **26,401** | **26,596** | **1.0%** |
| Material Handling Services, LLC(4) | Ohio / Business Services | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 7/5/2017)(3) | 27,580 | 27,580 | 27,199 | 1.0% |
| | | Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017) | 37,959 | 37,959 | 37,035 | 1.4% |
| | | | | **65,539** | **64,234** | **2.4%** |
| Maverick Healthcare, LLC | Arizona / Healthcare | Preferred Units (1,250,000 units) | | 1,252 | 780 | 0.0% |
| | | Common Units (1,250,000 units) | | | | 0.0% |
| | | | | **1,252** | **780** | **0.0%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mountain View CLO 2013-I Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest) | 43,650 | 44,235 | 43,192 | 1.6% |
| | | | | **44,235** | **43,192** | **1.6%** |
| Medical Security Card Company, LLC(4) | Arizona / Healthcare | Revolving Line of Credit $1,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 2/1/2016)(25) | | | | 0.0% |
| | | First Lien Term Loan (11.25% (LIBOR + 8.75% with 2.50% LIBOR floor), due 2/1/2016)(3) | 13,427 | 13,427 | 13,427 | 0.5% |
| | | | | **13,427** | **13,427** | **0.5%** |

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

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| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| National Bankruptcy Services, LLC(3), (4) | Texas / Diversified Financial Services | Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 1.50% PIK, due 7/17/2017) | $ 18,683 | $ 18,683 | $ 16,883 | 0.6% |
| | | | | **18,683** | **16,883** | **0.6%** |
| Naylor, LLC(4) | Florida / Media | Revolving Line of Credit $2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25) | | | | 0.0% |
| | | Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(3) | 46,170 | 46,170 | 46,170 | 1.7% |
| | | | | **46,170** | **46,170** | **1.7%** |
| New Century Transportation, Inc. | New Jersey / Transportation | Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 3.00% PIK, due 2/3/2018)(3), (4) | 45,120 | 45,120 | 44,166 | 1.7% |
| | | | | **45,120** | **44,166** | **1.7%** |
| New Star Metals, Inc. | Indiana / Metal Services & Minerals | Senior Subordinated Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 1.00% PIK, due 2/2/2018)(4) | 50,274 | 50,274 | 50,274 | 1.9% |
| | | | | **50,274** | **50,274** | **1.9%** |
| Nixon, Inc. | California / Durable Consumer Products | Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16) | 15,509 | 15,252 | 14,992 | 0.6% |
| | | | | **15,252** | **14,992** | **0.6%** |
| NRG Manufacturing, Inc. | Texas / Manufacturing | Escrow Receivable | | | 3,618 | 0.1% |
| | | | | | **3,618** | **0.1%** |
| Pegasus Business Intelligence, LP(4) | Texas / Diversified Financial Services | Revolving Line of Credit $2,500 Commitment (9.00% (LIBOR + 7.75% with 1.25% LIBOR floor), due 4/18/2014)(25) | | | | 0.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018) | 15,938 | 15,938 | 15,938 | 0.6% |
| | | Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018) | 15,938 | 15,938 | 15,938 | 0.6% |
| | | | | **31,876** | **31,876** | **1.2%** |
| Octagon Investment Partners XV, Ltd.(22) | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest) | 26,901 | 26,919 | 25,515 | 1.0% |
| | | | | **26,919** | **25,515** | **1.0%** |
| Pelican Products, Inc.(16) | California / Durable Consumer Products | Subordinated Secured (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019)(3), (4) | 15,000 | 14,729 | 15,000 | 0.6% |
| | | | | **14,729** | **15,000** | **0.6%** |

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| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Pinnacle (US) Acquisition Co Limited(16) | Texas / Software & Computer Services | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4) | $ 10,000 | $ 9,815 | $ 10,000 | 0.4% |
| | | | | **9,815** | **10,000** | **0.4%** |
| Pre-Paid Legal Services, Inc.(16) | Oklahoma / Consumer Services | Senior Subordinated Term Loan (11.50% (PRIME + 8.25%), due 12/31/2016)(3), (4) | 5,000 | 5,000 | 5,000 | 0.2% |
| | | | | **5,000** | **5,000** | **0.2%** |
| Prince Mineral Holding Corp. | New York / Metal Services & Minerals | Senior Secured Term Loan (11.50%, due 12/15/2019) | 10,000 | 9,888 | 10,000 | 0.4% |
| | | | | **9,888** | **10,000** | **0.4%** |
| Progrexion Holdings, Inc.(4), (28) | Utah / Consumer Services | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3) | 241,033 | 241,033 | 241,033 | 9.1% |
| | | | | **241,033** | **241,033** | **9.1%** |
| Rocket Software, Inc.(3), (4) | Massachusetts / Software & Computer Services | Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019) | 20,000 | 19,719 | 20,000 | 0.8% |
| | | | | **19,719** | **20,000** | **0.8%** |
| Royal Adhesives & Sealants, LLC | Indiana / Chemicals | Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK, due 11/29/2016) | 28,364 | 28,364 | 28,648 | 1.1% |
| | | | | **28,364** | **28,648** | **1.1%** |
| Ryan, LLC(4) | Texas / Business Services | Subordinated Secured (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018) | 70,000 | 70,000 | 70,000 | 2.6% |
| | | | | **70,000** | **70,000** | **2.6%** |
| Sandow Media, LLC | Florida / Media | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 1.50% PIK, due | 24,900 | 24,900 | 24,900 | 0.9% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | 5/8/2018)(4) | | | | |
| | | | | **24,900** | **24,900** | **0.9%** |
| Seaton Corp.(3), (4) | Illinois / Business Services | Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2014) | 3,305 | 3,249 | 3,305 | 0.1% |
| | | Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2015) | 10,005 | 10,005 | 10,005 | 0.4% |
| | | | | **13,254** | **13,310** | **0.5%** |
| SESAC Holdco II LLC(16) | Tennessee / Media | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 7/12/2019)(4) | 6,000 | 5,914 | 6,000 | 0.2% |
| | | | | **5,914** | **6,000** | **0.2%** |
| Skillsoft Public Limited Company (22) | Ireland / Software & Computer Services | Senior Unsecured (11.125%, due 6/1/2018) | 15,000 | 14,927 | 15,000 | 0.6% |
| | | | | **14,927** | **15,000** | **0.6%** |

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|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Snacks Holding Corporation | Minnesota / Food Products | Series A Preferred Stock (4,021.45 shares) | | $ 56 | $ 56 | 0.0% |
| | | Series B Preferred Stock (1,866.10 shares) | | 56 | 56 | 0.0% |
| | | Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020) | | 479 | 484 | 0.0% |
| | | | | **591** | **596** | **0.0%** |
| Southern Management Corporation(22), (30) | South Carolina / Consumer Finance | Second Lien Term Loan (12.00% plus 5.00% PIK, due 5/31/2017) | $ 17,565 | 17,565 | 18,267 | 0.7% |
| | | | | **17,565** | **18,267** | **0.7%** |
| Spartan Energy Services, Inc.(3), (4) | Louisiana / Energy | Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017) | 29,625 | 29,625 | 29,625 | 1.1% |
| | | | | **29,625** | **29,625** | **1.1%** |
| Speedy Group Holdings Corp. | Canada / Consumer Finance | Senior Unsecured (12.00%, due 11/15/2017)(22) | 15,000 | 15,000 | 15,000 | 0.6% |
| | | | | **15,000** | **15,000** | **0.6%** |
| Sport Helmets Holdings, LLC(14) | New York / Personal & Nondurable Consumer Products | Escrow Receivable | | | 389 | 0.0% |
| | | | | | **389** | **0.0%** |
| Stauber Performance Ingredients, Inc.(3), (4) | California / Food Products | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016) | 16,594 | 16,594 | 16,594 | 0.6% |
| | | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017) | 10,238 | 10,238 | 10,238 | 0.4% |
| | | | | **26,832** | **26,832** | **1.0%** |
| Stryker Energy, LLC | Ohio / Oil & Gas Production | Subordinated Secured Revolving Credit Facility $50,300 Commitment (8.50% (LIBOR + 7.00% with 1.50% | 34,738 | 32,711 | | 0.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4), (25) | | | | |
| | | Overriding Royalty Interests(18) | | | | 0.0% |
| | | | | **32,711** | | **0.0%** |
| Symphony CLO, IX Ltd.(22) | Cayman Islands / Diversified Financial Services | LP Certificates (Residual Interest) | 45,500 | 42,289 | 43,980 | 1.7% |
| | | | | **42,289** | **43,980** | **1.7%** |
| System One Holdings, LLC(3), (4) | Pennsylvania / Business Services | Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018) | 32,000 | 32,000 | 32,000 | 1.2% |
| | | | | **32,000** | **32,000** | **1.2%** |
| TB Corp.(3) | Texas / Consumer Service | Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018) | 23,361 | 23,361 | 23,361 | 0.9% |
| | | | | **23,361** | **23,361** | **0.9%** |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | | |
|---|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 3 PORTFOLIO INVESTMENTS** | | | | | | |
| **Non-control/Non-affiliate Investments (less than 5.00% of voting control)** | | | | | | |
| Targus Group International, Inc.(16) | California / Durable Consumer Products | First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 5/25/2016)(3), (4) | $ 23,520 | $ 23,209 | $ 23,520 | 0.9% |
| | | | | **23,209** | **23,520** | **0.9%** |
| TGG Medical Transitory, Inc. | New Jersey / Healthcare | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4), (16) | 8,000 | 7,773 | 8,000 | 0.3% |
| | | | | **7,773** | **8,000** | **0.3%** |
| The Petroleum Place, Inc. | Colorado / Software & Computer Services | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 5/20/2019)(4) | 22,000 | 21,690 | 22,000 | 0.8% |
| | | | | **21,690** | **22,000** | **0.8%** |
| Totes Isotoner Corporation | Ohio / Nondurable Consumer Products | Second Lien Term Loan (10.75%, (LIBOR + 9.25% with 1.50% LIBOR floor), due 1/8/2018)(3), (4) | 39,000 | 39,000 | 39,000 | 1.5% |
| | | | | **39,000** | **39,000** | **1.5%** |
| Traeger Pellet Grills LLC(4) | Oregon / Durable Consumer Products | Revolving Line of Credit $10,000 Commitment (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 6/18/2014)(25) | 6,143 | 6,143 | 6,143 | 0.3% |
| | | Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018) | 30,000 | 30,000 | 30,000 | 1.1% |
| | | Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018) | 30,000 | 30,000 | 30,000 | 1.1% |
| | | | | **66,143** | **66,143** | **2.5%** |
| TransFirst Holdings, Inc.(4) | New York / Software & Computer Services | Second Lien Term Loan (11.00%, (LIBOR + 9.75% with 1.25% LIBOR floor), due 6/27/2018) | 5,000 | 4,860 | 5,000 | 0.2% |
| | | | | **4,860** | **5,000** | **0.2%** |
| United Sporting Companies, Inc.(5) | | | 160,000 | 160,000 | 160,000 | 6.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | South Carolina / Durable Consumer Products | Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(4) | | | | |
| | | | | **160,000** | **160,000** | **6.0**% |
| Wind River Resources Corp. and Wind River II Corp. | Utah / Oil & Gas Production | Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal, 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4) | 15,000 | 14,750 | | 0.0% |
| | | Net Profits Interest (5.00% payable on Equity distributions)(7) | | | | 0.0% |
| | | | | **14,750** | | **0.0**% |
| **Total Non-control/Non-affiliate Investments (Level 3 Investments)** | | | | **3,376,375** | **3,318,663** | **124.9**% |
| **Total Level 3 Portfolio Investments** | | | | **4,255,715** | **4,172,740** | **157.1**% |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

| | | | June 30, 2013 (Audited) | | |
|---|---|---|---|---|---|
| **Portfolio Company** | **Locale / Industry** | **Investments(1)** | **Principal Value** | **Cost** | **Fair Value(2)** | **% of Net Assets** |
| **LEVEL 1 PORTFOLIO INVESTMENTS:** | | | | | | |
| **Non-control/Non-affiliate investments (less than 5.00% voting control)** | | | | | | |
| Dover Saddlery, Inc. | Massachusetts / Retail | Common Stock (30,974 shares) | | $ 63 | $ 112 | 0.0% |
| | | | | **63** | **112** | **0.0%** |
| **Total Non-control/Non-affiliate Investments (Level 1 Investments)** | | | | **63** | **112** | **0.0%** |
| **Total Portfolio Investments** | | | | **4,255,778** | **4,172,852** | **157.1%** |
| **SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)** | | | | | | |
| Fidelity Institutional Money Market Funds | Government Portfolio (Class I) | | | 83,456 | 83,456 | 3.1% |
| Fidelity Institutional Money Market Funds | Government Portfolio (Class I)(3) | | | 49,804 | 49,804 | 1.9% |
| Victory Government Money Market Funds | | | | 10,002 | 10,002 | 0.4% |
| **Total Money Market Funds** | | | | **143,262** | **143,262** | **5.4%** |
| **Total Investments** | | | | **$ 4,399,040** | **$ 4,316,114** | **162.5%** |

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of September 30, 2013 and June 30, 2013**

(1)

The securities in which Prospect Capital Corporation ("we", "us" or "our") has invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended, or the "Securities Act." These securities may be resold only in transactions that are exempt from registration under the Securities Act.

(2)

Fair value is determined by or under the direction of our Board of Directors. As of September 30, 2013 and June 30, 2013, one of our portfolio investments, Dover Saddlery, Inc. ("Dover"), was publicly traded and classified as Level 1 within the valuation hierarchy established by Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("ASC 820"). As of September 30, 2013 and June 30, 2013, the fair value of our remaining portfolio investments was determined using significant unobservable inputs. ASC 820 classifies such inputs used to measure fair value as Level 3 within the valuation hierarchy. Our investments in money market funds are classified as Level 2. See Notes 2 and 3 within the accompanying notes to consolidated financial statements for further discussion.

(3)

Security, or a portion thereof, is held by Prospect Capital Funding LLC ("PCF"), our wholly-owned subsidiary and a bankruptcy remote special purpose entity, and is pledged as collateral for the revolving credit facility and such security is not available as collateral to our general creditors (see Note 4). The fair values of these investments held by PCF at September 30, 2013 and June 30, 2013 were $884,267 and $883,114, respectively; they represent 18.8% and 20.5% of total investments at fair value, respectively.

(4)

Security, or portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. Stated interest rate was in effect at September 30, 2013 and June 30, 2013.

(5)

Ellett Brothers, LLC, Evans Sports, Inc., Jerry's Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc., and Outdoor Sports Headquarters, Inc. are joint borrowers on our second lien loan. United Sporting Companies, Inc. is a parent guarantor of this debt investment.

(6)

During the quarter ended December 31, 2009, we created two new entities, Coalbed Inc. and Coalbed LLC, to foreclose on the outstanding senior secured loan and assigned rights and interests of Conquest Cherokee, LLC ("Conquest") as a result of the deterioration of Conquest's financial performance and inability to service debt payments. We own 1,000 shares of common stock in Coalbed Inc., representing 100% of the issued and outstanding common stock. Coalbed Inc., in turn, owns 100% of the membership interest in Coalbed LLC.

On October 21, 2009, Coalbed LLC foreclosed on the loan formerly made to Conquest. On January 19, 2010, as part of the Manx rollup, the Coalbed LLC assets and loan were assigned to Manx, the holding company. On June 30, 2012, Manx reassigned our investment in Coalbed to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed, separately owned holding company. Our Board of Directors set the fair value at zero for the loan position in Coalbed LLC investment as of September 30, 2013 and June 30, 2013.

(7)

In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of September 30, 2013 and June 30, 2013 (Continued)**

(8)

During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, Inc. ("CCEHI") and Change Clean Energy, Inc. ("CCEI"), Freedom Marine Holding, Inc. ("Freedom Marine") and Yatesville Coal Holdings, Inc. ("Yatesville") was transferred to Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions") to consolidate all of our energy holdings under one management team. We own 100% of Energy Solutions.

(9)

Entity was formed as a result of the debt restructuring of ESA Environmental Specialist, Inc. In early 2009, we foreclosed on the two loans on non-accrual status and purchased the underlying personal and real property. We own 1,000 shares of common stock in The Healing Staff, Inc. (f/k/a Lisamarie Fallon, Inc.) ("THS), representing 100% ownership. We own 1,500 shares of Vets Securing America, Inc. ("VSA"), representing 100% ownership.

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 investment in THS, an affiliate of ICS, was valued at zero as of September 30, 2013 and continues to provide staffing solutions for health care facilities and security staffing.

(10)

GTP Operations, LLC (formerly known as CI (Transplace) Holdings, LLC), Transplace, LLC, CI (Transplace) International, LLC, Transplace Freight Services, LLC, Transplace Texas, LP, Transplace Stuttgart, LP, Transplace International, Inc., Celtic International, LLC, and Treetop Merger Sub, LLC are joint borrowers on our senior secured investment.

(11)

Evanta Ventures, Inc. and Sports Leadership Institute, Inc. are joint borrowers on our investment.

(12)

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx Energy, Inc. ("Manx"), a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were brought under new common management. We funded $2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring. On June 30, 2012, Manx reassigned our investments in Coalbed and AEH to Wolf, a newly-formed, separately owned holding company. We continue to fully reserve any income accrued for Manx. During the quarter ended June 30, 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of $9,397 for the amount that the amortized cost exceeded the fair value. The Board of Directors set the fair value of our investment in Manx at $413 and $346 as of September 30, 2013 and June 30, 2013, respectively.

(13)

On a fully diluted basis represents 10.00% of voting common shares.

(14)

A portion of the positions listed was issued by an affiliate of the portfolio company.

(15)

We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares (including 5,111 vested and unvested management options) of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.

(16) Syndicated investment which had been originated by another financial institution and broadly distributed.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of September 30, 2013 and June 30, 2013 (Continued)**

(17)

Our wholly-owned entity, MITY Holdings of Delaware Inc., owns 98.6% (42,053 common shares) of MITY Enterprises, Inc., the operating company.

(18)

The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.

(19)

On December 31, 2009, we sold our investment in Aylward Enterprises, LLC. AWCNC, LLC is the remaining holding company with zero assets. Our remaining outstanding debt after the sale was written off on December 31, 2009 and no value has been assigned to the equity position as of September 30, 2013 and June 30, 2013.

(20)

We own a warrant to purchase 3,755,000 shares of Series A Preferred Stock, 625,000 shares of Series B Preferred Stock, and 43,800 shares of Voting Common Stock in Boxercraft Incorporated.

(21)

We own warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation ("Metal Buildings"), the former holding company of Borga, Inc. Metal Buildings owned 100% of Borga, Inc.

On March 8, 2010, we foreclosed on the stock in Borga, Inc. that was held by Metal Buildings, obtaining 100% ownership of Borga, Inc.

(22)

Certain investments that we have determined are not "qualifying" assets under Section 55(a) of the Investment Company Act of 1940 (the "1940 Act"). Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. We monitor the status of these assets on an ongoing basis.

(23)

NCP Finance Limited Partnership, NCP Finance Ohio, LLC and certain affiliates thereof, are joint borrowers on our subordinated secured investment.

(24)

On May 6, 2011, we made a secured first lien $24,250 debt investment to NMMB Acquisition, Inc., a $2,800 secured debt and $4,400 equity investment to NMMB Holdings, Inc. We own 100% of the Series A Preferred Stock in NMMB Holdings, Inc. NMMB Holdings, Inc. owns 100% of the Convertible Preferred in NMMB Acquisition, Inc. NMMB Acquisition, Inc. has a 5.8% dividend rate which is paid to NMMB Holdings, Inc. Our fully diluted ownership in NMMB Holdings, Inc. is 100% as of September 30, 2013 and June 30, 2013. Our fully diluted ownership in NMMB Acquisition, Inc. is 83.5% as of September 30, 2013 and June 30, 2013.

(25)

Undrawn committed revolvers incur commitment and unused fees ranging from 0.50% to 2.00%. As of September 30, 2013 and June 30, 2013, we had $206,684 and $202,518 of undrawn revolver commitments to our portfolio companies, respectively.

(26)

Stated interest rates are based on September 30, 2013 and June 30, 2013 one month or three month Libor rates plus applicable spreads based on the respective credit agreements. Interest rates are subject to change based on actual elections by the borrower for a Libor

rate contract or Base Rate contract when drawing on the revolver.

(27)

On July 30, 2010, we made a secured first lien $30,000 debt investment to AIRMALL USA, Inc., a $12,500 secured second lien to AMU Holdings, Inc., and acquired 100% of the Convertible Preferred Stock and Common stock of AMU Holdings, Inc. Our Convertible Preferred Stock in AMU Holdings, Inc. has a 12.0% dividend rate which is paid from the dividends received from the

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of September 30, 2013 and June 30, 2013 (Continued)**

underlying operating company, AIRMALL USA Inc. AMU Holdings, Inc. owns 100% of the common stock in AIRMALL USA, Inc.

(28)

Progrexion Marketing, Inc., Progrexion Teleservices, Inc., Progrexion ASG, Inc. Progrexion IP, Inc. and Efolks, LLC, are joint borrowers on our senior secured investment. Progrexion Holdings, Inc. and eFolks Holdings, Inc. are the guarantors of this debt investment.

(29)

Our wholly-owned entity, First Tower Holdings of Delaware, LLC, owns 80.1% of First Tower Holdings LLC, which owns 100% of First Tower, LLC, the operating company.

(30)

Southern Management Corporation, Thaxton Investment Corporation, Southern Finance of Tennessee, Inc., Covington Credit of Texas, Inc., Covington Credit, Inc., Covington Credit of Alabama, Inc., Covington Credit of Georgia, Inc., Southern Finance of South Carolina, Inc. and Quick Credit Corporation, are joint borrowers on our senior secured investment. SouthernCo, Inc. is the guarantor of this debt investment.

(31)

We own 2.8% (13,220 shares) of the Mineral Fusion Natural, LLC, a subsidiary of Caleel + Hayden, common and preferred interest.

(32)

Our wholly-owned entity, APH Property Holdings, LLC, owns 100% of the common equity of American Property Holdings Corp., a REIT which holds investments in several real estate properties.

(33)

Our wholly-owned entity, CCPI Holdings Inc., owns 95.13% of CCPI Inc., the operating company.

(34)

Our wholly-owned entity, Credit Central Holdings of Delaware, LLC, owns 74.8% of Credit Central Holdings, LLC, which owns 100% of each of Credit Central, LLC, Credit Central South, LLC, Credit Central of Texas, LLC, and Credit Central of Tennessee, LLC, the operating companies.

(35)

Our wholly-owned entity, Valley Electric Holdings I, Inc. ("HoldCo"), owns 100% of Valley Electric Holdings II, Inc. ("Valley II"). Valley II owns 96.3% of Valley Electric Co. of Mt. Vernon, Inc. ("OpCo"), the operating company. Our debt investments are with both HoldCo and OpCo.

(36)

Our wholly-owned entity, Nationwide Acceptance Holdings, LLC, owns 93.8% of Nationwide Acceptance LLC, the operating company.

(37)

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. The cost basis in this loan of $44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and was equal to the fair value of assets at the time of transfer resulting in a capital loss of $19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf sold the assets located in Martin County, which were previously held by H&M, for $66,000.

Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us resulting in a realized capital gain of $11,826. 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.

(38)

Our wholly-owned entity, CP Holdings of Delaware LLC, owns 82.9% of CP Energy Services Inc., which owns 100% of CP Well Testing Holding Company, LLC and 100% of Fluid Management Holdings, Inc., the operating companies.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of September 30, 2013 and June 30, 2013 (Continued)**

(39)

Wind River Resources Corporation and Wind River II Corporation (collectively, "Wind River") are joint borrowers on our senior secured loan.

(40)

As defined in the 1940 Act, we are deemed to be an "Affiliated Company" and "Control" these portfolio companies because we own more than 25% of the portfolio company's outstanding voting securities and we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Our transactions with these portfolio companies during the quarter ended September 30, 2013 are as follows:

| Company | Purchases | Redemptions | Sales | Interest income | Dividend income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|---|---|---|---|---|---|---|---|---|
| AIRMALL USA, Inc. | $ | $ 150 | $ | $ 1,457 | $ 7,000 | $ | $ | $ (3,088) |
| Ajax Rolled Ring & Machine, Inc. | | 100 | | 1,408 | | | | (11,560) |
| APH Property Holdings, LLC | | | | 3,700 | | 320 | | |
| AWCNC, LLC | | | | | | | | |
| Borga, Inc. | | | | | | | | (24) |
| CCPI Holdings Inc. | | 113 | | 826 | | 35 | | (141) |
| CP Holdings of Delaware LLC | 94,014 | | | 2,176 | | 1,864 | | (1,992) |
| Credit Central Holdings of Delaware, LLC | | | | 1,967 | | 119 | | 2,897 |
| Energy Solutions Holdings, Inc. | | 4,250 | | 2,935 | | | | 1,143 |
| First Tower Holdings of Delaware, LLC | | | | 13,532 | | 699 | | 15,589 |
| The Healing Staff, Inc. | | | | | | 5,000 | | |
| Manx Energy, Inc. | | | | | | | | 67 |
| MITY Holdings of Delaware Inc. | 47,985 | | | 198 | | 1,049 | | |
| Nationwide Acceptance Holdings, LLC | | | | 1,089 | | 106 | | 1,869 |
| NMMB Holdings, Inc. | | | | 679 | | | | (2,422) |
| R-V Industries, Inc. | | | | 819 | 75 | | | (155) |
| Valley Electric Holdings I, Inc. | | 50 | | 1,847 | | 28 | | (6,801) |
| Wolf Energy Holdings, Inc. | | | | | | | | 307 |
| **Total** | $ 141,999 | $ 4,663 | $ | $ 32,633 | $ 7,075 | $ 9,221 | $ | $ (4,311) |

(41)

As defined in the 1940 Act, we are deemed to be an "Affiliated Company" of these portfolio companies because we own more than 5% of the portfolio company's outstanding voting securities and we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Our transactions with these portfolio companies during the quarter ended September 30, 2013 are as follows:

| Company | Purchases | Redemptions | Sales | Interest income | Dividend income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|---|---|---|---|---|---|---|---|---|
| BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork) | $ | $ | $ | $ 755 | $ | $ | $ | $ (1,176) |
| Boxercraft Incorporated | | | | 741 | | 2 | | (4,152) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Smart, LLC | | | | | | | | 175 |
| **Total** | $ | $ | $ | $ 1,496 | $ | $ 2 | $ | $ (5,153) |

(42)

As defined in the 1940 Act, we are deemed to be an "Affiliated Company" and "Control" these portfolio companies because we own more than 25% of the portfolio company's outstanding voting securities and we have the power to exercise control over the management or policies of such

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**September 30, 2013 (Unaudited) and June 30, 2013 (Audited)**

**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of September 30, 2013 and June 30, 2013 (Continued)**

portfolio company (including through a management agreement). Our transactions with these portfolio companies during the year ended June 30, 2013 are as follows:

| Company | Purchases | Redemptions | Sales | Interest income | Dividend income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|---|---|---|---|---|---|---|---|---|
| AIRMALL USA, Inc. | $ | $ 600 | $ | $ 5,822 | $ | $ | $ | $ 7,266 |
| Ajax Rolled Ring & Machine, Inc. | 23,300 | 19,065 | | 5,176 | | 155 | | (17,208) |
| APH Property Holdings, LLC | 151,648 | | | 2,898 | | 4,650 | | |
| AWCNC, LLC | | | | | | | | |
| Borga, Inc. | 150 | | | | | | | (232) |
| CCPI Holdings, Inc. | 34,081 | 338 | | 1,792 | | 607 | | |
| Credit Central Holdings of Delaware, LLC | 47,663 | | | 3,893 | | 1,680 | | 2,799 |
| Energy Solutions Holdings, Inc. | | 28,500 | 475 | 24,809 | 53,820 | | | (71,198) |
| First Tower Holdings of Delaware, LLC | 20,000 | | | 52,476 | | 2,426 | | (9,869) |
| The Healing Staff, Inc. | 975 | | 894 | 2 | | | (12,117) | 12,117 |
| Manx Energy, Inc. | | | | | | | (9,397) | 18,865 |
| Nationwide Acceptance Holdings, LLC | 25,151 | | | 1,787 | | 884 | | |
| NMMB Holdings, Inc. | | | 5,700 | 3,026 | | | | (5,903) |
| R-V Industries, Inc. | 32,750 | | | 781 | 24,462 | 143 | | 1,463 |
| Valley Electric Holdings I, Inc. | 52,098 | | 100 | 3,511 | | 1,325 | | |
| Wolf Energy Holdings, Inc. | 50 | | | 452 | | 4,951 | 11,826 | (3,092) |
| **Total** | $ 387,866 | $ 48,503 | $ 7,169 | $ 106,425 | $ 78,282 | $ 16,821 | $ (9,688) | $ (64,992) |

(43)

As defined in the 1940 Act, we are deemed to be an "Affiliated Company" of these portfolio companies because we own more than 5% of the portfolio company's outstanding voting securities and we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Our transactions with these portfolio companies during the year ended June 30, 2013 are as follows:

| Company | Purchases | Redemptions | Sales | Interest income | Dividend income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|---|---|---|---|---|---|---|---|---|
| BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork) | $ 30,000 | $ 26,677 | $ | $ 3,159 | $ | $ 623 | $ | $ 672 |
| Boxercraft Incorporated | | | | 3,356 | | | | (9,413) |
| Smart, LLC | | | | | 728 | | | 108 |
| **Total** | $ 30,000 | $ 26,677 | $ | $ 6,515 | $ 728 | $ 623 | $ | $ (8,633) |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 1. Organization**

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

We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). As a BDC, we have elected to be treated as a regulated investment company ("RIC"), under Subchapter M of the Internal Revenue Code of 1986 (the "Internal Revenue Code"). We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes.

On May 15, 2007, we formed a wholly-owned subsidiary, Prospect Capital Funding LLC ("PCF"), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the credit facility at PCF.

**Note 2. Significant Accounting Policies**

*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 months ended September 30, 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 Accounting Standards Codification ("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

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 2. Significant Accounting Policies (Continued)**

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 its positions in times of high volatility and financial stress at a reasonable price.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 2. Significant Accounting Policies (Continued)**

*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.

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

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 2. Significant Accounting Policies (Continued)**

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 shadow bond approach, a market approach, an income approach, a liquidation approach, or a combination of approaches, as appropriate. The shadow bond and market approaches use prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted) calculated based on an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, 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 was 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 proper 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.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 2. Significant Accounting Policies (Continued)**

*Valuation of Other Financial Assets and Financial Liabilities*

ASC Subtopic 825-10-25, *The Fair Value Option for Financial Assets and Financial Liabilities* ("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. We have elected not to value some assets and liabilities 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 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 market 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 325-40-35, *Beneficial Interests in Securitized Financial Assets*. We monitor the expected cash inflows from our CLO equity investments, including the expected residual payments, and the effective yield is determined and updated periodically.

Dividend income is recorded on the ex-dividend date.

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

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

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 2. Significant Accounting Policies (Continued)**

status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of September 30, 2013, approximately 0.5% of our net 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.

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 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.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 2. Significant Accounting Policies (Continued)**

We follow ASC 740, *Income Taxes* ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of September 30, 2013 and for the three 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.

*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 will be 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

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 2. Significant Accounting Policies (Continued)**

accordance with ASC 946, convertible securities are not considered in the calculation of net assets 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.

**Note 3. Portfolio Investments**

At September 30, 2013, we had investments in 129 long-term portfolio investments, which had an amortized cost of $4,642,288 and a fair value of $4,553,136 and at June 30, 2013, we had investments in 124 long-term portfolio investments, which had an amortized cost of $4,255,778 and a fair value of $4,172,852.

As of September 30, 2013, we own controlling interests in AIRMALL USA, Inc. ("Airmall"), Ajax Rolled Ring & Machine, Inc., APH Property Holdings, LLC ("APH"), AWCNC, LLC, Borga, Inc. ("Borga"), CCPI Holdings, Inc., CP Holdings of Delaware LLC, Credit Central Holdings of Delaware, LLC, Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Holdings of Delaware, LLC, The Healing Staff, Inc. ("THS"), Manx Energy, Inc. ("Manx"), MITY Holdings of Delaware Inc. ("Mity"), Nationwide Acceptance Holdings, LLC, NMMB Holdings, Inc., R-V Industries, Inc., Valley Electric Holdings I, Inc. 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.

The composition of our investments and money market funds as of September 30, 2013 and June 30, 2013 at cost and fair value was as follows:

| | September 30, 2013 | | June 30, 2013 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Revolving Line of Credit | $ 13,238 | $ 12,705 | $ 9,238 | $ 8,729 |
| Senior Secured Debt | 2,524,504 | 2,444,947 | 2,262,327 | 2,207,091 |
| Subordinated Secured Debt | 1,032,693 | 988,581 | 1,062,386 | 1,024,901 |
| Subordinated Unsecured Debt | 130,444 | 119,165 | 88,470 | 88,827 |
| CLO Debt | 27,776 | 29,320 | 27,667 | 28,589 |
| CLO Residual Interest | 749,019 | 777,678 | 660,619 | 658,086 |
| Equity | 164,614 | 180,740 | 145,071 | 156,629 |
| Total Investments | 4,642,288 | 4,553,136 | 4,255,778 | 4,172,852 |
| Money Market Funds | 151,995 | 151,995 | 143,262 | 143,262 |
| Total Investments and Money Market Funds | $ 4,794,283 | $ 4,705,131 | $ 4,399,040 | $ 4,316,114 |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 3. Portfolio Investments (Continued)**

The fair values of our investments and money market funds as of September 30, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

| | Quoted Prices in Active Markets for Identical Securities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Investments at fair value | | | | |
| Revolving Line of Credit | $ | $ | $ 12,705 | $ 12,705 |
| Senior Secured Debt | | | 2,444,947 | 2,444,947 |
| Subordinated Secured Debt | | | 988,581 | 988,581 |
| Subordinated Unsecured Debt | | | 119,165 | 119,165 |
| CLO Debt | | | 29,320 | 29,320 |
| CLO Residual Interest | | | 777,678 | 777,678 |
| Equity | 136 | | 180,604 | 180,740 |
| Total Investments | 136 | | 4,553,000 | 4,553,136 |
| Money Market Funds | | 151,995 | | 151,995 |
| Total Investments and Money Market Funds | $ 136 | $ 151,995 | $ 4,553,000 | $ 4,705,131 |

| | Fair Value Hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments at fair value | | | | |
| Control investments | $ | $ | $ 947,572 | $ 947,572 |
| Affiliate investments | | | 37,425 | 37,425 |
| Non-control/non-affiliate investments | 136 | | 3,568,003 | 3,568,139 |
| | 136 | | 4,553,000 | 4,553,136 |
| Investments in Money Market Funds | | 151,995 | | 151,995 |
| Total Investments and Money Market Funds | $ 136 | $ 151,995 | $ 4,553,000 | $ 4,705,131 |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 3. Portfolio Investments (Continued)**

The fair values of our investments and money market funds as of June 30, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

| | Quoted Prices in Active Markets for Identical Securities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Investments at fair value | | | | |
| Revolving Line of Credit | $ | $ | $ 8,729 | $ 8,729 |
| Senior Secured Debt | | | 2,207,091 | 2,207,091 |
| Subordinated Secured Debt | | | 1,024,901 | 1,024,901 |
| Subordinated Unsecured Debt | | | 88,827 | 88,827 |
| CLO Debt | | | 28,589 | 28,589 |
| CLO Residual Interest | | | 658,086 | 658,086 |
| Equity | | 112 | 156,517 | 156,629 |
| Total Investments | | 112 | 4,172,740 | 4,172,852 |
| Money Market Funds | | 143,262 | | 143,262 |
| Total Investments and Money Market Funds | $ | 112 $ 143,262 | $ 4,172,740 | $ 4,316,114 |

| | Fair Value Hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments at fair value | | | | |
| Control investments | $ | $ | $ 811,634 | $ 811,634 |
| Affiliate investments | | | 42,443 | 42,443 |
| Non-control/non-affiliate investments | 112 | | 3,318,663 | 3,318,775 |
| | 112 | | 4,172,740 | 4,172,852 |
| Investments in Money Market Funds | | 143,262 | | 143,262 |
| Total Investments and Money Market Funds | $ 112 | $ 143,262 | $ 4,172,740 | $ 4,316,114 |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 3. Portfolio Investments (Continued)**

The aggregate values of Level 3 portfolio investments changed during the three months ended September 30, 2013 as follows:

| | Fair Value Measurements Using Unobservable Inputs (Level 3) | | | |
|---|---|---|---|---|
| | Control Investments | Affiliate Investments | Non-Control/ Non-Affiliate Investments | Total |
| Fair value as of June 30, 2013 | $ 811,634 | $ 42,443 | $ 3,318,663 | $ 4,172,740 |
| Total realized gain, net | | | 3,789 | 3,789 |
| Change in unrealized (depreciation) appreciation | (4,311) | (5,153) | 3,213 | (6,251) |
| Net realized and unrealized (loss) gain | (4,311) | (5,153) | 7,002 | (2,462) |
| Purchases of portfolio investments | 141,999 | | 410,263 | 552,262 |
| Payment-in-kind interest | 2,913 | 45 | 1,623 | 4,581 |
| Accretion (amortization) of purchase discount and premiums | | 240 | (10,194) | (9,954) |
| Repayments and sales of portfolio investments | (4,663) | (150) | (159,354) | (164,167) |
| Transfers within Level 3 | | | | |
| Transfers in (out) of Level 3 | | | | |
| Fair value as of September 30, 2013 | $ 947,572 | $ 37,425 | $ 3,568,003 | $ 4,553,000 |

| | Fair Value Measurements Using Unobservable Inputs (Level 3) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Revolver | Senior Secured Debt | Subordinated Secured Debt | Unsecured Debt | CLO Debt | CLO Residual Interest | Equity | Total |
| Fair value as of June 30, 2013 | $ 8,729 | $ 2,207,091 | $ 1,024,901 | $ 88,827 | $ 28,589 | $ 658,086 | $ 156,517 | $ 4,172,740 |
| Total realized loss (gain), net | | 45 | 40 | | | | 3,704 | 3,789 |
| Change in unrealized (depreciation) appreciation | (24) | (24,321) | (6,626) | (11,637) | 622 | 31,193 | 4,542 | (6,251) |
| Net realized and unrealized (loss) gain | (24) | (24,276) | (6,586) | (11,637) | 622 | 31,193 | 8,246 | (2,462) |
| Purchases of portfolio investments | 4,000 | 355,021 | 74,568 | | | 98,987 | 19,686 | 552,262 |
| Payment-in-kind interest | | 3,409 | 836 | 336 | | | | 4,581 |
| Accretion (amortization) of discounts and premiums | | 295 | 227 | 3 | 109 | (10,588) | | (9,954) |
| Repayments and sales of portfolio investments | | (96,593) | (35,365) | (28,364) | | | (3,845) | (164,167) |
| Transfers within Level 3 | | | (70,000) | 70,000 | | | | |
| Transfers in (out) of Level 3 | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Fair value as of September 30, 2013 | $ 12,705 | $ 2,444,947 | $ 988,581 | $ 119,165 | $ 29,320 | $ 777,678 | $ 180,604 | $ 4,553,000 |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 3. Portfolio Investments (Continued)**

The aggregate values of Level 3 portfolio investments changed during the three months ended September 30, 2012 as follows:

| | Fair Value Measurements Using Unobservable Inputs (Level 3) | | | |
|---|---|---|---|---|
| | Control Investments | Affiliate Investments | Non-Control/ Non-Affiliate Investments | Total |
| Fair value as of June 30, 2012 | $ 564,489 | $ 46,116 | $ 1,483,487 | $ 2,094,092 |
| Total realized loss (gain), net | | | 1,775 | 1,775 |
| Change in unrealized appreciation (depreciation) | (31,744) | (1,221) | 4,425 | (28,540) |
| Net realized and unrealized gain (loss) | (31,744) | (1,221) | 6,200 | (26,765) |
| Purchases of portfolio investments | | | 746,064 | 746,064 |
| Payment-in-kind interest | | 141 | 1,732 | 1,873 |
| Accretion (amortization) of discounts and premiums | | 219 | 6,489 | 6,708 |
| Repayments and sales of portfolio investments | (2,960) | | (155,163) | (158,123) |
| Transfers within Level 3 | | | | |
| Transfers in (out) of Level 3 | | | | |
| Fair value as of September 30, 2012 | $ 529,785 | $ 45,255 | $ 2,088,809 | $ 2,663,849 |

| | Fair Value Measurements Using Unobservable Inputs (Level 3) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Revolver | Senior Secured Debt | Subordinated Secured Debt | Subordinated Unsecured Debt | CLO Debt | CLO Residual Interest | Equity | Total |
| Fair value as of June 30, 2012 | $ 868 | $ 1,088,019 | $ 480,147 | $ 73,195 | $ 27,717 | $ 218,009 | $ 206,137 | $ 2,094,092 |
| Total realized loss (gain), net | | | | | | | 1,775 | 1,775 |
| Change in unrealized (depreciation) appreciation | (47) | (949) | 142 | (20) | 1,014 | 2,907 | (31,587) | (28,540) |
| Net realized and unrealized (loss) gain | (47) | (949) | 142 | (20) | 1,014 | 2,907 | (29,812) | (26,765) |
| Purchases of portfolio investments | 7,150 | 283,000 | 255,760 | 95,400 | | 104,754 | | 746,064 |
| Payment-in-kind interest | | 246 | 963 | 664 | | | | 1,873 |
| Accretion (amortization) of discounts and premiums | | 306 | 173 | 19 | 100 | 6,110 | | 6,708 |
| Repayments and sales of portfolio investments | (1,100) | (88,424) | (66,557) | | | | (2,042) | (158,123) |
| Transfers within Level 3 | | | | | | | | |
| Transfers in (out) of Level 3 | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Fair value as of September 30, 2012 | $ 6,871 | $ 1,282,198 | $ 670,628 | $ 169,258 | $ 28,831 | $ 331,780 | $ 174,283 | $ 2,663,849 |

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**Note 3. Portfolio Investments (Continued)**

For the three months ended September 30, 2013 and 2012, the net change in unrealized appreciation on the investments that use Level 3 inputs was $4,575 and $26,768 for assets still held as of September 30, 2013 and 2012, respectively.

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of September 30, 2013 were as follows:

| | | | Unobservable Input | | | |
|---|---|---|---|---|---|---|
| Asset Category | Fair Value | Primary Valuation Technique | Input | Range | | Weighted Average |
| Senior Secured | $ 2,457,652 | Yield Analysis | Market Yield | 5.8% | 16.0% | 10.6% |
| Subordinated Secured | 988,581 | Yield Analysis | Market Yield | 8.1% | 17.7% | 11.7% |
| Subordinated Unsecured | 119,165 | Yield Analysis | Market Yield | 6.0% | 14.2% | 10.4% |
| CLO Debt | 29,320 | Discounted Cash Flow | Discount Rate | 19.0% | 20.0% | 19.5% |
| CLO Residual Interest | 777,678 | Discounted Cash Flow | Discount Rate | 10.0% | 28.0% | 18.6% |
| Equity | 178,573 | EV Market Multiple Analysis | EV Market Multiple Analysis | 3.3x | 9.3x | 6.5x |
| Escrow | 2,031 | Discounted Cash Flow | Discount Rate | 7.1% | 8.3% | 7.7% |
| Total | $ 4,553,000 | | | | | |

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2013 were as follows:

| | | | Unobservable Input | | | |
|---|---|---|---|---|---|---|
| Asset Category | Fair Value | Primary Valuation Technique | Input | Range | | Weighted Average |
| Senior Secured | $ 2,215,820 | Yield Analysis | Market Yield | 5.7% | 20.8% | 10.7% |
| Subordinated Secured | 1,024,901 | Yield Analysis | Market Yield | 7.7% | 19.8% | 11.6% |
| Subordinated Unsecured | 88,827 | Yield Analysis | Market Yield | 6.1% | 14.6% | 10.7% |
| CLO Debt | 28,589 | Discounted Cash Flow | Discount Rate | 12.1% | 20.1% | 15.7% |
| CLO Residual Interest | 658,086 | Discounted Cash Flow | Discount Rate | 11.3% | 19.8% | 15.3% |
| Equity | 151,855 | EV Market Multiple Analysis | EV Market Multiple Analysis | 3.3x | 8.8x | 6.2x |
| Escrow | 4,662 | Discounted Cash Flow | Discount Rate | 6.5% | 7.5% | 7.0% |
| Total | $ 4,172,740 | | | | | |

The significant unobservable inputs used in the market approach of fair value measurement of our investments are the market multiples of earnings before income tax, depreciation and amortization ("EBITDA") of the comparable guideline public companies. The independent valuation firm selects a population of public companies for each investment with similar operations and attributes of the subject company. Using these guideline public companies' data, a range of multiples of enterprise value to EBITDA is calculated. The independent valuation firm selects percentages from the range of multiples for purposes of determining the subject company's estimated enterprise value based on said multiple and

generally the latest twelve months EBITDA of the subject company (or other meaningful measure). Significant increases or decreases in the multiple will result in an increase or decrease,

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**Note 3. Portfolio Investments (Continued)**

respectively, in enterprise value, resulting in an increase or decrease in the fair value estimate of the equity investment.

The significant unobservable input used in the income approach of fair value measurement of our investments is the discount rate used to discount the estimated future cash flows expected to be received from the underlying investment, which include both future principal and interest payments. Significant increases or decreases in the discount rate would result in a decrease or increase, respectively, in the fair value measurement. Included in the consideration and selection of discount rates are the following factors: risk of default, rating of the investment and comparable company investments, and call provisions.

Changes in market yields, discount rates or EBITDA multiples, each in isolation, may change the fair value of certain of our investments. Generally, an increase in market yields or discount rates or decrease in EBITDA multiples may result in a decrease in the fair value of certain of our investments.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the unrealized gains or losses reflected in the valuations currently assigned.

During the quarter ended September 30, 2013, the valuation methodology for Gulf Coast Machine & Supply Company ("Gulf Coast") changed to incorporate an enterprise value waterfall analysis in place of the income method (discounted cash flow analysis) used in previous quarters. Management adopted the enterprise value waterfall analysis due to a deterioration in operating results. As a result of this change and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Gulf Coast to $12,998 as of September 30, 2013, a discount of $28,215 to its amortized cost, compared to the $9,241 unrealized depreciation recorded at June 30, 2013.

During the quarter ended September 30, 2013, the valuation methodology for ICON Health & Fitness, Inc. ("ICON") changed to incorporate weighted broker quotes in addition to the enterprise value waterfall analysis and income method (discounted cash flow analysis) used in previous quarters. Management adopted the weighted broker quotes because they are representative of sufficient liquidity to provide an indication of value. As a result of this change and in recognition of recent company performance and current market conditions, we increased the fair value of our investment in ICON to

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**Note 3. Portfolio Investments (Continued)**

$37,497 as of September 30, 2013, a discount of $5,800 to its amortized cost, compared to the $9,381 unrealized depreciation recorded at June 30, 2013.

During the quarter ended September 30, 2013, the valuation methodology for National Bankruptcy Services, LLC ("NBS") changed to incorporate an enterprise value waterfall analysis in place of the income method (discounted cash flow analysis) used in previous quarters. Management adopted the enterprise value waterfall analysis due to a deterioration in operating results. As a result of this change and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in NBS to $11,004 as of September 30, 2013, a discount of $7,751 to its amortized cost, compared to the $1,800 unrealized depreciation recorded at June 30, 2013.

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 September 30, 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. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. 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, 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 months ended September 30, 2013, Energy Solutions repaid $4,250 of senior and subordinated secured debt. We received $2,409 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the three months ended September 30, 2013. During the three months ended September 30, 2012, we received distributions of $33,250 from Energy Solutions which were recorded as dividend income. No such dividends were received during the three months ended September 30, 2013. As of September 30, 2013, Energy Solutions continues to hold $7,118 of cash for future investment and repayment of the remaining debt.

As of September 30, 2013, we have provided $127,374 and $26,648 of debt and equity financing, respectively, to APH for the acquisition of various industrial and multi-family residential real estate properties in Florida and Georgia. APH is a holding company that owns 100% of the common equity of American Property Holdings Corp. ("APHC"). APHC is a Maryland corporation and qualified REIT for federal income tax purposes. As of September 30, 2013, APHC's real estate portfolio was

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**Note 3. Portfolio Investments (Continued)**

comprised of seven investments. The following table shows the mortgages outstanding due to other parties for each of the seven properties:

| No. | Property Name | City | Date of Acquisition | Purchase Price | Mortgage Outstanding |
|---|---|---|---|---|---|
| 1 | 146 Forest Parkway | Forest Park, GA | 10/24/2012 | $ 7,400 | $ |
| 2 | Abbington Pointe | Marietta, GA | 12/28/2012 | 23,500 | 15,275 |
| 3 | Amberly Place | Tampa, FL | 1/17/2013 | 63,400 | 39,600 |
| 4 | Lofton Place | Tampa, FL | 4/30/2013 | 26,000 | 16,965 |
| 5 | Vista at Palma Sola | Bradenton, FL | 4/30/2013 | 27,000 | 17,550 |
| 6 | Arlington Park | Marietta, GA | 5/8/2013 | 14,850 | 9,650 |
| 7 | Arium Resort | Pembroke Pines, FL | 6/24/2013 | 225,000 | 157,500 |

At September 30, 2013 and June 30, 2013, eight loan investments were on non-accrual status: Borga, Freedom Marine, THS, Manx, Stryker Energy, LLC, Wind River, Wolf and Yatesville. Principal balances of these loans amounted to $114,376 and $106,395 as of September 30, 2013 and June 30, 2013, respectively. The fair value of these loans amounted to $15,461 and $13,810 as of September 30, 2013 and June 30, 2013, respectively. The fair values of these investments represent approximately 0.3% of our total assets as of September 30, 2013 and June 30, 2013. For the three months ended September 30, 2013 and September 30, 2012, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to $5,570 and $7,212, respectively.

On August 6, 2013, we received a distribution of $3,252 related to our investment in NRG Manufacturing, Inc., for which we realized a gain of the same amount. This was a partial release of the amount held in escrow.

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled $556,843 and $747,937 during the three months ended September 30, 2013 and September 30, 2012, respectively. Debt repayments and proceeds from sales of equity securities with a cost basis of approximately $164,167 and $158,123 were received during the three months ended September 30, 2013 and September 30, 2012, respectively.

During the quarters ended September 30, 2013 and September 30, 2012, we recognized $240 and $284 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. No accelerated accretion was recorded during the three months ended September 30, 2013 and September 30, 2012.

As of September 30, 2013, $300 of purchase discount from the assets acquired from Patriot remains to be accreted as interest income, of which $160 is expected to be amortized during the three months ending December 31, 2013.

As of September 30, 2013, $3,295,801 of our loans bear interest at floating rates, $3,266,481 of which have Libor floors ranging from 1.25% to 6.00%.

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**Note 3. Portfolio Investments (Continued)**

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of September 30, 2013 and June 30, 2013, we have $206,684 and $202,518 of undrawn revolver commitments to our portfolio companies, respectively.

**Note 4. Revolving Credit Agreements**

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 $567,500 under the 2012 Facility as of September 30, 2013; which was increased to $587,500 in October 2013 (see Note 16). The 2012 Facility includes an accordion feature which allows commitments to be increased up to $650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At September 30, 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 September 30, 2013 and June 30, 2013, we had $498,675 and $473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was $69,000 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 commitment amount of $587,500. At September 30, 2013, the investments used as collateral for the 2012 Facility had an aggregate market value of $884,267, which represents 18.8% of our total investments at fair value. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at fair value as of September 30, 2013. 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 $11,399 of fees, including $1,319 of fees carried over from the previous facility, which are being amortized over

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**Note 4. Revolving Credit Agreements (Continued)**

the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments,* of which $5,966 remains to be amortized.

During the three months ended September 30, 2013 and September 30, 2012, we recorded $2,476 and $2,168 of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense, respectively.

**Note 5. Senior Convertible Notes**

On December 21, 2010, we issued $150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds after underwriting expenses of approximately $145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 88.0902 and 88.1429 shares of common stock, respectively, per $1 principal amount of 2015 Notes, which is equivalent to an initial conversion price and conversion price at September 30, 2013 of approximately $11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (December 21, 2012) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes is increased if monthly cash dividends paid to common shares exceed the rate of $0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued $172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds after underwriting expenses of approximately $167,325. Between January 30, 2012 and February 2, 2012, we repurchased $5,000 of our 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. Interest on the remaining $167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 78.3699 and 78.5395 shares of common stock, respectively, per $1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately $12.76 and $12.73 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (February 14, 2013) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.101150 per share.

On April 16, 2012, we issued $130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds after underwriting expenses of approximately $126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and

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**Note 5. Senior Convertible Notes (Continued)**

April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 85.8442 and 86.1162 shares of common stock, respectively, per $1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately $11.65 and $11.61 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (April 16, 2013) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.10150 per share.

On August 14, 2012, we issued $200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds after underwriting expenses of approximately $193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 82.3451and 82.8631 of common stock, respectively, per $1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately $12.14 and $12.07 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (August 14, 2013) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.101600 per share.

On December 21, 2012, we issued $200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds after underwriting and other expenses of approximately $193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 79.7766 shares of common stock per $1 principal amount of 2019 Notes, which is equivalent to a conversion price of approximately $12.54 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (December 21, 2012) and will be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2019 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.110025 per share.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per $1 principal amount of the 2015 Notes (the "conversion rate cap"), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the "Guidance") permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference

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**Note 5. Senior Convertible Notes (Continued)**

property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

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

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the Notes surrendered for conversion representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, and the 2019 Notes (collectively, the "Senior Convertible Notes").

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

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

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 $19,149 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2013.

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**Note 5. Senior Convertible Notes (Continued)**

During the three months ended September 30, 2013 and September 30, 2012, we recorded $13,310 and $8,667 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense, respectively.

**Note 6. Senior Unsecured Notes**

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

On March 15, 2013, we issued $250,000 in aggregate principal amount of 5.875% senior unsecured notes due 2023 (the "2023 Notes") for net proceeds after underwriting and other expenses of approximately $245,885. Interest on the 2023 Notes is paid semi-annually. The 2023 Notes mature on March 15, 2023. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

In connection with the issuance of the 2022 Notes and 2023 Notes (collectively, the "Senior Unsecured Notes"), we incurred $7,364 of fees which are being amortized over the term of the notes, of which $6,866 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2013.

During the three months ended September 30, 2013 and September 30, 2012, we recorded $5,541 and $1,807 of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense, respectively.

**Note 7. Prospect Capital InterNotes®**

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

These notes are direct unsecured senior obligations and will 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.

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**(Unaudited)**

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**Note 7. Prospect Capital InterNotes® (Continued)**

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

| Date of Issuance | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date |
|---|---|---|---|---|
| July 5, 2013 July 25, 2013 | 18,557 | 4.75% 5.00% | 4.96% | July 15, 2018 |
| August 8, 2013 August 22, 2013 | 11,885 | 5.00% | 5.00% | August 15, 2018 |
| September 6, 2013 September 26, 2013 | 21,095 | 5.00% | 5.00% | September 15, 2018 |
| August 1, 2013 | 3,820 | 5.00% | 5.00% | February 15, 2019 |
| August 15, 2013 August 22, 2013 | 1,800 | 5.50% | 5.50% | February 15, 2020 |
| July 5, 2013 July 25, 2013 | 8,962 | 5.50% 5.75% | 5.65% | July 15, 2020 |
| August 8, 2013 | 851 | 5.50% | 5.50% | August 15, 2020 |
| September 6, 2013 September 26, 2013 | 4,586 | 5.50% | 5.50% | September 15, 2020 |
| August 1, 2013 | 1,996 | 5.75% | 5.75% | February 15, 2021 |
| August 15, 2013 August 22, 2013 | 940 | 6.00% | 6.00% | August 15, 2028 |
| July 5, 2013 July 25, 2013 | 2,960 | 6.25% | 6.25% | July 15, 2031 |
| August 1, 2013 August 8, 2013 | 1,102 | 6.00% 6.125% | 6.09% | August 15, 2031 |
| September 6, 2013 September 26, 2013 | 1,127 | 6.00% | 6.00% | September 15, 2033 |
| August 15, 2013 August 22, 2013 | 3,372 | 6.50% | 6.50% | August 15, 2038 |
| July 5, 2013 July 25, 2013 | 7,337 | 6.75% | 6.75% | July 15, 2043 |
| August 1, 2013 August 8, 2013 | 2,707 | 6.50% 6.625% | 6.57% | August 15, 2043 |
| September 6, 2013 September 26, 2013 | 5,158 | 6.50% | 6.50% | September 15, 2043 |
| | **$ 98,255** | | | |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 7. Prospect Capital InterNotes® (Continued)**

Below are the notes outstanding as of September 30, 2013:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | | Average Interest Rate | Maturity Date Range | |
|---|---|---|---|---|---|---|
| 5 | $ 51,537 | 4.75% | 5.00% | 4.95% | July 15, 2018 | September 15, 2018 |
| 6 | 5,134 | 5.00% | 5.50% | 5.25% | February 15, 2019 | February 15, 2020 |
| 7 | 209,767 | 4.00% | 6.55% | 5.15% | June 15, 2019 | September 15, 2020 |
| 8 | 1,996 | 5.75% | | 5.75% | | February 15, 2021 |
| 10 | 18,127 | 3.27% | 7.00% | 5.30% | March 15, 2022 | April 15, 2023 |
| 15 | 15,940 | 5.00% | 6.00% | 5.50% | May 15, 2028 | August 15, 2028 |
| 18 | 26,219 | 4.125% | 6.25% | 5.24% | December 15, 2030 | August 15, 2031 |
| 20 | 4,233 | 5.625% | 6.00% | 5.90% | November 15, 2032 | September 15, 2033 |
| 25 | 3,372 | 6.50% | | 6.50% | | August 15, 2038 |
| 30 | 125,652 | 5.50% | 6.75% | 6.13% | November 15, 2042 | September 15, 2043 |
| | **$ 461,977** | | | | | |

In connection with the issuance of the Prospect Capital InterNotes®, we incurred $12,757 of fees which are being amortized over the term of the notes, of which $12,212 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2013.

During the three months ended September 30, 2013 and September 30, 2012, we recorded $6,044 and $869 of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense, respectively.

**Note 8. Financial Instruments Disclosed, But Not Carried, At Fair Value**

The fair values of our financial liabilities disclosed, but not carried, at fair value as of September 30, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

| | Fair Value Hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Credit facility payable(1) | $ | $ 69,000 | $ | $ 69,000 |
| Senior convertible notes(2) | | 882,149 | | 882,149 |
| Senior unsecured notes(2) | 101,800 | 242,013 | | 343,813 |
| Prospect Capital InterNotes®(3) | | 429,366 | | 429,366 |
| Total | $ 101,800 | $ 1,622,528 | $ | $ 1,724,328 |

(1) The carrying value of our credit facility payable approximates the fair value.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 8. Financial Instruments Disclosed, But Not Carried, At Fair Value (Continued)**

(2) We use available market quotes to estimate the fair value of the Senior Convertible Notes and Senior Unsecured Notes.

(3) The fair value of our Prospect Capital InterNotes® is estimated by discounting remaining payments using estimated current market rates.

The fair values of our financial liabilities disclosed, but not carried, at fair value as of June 30, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

| | Fair Value Hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Credit facility payable(1) | $ | $ 124,000 | $ | $ 124,000 |
| Senior convertible notes(2) | | 886,210 | | 886,210 |
| Senior unsecured notes(2) | 101,800 | 242,013 | | 343,813 |
| Prospect Capital InterNotes®(3) | | 336,055 | | 336,055 |
| Total | $ 101,800 | $ 1,588,278 | $ | $ 1,690,078 |

(1) The carrying value of our credit facility payable approximates the fair value.

(2) We use available market quotes to estimate the fair value of the Senior Convertible Notes and Senior Unsecured Notes.

(3) The fair value of our Prospect Capital InterNotes® is estimated by discounting remaining payments using estimated current market rates.

**Note 9. Equity Offerings, Offering Expenses, and Distributions**

Excluding dividend reinvestments, we issued 23,211,680 and 33,161,977 shares of our common stock during the three months ended September 30, 2013 and September 30, 2012, respectively. The

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)**

proceeds raised, the related underwriting fees, the offering expenses and the prices at which these shares were issued are as follows:

| Issuances of Common Stock | Number of Shares Issued | Gross Proceeds Raised | Underwriting Fees | Offering Expenses | Average Offering Price |
|---|---|---|---|---|---|
| During the quarter ended September 30, 2013: | | | | | |
| July 5, 2013 August 21, 2013(1) | 9,818,907 | $ 107,725 | $ 902 | $ | $ 10.97 |
| August 2, 2013(2) | 1,918,342 | $ 21,006 | $ | $ | $ 10.95 |
| August 29, 2013 September 30, 2013(3) | 11,474,431 | $ 130,311 | $ 1,303 | $ 793 | $ 11.36 |
| During the quarter ended September 30, 2012: | | | | | |
| July 2, 2012 July 12, 2012(4) | 2,247,275 | $ 26,040 | $ 260 | $ | $ 11.59 |
| July 16, 2012 | 21,000,000 | $ 234,150 | $ 2,100 | $ 300 | $ 11.15 |
| July 27, 2012 | 3,150,000 | $ 35,123 | $ 315 | $ | $ 11.15 |
| September 13, 2012 September 28, 2012(5) | 6,764,702 | $ 80,249 | $ 805 | $ 332 | $ 11.86 |

(1) On May 8, 2013, we established an at-the-market program through which we may sell, from time to time and at our sole discretion 45,000,000 shares of our common stock. Through this program we issued 9,818,907 shares of our common stock at an average price of $10.97 per share, raising $107,725 of gross proceeds, from July 5, 2013 through August 21, 2013.

(2) On August 2, 2013, we issued 1,918342 shares of our common stock in conjunction with an investment in a controlled portfolio company.

(3) On August 22, 2013, we established an at-the-market program through which we may sell, from time to time and at our sole discretion 45,000,000 shares of our common stock. Through this program we issued 11,474,431 shares of our common stock at an average price of $11.36 per share, raising $130,311 of gross proceeds, from August 29, 2013 through September 30, 2013.

(4) On June 1, 2012, we established a fifth at-the-market program through which we may sell, from time to time and at our sole discretion 9,500,000 shares of our common stock. Through this program we issued 5,199,764 shares of our common stock at an average price of $11.38 per share, raising $59,170 of gross proceeds, from June 12, 2012 through July 12, 2012.

(5) On September 10, 2012, we established a sixth at-the-market program through which we may sell, from time to time and at our sole discretion 9,750,000 shares of our common stock. Through this program we issued 6,764,702 shares of our common stock at an average price of $11.86 per share, raising $80,249 of gross proceeds, from September 13, 2012 through September 28, 2012.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)**

Our shareholders' equity accounts at September 30, 2013 and June 30, 2013 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters and our dividend reinvestment plan. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan under which we may repurchase up to $100,000 of our common stock at prices below our net asset value. We have not made any purchases of our common stock during the period from August 24, 2011 to September 30, 2013 pursuant to this plan. Prior to any repurchase we are required to notify shareholders of our intention to purchase our common stock. This notice lasts for six months after notice is given. Our last notice was delivered with our annual proxy mailing on September 10, 2013.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, as of September 30, 2013 we can issue up to $1,406,927 of additional debt and equity securities in the public market.

On June 17, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

$0.110225 per share for September 2013 to holders of record on September 30, 2013 with a payment date of October 24, 2013;

$0.110250 per share for October 2013 to holders of record on October 31, 2013 with a payment date of November 21, 2013;

$0.110275 per share for November 2013 to holders of record on November 29, 2013 with a payment date of December 19, 2013; and

$0.110300 per share for December 2013 to holders of record on December 31, 2013 with a payment date of January 23, 2014.

On August 21, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

$0.110325 per share for January 2014 to holders of record on January 31, 2014 with a payment date of February 20, 2014;

$0.110350 per share for February 2014 to holders of record on February 28, 2014 with a payment date of March 20, 2014; and

$0.110375 per share for March 2014 to holders of record on March 31, 2014 with a payment date of April 17, 2014.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)**

During the three months ended September 30, 2013 and September 30, 2012, we issued 355,644 and 355,871 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

At September 30, 2013, we have reserved 70,377,219 shares of our common stock for issuance upon conversion of the Senior Convertible Notes (see Note 5).

**Note 10. Other Investment Income**

Other investment income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests, deal deposits, administrative agent fee, and other miscellaneous and sundry cash receipts. Income from such sources was $15,524 and $9,118 for the three months ended September 30, 2013 and September 30, 2012, respectively.

| | For The Three Months Ended September 30, | |
|---|---|---|
| **Income Source** | **2013** | **2012** |
| Structuring, advisory and amendment fees (Note 3) | $ 9,078 | $ 9,036 |
| Recovery of legal costs from prior periods from legal settlement | 5,000 | |
| Overriding royalty interests | 1,339 | 14 |
| Administrative agent fee | 107 | 68 |
| Other Investment Income | $ 15,524 | $ 9,118 |

**Note 11. Net Increase in Net Assets per Common Share**

The following information sets forth the computation of net increase in net assets resulting from operations per common share for the three months ended September 30, 2013 and September 30, 2012, respectively.

| | For The Three Months Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| Net increase in net assets resulting from operations | $ 79,900 | $ 47,249 |
| Weighted average common shares outstanding | 258,084,153 | 162,492,894 |
| Net increase in net assets resulting from operations per common share | $ 0.31 | $ 0.29 |

**Note 12. Related Party Agreements and Transactions**

*Investment Advisory Agreement*

We have entered into an investment advisory and management agreement with Prospect Capital Management (the "Investment Advisory Agreement") under which the Investment Adviser, subject to

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 12. Related Party Agreements and Transactions (Continued)**

the overall supervision of our Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, the Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and (iii) closes and monitors investments we make.

Prospect Capital Management's services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% on our gross assets (including amounts borrowed). For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

The total base management fees incurred to the favor of the Investment Adviser for the three months ended September 30, 2013 and September 30, 2012 were $23,045 and $13,228, respectively.

The incentive fee has two parts. The first part, the income incentive fee, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a "hurdle rate" of 1.75% per quarter (7.00% annualized).

The net investment income used to calculate this part of the incentive fee is also included in the amount of the gross assets used to calculate the 2.00% base management fee. We pay the Investment Adviser an income incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 12. Related Party Agreements and Transactions (Continued)**

100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate); and

20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).

These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in its portfolio. For the purpose of this calculation, an "investment" is defined as the total of all rights and claims which maybe asserted against a portfolio company arising from our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equal the sum of the differences between the aggregate net sales price of each investment and the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate realized capital losses equal the sum of the amounts by which the aggregate net sales price of each investment is less than the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the aggregate valuation of each investment and the aggregate cost basis of such investment as of the applicable calendar year-end. At the end of the applicable calendar year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis and then reducing this amount by the aggregate unrealized capital depreciation. If this number is positive, then the capital gains incentive fee payable is equal to 20.00% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception.

For the three months ended September 30, 2013 and September 30, 2012, $20,584 and $18,507, respectively, of income incentive fees were incurred. No capital gains incentive fees were incurred for the three months ended September 30, 2013 and September 30, 2012, respectively.

*Administration Agreement*

We have also entered into an Administration Agreement with Prospect Administration, LLC ("Prospect Administration") under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services,

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

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**(in thousands, except share and per share data)**

**Note 12. Related Party Agreements and Transactions (Continued)**

we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our chief financial officer and chief compliance officer and his staff. For the three months ended September 30, 2013 and 2012, the reimbursement was approximately $3,986 and $2,184, respectively. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Prospect Administration is a wholly owned subsidiary of the Investment Adviser.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Administration and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Administration's services under the Administration Agreement or otherwise as administrator for us.

*Managerial Assistance*

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. As of September 30, 2013 and June 30, 2013, $130 and $1,291 of managerial assistance fees remain on the Consolidated Statements of Assets and Liabilities as a payable to Prospect Administration for reimbursement of its cost in providing such assistance.

**Note 13. Litigation**

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. During the three months ended

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

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**Note 13. Litigation (Continued)**

September 30, 2013, we received $5,000 of legal cost reimbursement from a litigation settlement, which had been expensed in prior quarters, and is recognized as other income on our consolidated financial statements. We are not aware of any other material litigation as of the date of this report.

**Note 14. Financial Highlights (Unaudited)**

| | For The Three Months Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| **Per Share Data(1):** | | |
| Net asset value at beginning of period | $ 10.72 | $ 10.83 |
| Net investment income | 0.32 | 0.46 |
| Net realized gain | 0.01 | 0.01 |
| Net unrealized depreciation | (0.02) | (0.18) |
| Net increase in net assets as a result of public offerings | 0.02 | 0.07 |
| Dividends declared and paid | (0.33) | (0.31) |
| Net asset value at end of period | $ 10.72 | $ 10.88 |
| Per share market value at end of period | $ 11.17 | $ 11.52 |
| Total return based on market value(2) | 6.49% | 3.82% |
| Total return based on net asset value(2) | 2.96% | 3.12% |
| Shares outstanding at end of period | 271,404,289 | 173,151,718 |
| Average weighted shares outstanding for period | 258,084,153 | 162,492,894 |
| **Ratio / Supplemental Data:** | | |
| Net assets at end of period | $ 2,909,755 | $ 1,883,326 |
| Portfolio turnover rate | 3.76% | 6.65% |
| Annualized ratio of operating expenses to average net assets | 11.31% | 11.69% |
| Annualized ratio of net operating income to average net assets | 11.83% | 17.44% |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

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**Note 14. Financial Highlights (Unaudited) (Continued)**

| | Year Ended June 30, 2013 | Year Ended June 30, 2012 | Year Ended June 30, 2011 | Year Ended June 30, 2010 | Year Ended June 30, 2009 |
|---|---|---|---|---|---|
| **Per Share Data(1):** | | | | | |
| Net asset value at beginning of period | $ 10.83 | $ 10.36 | $ 10.30 | $ 12.40 | $ 14.55 |
| Net investment income | 1.57 | 1.63 | 1.10 | 1.13 | 1.87 |
| Realized (loss) gain | (0.13) | 0.32 | 0.19 | (0.87) | (1.24) |
| Net unrealized (depreciation) appreciation | (0.37) | (0.28) | 0.09 | 0.07 | 0.48 |
| Net increase (decrease) in net assets as a result of public offering | 0.13 | 0.04 | (0.08) | (0.85) | (2.11) |
| Net increase in net assets as a result of shares issued for Patriot acquisition | | | | 0.12 | |
| Dividends to shareholders | (1.31) | (1.24) | (1.24) | (1.70) | (1.15) |
| Net asset value at end of period | $ 10.72 | $ 10.83 | $ 10.36 | $ 10.30 | $ 12.40 |
| Per share market value at end of period | $ 10.80 | $ 11.39 | $ 10.11 | $ 9.65 | $ 9.20 |
| Total return based on market value(2) | 6.24% | 27.21% | 17.22% | 17.66% | (18.60%) |
| Total return based on net asset value(2) | 10.91% | 18.03% | 12.54% | (6.82%) | (0.61%) |
| Shares outstanding at end of period | 247,836,965 | 139,633,870 | 107,606,690 | 69,086,862 | 42,943,084 |
| Average weighted shares outstanding for period | 207,069,971 | 114,394,554 | 85,978,757 | 59,429,222 | 31,559,905 |
| **Ratio / Supplemental Data:** | | | | | |
| Net assets at end of period (in thousands) | $ 2,656,494 | $ 1,511,974 | $ 1,114,357 | $ 711,424 | $ 532,596 |
| Portfolio turnover rate | 29.24% | 29.06% | 27.63% | 21.61% | 4.99% |
| Annualized ratio of operating expenses to average net assets | 11.50% | 10.73% | 8.47% | 7.54% | 9.03% |
| Annualized ratio of net investment income to average net assets | 14.86% | 14.92% | 10.60% | 10.69% | 13.14% |

(1) Financial highlights are based on weighted average shares.

(2) 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.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 15. Selected Quarterly Financial Data (Unaudited)**

| | Investment Income | | Net Investment Income | | Net Realized and Unrealized Gains (Losses) | | Net Increase (Decrease) in Net Assets from Operations | |
|---|---|---|---|---|---|---|---|---|
| Quarter Ended | Total | Per Share(1) | Total | Per Share(1) | Total | Per Share(1) | Total | Per Share(1) |
| September 30, 2010 | 35,212 | 0.47 | 20,995 | 0.28 | 4,585 | 0.06 | 25,580 | 0.34 |
| December 31, 2010 | 33,300 | 0.40 | 19,080 | 0.23 | 12,861 | 0.16 | 31,940 | 0.38 |
| March 31, 2011 | 44,573 | 0.51 | 23,956 | 0.27 | 9,803 | 0.11 | 33,759 | 0.38 |
| June 30, 2011 | 56,391 | 0.58 | 30,190 | 0.31 | (3,232) | (0.03) | 26,959 | 0.28 |
| September 30, 2011 | 55,342 | 0.51 | 27,877 | 0.26 | 12,023 | 0.11 | 39,900 | 0.37 |
| December 31, 2011 | 67,263 | 0.61 | 36,508 | 0.33 | 27,984 | 0.26 | 64,492 | 0.59 |
| March 31, 2012 | 95,623 | 0.84 | 58,072 | 0.51 | (7,863) | (0.07) | 50,209 | 0.44 |
| June 30, 2012 | 102,682 | 0.82 | 64,227 | 0.52 | (27,924) | (0.22) | 36,303 | 0.29 |
| September 30, 2012 | 123,636 | 0.76 | 74,027 | 0.46 | (26,778) | (0.17) | 47,249 | 0.29 |
| December 31, 2012 | 166,035 | 0.85 | 99,216 | 0.51 | (52,727) | (0.27) | 46,489 | 0.24 |
| March 31, 2013 | 120,195 | 0.53 | 59,585 | 0.26 | (15,156) | (0.07) | 44,429 | 0.20 |
| June 30, 2013 | 166,470 | 0.68 | 92,096 | 0.38 | (9,407) | (0.04) | 82,689 | 0.34 |
| September 30, 2013 | 161,034 | 0.62 | 82,337 | 0.32 | (2,437) | (0.01) | 79,900 | 0.31 |

(1) Per share amounts are calculated using weighted average shares during period.

**Note 16. Subsequent Events**

During the period from October 1, 2013 to November 4, 2013, we issued $56,771 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $55,739. In addition, we sold $8,158 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of $8,005 with expected closing on November 7, 2013.

During the period from October 1, 2013 to November 4, 2013, we sold 12,652,811 shares of our common stock at an average price of $11.21 per share, and raised $141,804 of gross proceeds, under the ATM Program. Net proceeds were $140,416 after commissions to the broker-dealer on shares sold and offering costs.

On October 1, 2013, we made a $2,600 follow-on investment in Airmall, a leading developer and manager of airport retail operations.

On October 2, 2013, we announced an increase of $20,000 to our commitments to our credit facility. The commitments to the credit facility now stand at $587,500.

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

On October 11, 2013, we made a $5,846 follow-on senior debt and equity investment in CP Holdings of Delaware LLC, an energy services company based in western Oklahoma.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 16. Subsequent Events (Continued)**

On October 11, 2013, we provided $25,000 in preferred equity for the recapitalization of Ajax Rolled Ring & Machine, Inc. After the financing, we received repayment of the $20,009 loan previously outstanding.

On October 15, 2013, we made a secured debt investment of $2,000 in Digital Insight, a leading 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 the same day, we fully exited the deal and realized a gain of $20 on this investment.

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 an additional $5,000,000 of debt and equity securities.

On October 16, 2013, we made a secured debt investment of $7,000 in Renaissance Learning, Inc., a leading provider of technology based school improvement and student assessment programs. On November 4, 2013, we fully exited the investment and realized a gain of $140 on this investment.

On October 17, 2013, $19,730 of the Apidos CLO VIII, Ltd. subordinated notes were called.

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 24, 2013, we issued 135,212 shares of our common stock in connection with the dividend reinvestment plan.

On October 29, 2013, we made a $2,000 follow-on investment in APH.

On October 30, 2013, we made a secured debt investment of $2,500 in Omnitracs, Inc., one of the world's largest providers of satellite and terrestrial-based connectivity and position location solutions to transportation and logistics companies. On the same day, we fully exited the deal and realized a gain of $25 on this investment.

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 4, 2013, we fully exited this investment and realized a gain of $60 on this investment.

On October 31, 2013, we sold $18,755 of the National Bankruptcy Services, LLC loan receivable. The loan receivable was sold at a discount, for which we realized a loss of $7,854.

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

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.

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

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2013**

**(Unaudited)**

**(in thousands, except share and per share data)**

**Note 16. Subsequent Events (Continued)**

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.

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**Filed Pursuant to Rule 497**
**Registration No. 333-190850**

**$5,000,000,000**

# PROSPECT CAPITAL CORPORATION

## Common Stock
## Preferred Stock
## Debt Securities
## Subscription Rights
## Warrants
## Units

We may offer, from time to time, in one or more offerings or series, together or separately, up to $5,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities, collectively, the Securities, to provide us with additional capital. Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

We may offer shares of common stock, subscription rights, units, warrants, options or rights to acquire shares of common stock, at a discount to net asset value per share in certain circumstances. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. At our 2012 annual meeting, held on December 7, 2012, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. We are currently seeking stockholder approval at our 2013 annual meeting, to be held on December 6, 2013, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering.

Our Securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of the prospectus and a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market under the symbol "PSEC." As of October 10, 2013, the last reported sales price for our common stock was $11.07.

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

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

**Investing in our Securities involves a heightened risk of total loss of investment. Before buying any Securities, you should read the discussion of the material risks of investing in our Securities in "Risk Factors" beginning on page 12 of this prospectus.**

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

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

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

The date of this Prospectus is October 15, 2013.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time on a delayed basis, up to $5,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities, on the terms to be determined at the time of the offering. The Securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the heading "Available Information" and the section under the heading "Risk Factors" before you make an investment decision.

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## PROSPECTUS SUMMARY

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

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

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

### The Company

We are a financial services company that lends to and invests in middle market privately-held companies. In this prospectus, we use the term "middle-market" to refer to companies typically with annual revenues between $50 million and $2 billion.

From our inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy, which consists of companies in the discovery, production, transportation, storage and use of energy resources as well as companies that sell products and services to, or acquire products and services from, these companies. Since then, we have widened our strategy to focus on other sectors of the economy and continue to broaden our portfolio holdings.

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

### The Investment Adviser

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

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**Our Investment Objective and Policies**

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We focus on making investments in private companies. We are a non-diversified company within the meaning of the 1940 Act.

We invest primarily in first and second lien senior loans and mezzanine debt. 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. Our investments have generally ranged between $5 million and $250 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

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.

We seek to maximize returns and minimize risk for our investors by applying rigorous analysis to make and monitor our investments. While the structure of our investments varies, we can invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, mezzanine debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yield. While our primary focus is to seek current income through investment in the debt and/or dividend-paying equity securities of eligible privately-held, thinly-traded or distressed companies and long-term capital appreciation by acquiring accompanying warrants, options or other equity securities of such companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek enhanced returns for stockholders. Such investments may include investments in the debt and equity instruments of broadly-traded public companies. We expect that these public companies generally will have debt securities that are non-investment grade. Such investments may also include purchases (either in the primary or secondary markets) of the equity and junior debt tranches of a type of such pools known as CLOs. Structurally, CLOs are entities that are formed to hold a portfolio of senior secured loans ("Senior Secured Loans") made to companies whose debt is rated below investment grade or, in limited circumstances, unrated. The Senior Secured Loans within a CLO are limited to Senior Secured Loans which meet specified credit and diversity criteria and are subject to concentration limitations in order to create an investment portfolio that is diverse by Senior Secured Loan, borrower, and industry, with limitations on non-U.S. borrowers. CLOs are typically highly levered up to approximately 10 times, and therefore the junior debt and equity tranches that we will invest in are subject to a higher risk of total loss. Our potential investment in CLOs is limited by the 1940 Act to 30% of our portfolio. Within this 30% basket, we have and may make additional investments in debt and equity securities of financial companies and companies located outside of the United States.

**The Offering**

We may offer, from time to time, in one or more offerings or series, together or separately, up to $5,000,000,000 of our Securities, which we expect to use initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objectives.

Our Securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to a particular offering will disclose the terms of that offering, including the name or names of any agents, underwriters or dealers involved in the sale of our Securities by us, the purchase price, and any fee,

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commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

We may sell our common stock, subscription rights, units, warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock upon approval of our directors, including a majority of our independent directors, in certain circumstances. Our stockholders approved our ability to issue warrants, options or rights to acquire our common stock at our 2008 annual meeting of stockholders for an unlimited time period and in accordance with the 1940 Act which provides that the conversion or exercise price of such warrants, options or rights may be less than net asset value per share at the date such securities are issued or at the date such securities are converted into or exercised for shares of our common stock. At our 2012 annual meeting, held on December 7, 2012, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of the stockholder approval. We are currently seeking stockholder approval at our 2013 annual meeting, to be held on December 6, 2013, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering. See "Sales of Common Stock Below Net Asset Value" in this prospectus and in the prospectus supplement, if applicable. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. We have no current intention of engaging in a rights offering, although we reserve the right to do so in the future.

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

| | |
|---|---|
| **Use of proceeds** | Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. 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. See "Use of Proceeds." |

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| | |
|---|---|
| **Distributions** | In June 2010, our Board of Directors approved a change in dividend policy from quarterly distributions to monthly distributions. Since that time, we have paid monthly distributions to the holders of our common stock and generally intend to continue to do so. The amount of the monthly distributions is determined by our Board of Directors and is based on our estimate of our investment company taxable income and net short-term capital gains. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the month as a result of our deliberate planning or accounting reclassifications. Distributions in excess of our current and accumulated earnings and profits constitute a return of capital and will reduce the stockholder's adjusted tax basis in such stockholder's common stock. A return of capital (1) is a return of the original amount invested, (2) does not constitute earnings or profits and (3) while such returns are initially tax free, they will have the effect of reducing the basis such that when a stockholder sells its shares, it may be subject to additional tax even if the shares are sold for less than the original purchase price. After the adjusted basis is reduced to zero, these distributions will constitute capital gains to such stockholders. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of Securities will likely pay distributions in accordance with their terms. See "Price Range of Common Stock," "Distributions" and "Material U.S. Federal Income Tax Considerations." |
| **Taxation** | We have qualified and elected to be treated for U.S. federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or the Code. As a RIC, we generally do not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our qualification as a RIC and obtain RIC tax treatment, we must satisfy certain source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See "Distributions" and "Material U.S. Federal Income Tax Considerations." |
| **Dividend reinvestment plan** | We have a dividend reinvestment plan for our stockholders. This is an "opt out" dividend reinvestment plan. As a result, when we declare a dividend, the dividends are automatically reinvested in additional shares of our common stock, unless a stockholder specifically "opts out" of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan." |
| **The NASDAQ Global Select Market Symbol** | PSEC |

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| | |
|---|---|
| **Anti-takeover provisions** | Our charter and bylaws, as well as certain statutory and regulatory requirements, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. See "Description Of Our Capital Stock." |
| **Management arrangements** | Prospect Capital Management serves as our investment adviser. Prospect Administration serves as our administrator. For a description of Prospect Capital Management, Prospect Administration and our contractual arrangements with these companies, see "Business  Management Services  Investment Advisory Agreement," and "Business  Management Services  Administration Agreement." |
| **Risk factors** | Investment in our Securities involves certain risks relating to our structure and investment objective that should be considered by prospective purchasers of our Securities. In addition, as a business development company, our portfolio primarily includes securities issued by privately-held companies. These investments generally involve a high degree of business and financial risk, and are less liquid than public securities. We are required to mark the carrying value of our investments to fair value on a quarterly basis, and economic events, market conditions and events affecting individual portfolio companies can result in quarter-to-quarter mark-downs and mark-ups of the value of individual investments that collectively can materially affect our net asset value, or NAV. Also, our determinations of fair value of privately-held securities may differ materially from the values that would exist if there was a ready market for these investments. A large number of entities compete for the same kind of investment opportunities as we do. Moreover, our business requires a substantial amount of capital to operate and to grow and we seek additional capital from external sources. In addition, the failure to qualify as a RIC eligible for pass-through tax treatment under the Code on income distributed to stockholders could have a materially adverse effect on the total return, if any, obtainable from an investment in our Securities. See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Securities. |

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| | |
|---|---|
| **Plan of distribution** | We may offer, from time to time, up to $5,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities on the terms to be determined at the time of the offering. Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. We may not sell Securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such Securities. For more information, see "Plan of Distribution." |

**Fees and Expenses**

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed $2.3 billion. We do not intend to issue preferred stock during the year. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

| | |
|---|---|
| **Stockholder transaction expenses:** | |
| Sales load (as a percentage of offering price)(1) | 3.00% |
| Offering expenses borne by the Company (as a percentage of offering price)(2) | 0.20% |
| Dividend reinvestment plan expenses(3) | None |
| Total stockholder transaction expenses (as a percentage of offering price)(4) | 3.20% |
| **Annual expenses (as a percentage of net assets attributable to common stock)(4):** | |
| Management fees(5) | 3.88% |
| Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6) | 3.06% |
| Total advisory fees | 6.94% |
| Total interest expense(7) | 4.32% |
| Acquired Fund Fees and Expenses(8) | 0.02% |
| Other expenses(9) | 1.21% |
| Total annual expenses(6)(9) | 12.49% |

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**Example**

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed $2.3 billion, that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return | $ 123.32 | $ 293.98 | $ 449.85 | $ 782.94 |

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

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

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

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

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

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

(5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non-investment purposes, for which purpose we have not and have no intention of borrowing). Although we have no intent to borrow the entire amount available under our line of credit, assuming that we borrowed $2.3 billion, the 2% management fee of gross assets equals approximately 3.88% of net assets. Based on our borrowings as of October 10, 2013 of $1.6 billion, the 2% management fee of gross assets equals approximately 3.44% of net assets. See "Business Management Services  Investment Advisory Agreement" and footnote 6 below.

(6) Based on the incentive fee paid during our fiscal year ended June 30, 2013, all of which consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre-incentive

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

(7)

On December 21, 2010, the Company issued $150.0 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the 2015 Notes. See "Business  General" and "Risk Factors  Risks Related to our Business" in the accompanying prospectus for more detail on the 2015 Notes. On February 18, 2011, the Company issued $172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the 2016 Notes. Between January 30, 2012 and February 2, 2012, we repurchased $5.0 million of our 2016 Notes at a price of 97.5% of par, including commissions. The transactions resulted in us recognizing $10,000 of loss in the quarter ended March 31, 2012. See "Business  General" and "Risk Factors  Risks Related to our Business" in the accompanying prospectus for more detail on the 2016 Notes. On April 16, 2012, the Company issued $130.0 million in aggregate principal amount of 5.375% Convertible Senior Notes due 2017, which we refer to as the 2017 Notes. On August 14, 2012, the Company issued $200.0 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018, which we refer to as the 2018 Notes. On December 21, 2012, the Company issued $200.0 million aggregate principal amount of 5.875% Convertible Senior Notes due 2019, which we refer to as the 2019 Notes. The 2015 Notes, 2016 Notes, 2017 Notes, 2018 Notes and 2019 Notes are referred to collectively as the Senior Convertible Notes. On May 1, 2012 the Company issued $100.0 million in aggregate principal amount of 6.95% Senior Notes due 2022, which we refer to as the 2022 Notes. On March 15, 2013 the Company issued $250.0 million in aggregate principal amount of 5.875% Senior Notes due 2023, which we refer to as the 2023 Notes. As of October 10, 2013, the Company has issued $0.5 billion in aggregate principal amount of our Prospect Capital InterNotes®. The Senior Convertible Notes, the 2022 Notes, the 2023 Notes and the Prospect Capital InterNotes® are referred to collectively as the Notes.

(8)

The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of June 30, 2013. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately $2.7 billion as of June 30, 2013.

(9)

"Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended June 30, 2013 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business  Management Services  Administration Agreement."

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## SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus. Financial information below for the years ended June 30, 2013, 2012, 2011, 2010 and 2009 has been derived from the financial statements that were audited by our independent registered public accounting firm. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page 44 for more information.

| | For the Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (in thousands except data relating to shares, per share and number of portfolio companies) | | | | |
| **Performance Data:** | | | | | |
| Interest income | $ 435,455 | $ 219,536 | $ 134,454 | $ 86,518 | $ 62,926 |
| Dividend income | 82,705 | 64,881 | 15,092 | 15,366 | 22,793 |
| Other income | 58,176 | 36,493 | 19,930 | 12,675 | 14,762 |
| Total investment income | 576,336 | 320,910 | 169,476 | 114,559 | 100,481 |
| Interest and credit facility expenses | (76,341) | (38,534) | (17,598) | (8,382) | (6,161) |
| Investment advisory expense | (151,031) | (82,507) | (46,051) | (30,727) | (26,705) |
| Other expenses | (24,040) | (13,185) | (11,606) | (8,260) | (8,452) |
| Total expenses | (251,412) | (134,226) | (75,255) | (47,369) | (41,318) |
| Net investment income | 324,924 | 186,684 | 94,221 | 67,190 | 59,163 |
| Realized and unrealized (losses) gains | (104,068) | 4,220 | 24,017 | (47,565) | (24,059) |
| Net increase in net assets from operations | $ 220,856 | $ 190,904 | $ 118,238 | $ 19,625 | $ 35,104 |
| **Per Share Data:** | | | | | |
| Net increase in net assets from operations(1) | $ 1.07 | $ 1.67 | $ 1.38 | $ 0.33 | $ 1.11 |
| Distributions declared per share | $ (1.28) | $ (1.22) | $ (1.21) | $ (1.33) | $ (1.62) |
| Average weighted shares outstanding for the period | 207,069,971 | 114,394,554 | 85,978,757 | 59,429,222 | 31,559,905 |
| **Assets and Liabilities Data:** | | | | | |
| Investments | $ 4,172,852 | $ 2,094,221 | $ 1,463,010 | $ 748,483 | $ 547,168 |
| Other assets | 275,365 | 161,033 | 86,307 | 84,212 | 119,857 |
| Total assets | 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 | 447,500 | 322,500 | | |
| Senior unsecured notes | 347,725 | 100,000 | | | |
| InterNotes® | 363,777 | 20,638 | | | |
| Amount owed to related parties | 6,690 | 8,571 | 7,918 | 9,300 | 6,713 |
| Other liabilities | 102,031 | 70,571 | 20,342 | 11,671 | 2,916 |
| Total liabilities | 1,791,723 | 743,280 | 434,960 | 121,271 | 134,429 |

| | | | | | |
|---|---|---|---|---|---|
| Net assets | $ 2,656,494 | $ 1,511,974 | $ 1,114,357 | $ 711,424 | $ 532,596 |
| **Investment Activity Data:** | | | | | |
| No. of portfolio companies at period end | 124 | 85 | 72 | 58 | 30 |
| Acquisitions | $ 3,103,217 | $ 1,120,659 | $ 953,337 | $ 364,788(2) | $ 98,305 |
| Sales, repayments, and other disposals | $ 931,534 | $ 500,952 | $ 285,562 | $ 136,221 | $ 27,007 |
| Total return based on market value(3) | 6.2% | 27.2% | 17.2% | 17.7% | (18.6)% |
| Total return based on net asset value(3) | 10.9% | 18.0% | 12.5% | (6.8)% | (0.6)% |
| Weighted average yield at end of period(4) | 13.6% | 13.9% | 12.8% | 16.2% | 14.6% |

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

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(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.

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## RISK FACTORS

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

### Risks Relating to Our Business

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

The global capital markets have historically experienced an extended period of instability as evidenced by the periodic disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the U.S. federal government and foreign governments during such period, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While recent market conditions have improved, there can be no assurance that adverse market conditions will not repeat themselves or worsen in the future. If these adverse and volatile market conditions repeat themselves or worsen in the future, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because, subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our annual meeting of stockholders held on December 7, 2012, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. It should be noted that, theoretically, we may offer up to 25% of our then outstanding common stock each day. In addition, our ability to incur indebtedness (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as calculated in accordance with the Investment Company Act, must equal at least 200% immediately after each time we incur indebtedness. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we currently experience. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Moreover, the re-appearance of market conditions similar to those experienced from 2007 through 2009 for any substantial length of time could make it difficult to extend the maturity of or refinance our existing indebtedness under similar terms and any failure to do so could have a material adverse effect on our business.

Given the extreme volatility and dislocation that the capital markets have historically experienced, many BDCs have faced, and may in the future face, a challenging environment in which to raise or access capital. In addition, significant changes in the capital markets, including the extreme volatility

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and disruption over the past several years, has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can adversely affect our investment valuations. Further, the illiquidity of our investments may make it difficult for us to sell such investments to access capital if required. As a result, we could realize significantly less than the value at which we have recorded our investments if we were required to sell them for liquidity purposes. An inability to raise or access capital could have a material adverse impact on our business, financial condition or results of operations.

The current financial market situation, as well as various social and political tensions in the United States and around the world, particularly in the Middle East, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. Since 2010, several European Union ("EU") countries, including Greece, Ireland, Italy, Spain, and Portugal have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. We do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seeks to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that it will be successful in doing so; and we may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments in the current or future market environment.

***We may suffer credit losses.***

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

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

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

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

We depend on the diligence, skill and network of business contacts of the senior management of the Investment Adviser. We also depend, to a significant extent, on the Investment Adviser's access to the investment professionals and the information and deal flow generated by these investment

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

***We operate in a highly competitive market for investment opportunities.***

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with other BDCs, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC and that the Code imposes on us as a RIC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to pursue attractive investment opportunities from time to time.

We do not seek to compete primarily based on the interest rates we offer and we believe that some of our competitors may make loans with interest rates that are comparable to or lower than the rates we offer. Rather, we compete with our competitors based on our existing investment platform, seasoned investment professionals, experience and focus on middle-market companies, disciplined investment philosophy, extensive industry focus and flexible transaction structuring.

We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on less favorable terms than what we may have originally anticipated, which may impact our return on these investments.

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

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

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

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

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

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

***We may experience fluctuations in our quarterly results.***

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

***Our most recent NAV was calculated on June 30, 2013 and our NAV when calculated effective September 30, 2013 and thereafter may be higher or lower.***

Our most recently estimated NAV per share is $10.75 on an as adjusted basis solely to give effect to our issuance of common stock since June 30, 2013 in connection with our dividend reinvestment plan, shares issued in connection with investment transactions, and our issuance of 26,733,617 shares of common stock during the period from July 1, 2013 to October 10, 2013 (including shares with settlement dates through October 16, 2013) under our at-the-market program (the "ATM Program"), $0.03 higher than the $10.72 determined by us as of June 30, 2013. NAV per share as of September 30, 2013 may be higher or lower than $10.75 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2013. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, the Investment Adviser, the Administrator and the Audit Committee of our Board of Directors.

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***The Investment Adviser's liability is limited under the Investment Advisory Agreement, and we are required to indemnify the Investment Adviser against certain liabilities, which may lead the Investment Adviser to act in a riskier manner on our behalf than it would when acting for its own account.***

The Investment Adviser has not assumed any responsibility to us other than to render the services described in the Investment Advisory Agreement, and it will not be responsible for any action of our Board of Directors in declining to follow the Investment Adviser's advice or recommendations. Pursuant to the Investment Advisory Agreement, the Investment Adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it will not be liable to us for their acts under the Investment Advisory Agreement, absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect the Investment Adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it with respect to all damages, liabilities, costs and expenses resulting from acts of the Investment Adviser not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the Investment Advisory Agreement. These protections may lead the Investment Adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account.

***Potential conflicts of interest could impact our investment returns.***

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

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

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

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

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

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

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

The incentive fee payable by us to Prospect Capital Management could create an incentive for the Investment Adviser to invest on our behalf in instruments, such as zero coupon bonds, that have a deferred interest feature. Under these investments, we would accrue interest income over the life of the investment but would not receive payments in cash on the investment until the end of the term. Our net investment income used to calculate the income incentive fee, however, includes accrued interest. For example, accrued interest, if any, on our investments in zero coupon bonds will be included in the calculation of our incentive fee, even though we will not receive any cash interest payments in respect of payment on the bond until its maturity date. Thus, a portion of this incentive fee would be based on income that we may not have yet received in cash in the event of default may never receive.

***We may be obligated to pay our Investment Adviser incentive compensation even if we incur a loss.***

The Investment Adviser is entitled to incentive compensation for each fiscal quarter based, in part, on our pre-incentive fee net investment income if any, for the immediately preceding calendar quarter above a performance threshold for that quarter. Accordingly, since the performance threshold is based

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on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

***The Investment Adviser and Administrator have the right to resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our business, financial condition and results of operations.***

The Investment Adviser and Administrator have the right, under the Investment Advisory Agreement and Administration Agreement, respectively, to resign at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If the Investment Adviser or Administrator resigns, we may not be able to find a replacement or hire internal management or administration with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our business, financial condition and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities or our internal administration activities, as applicable, is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Investment Adviser and its affiliates or the Administrator and its affiliates. Even if we are able to retain comparable management or administration, whether internal or external, the integration of such management or administration and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition and results of operations.

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

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

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***Foreign and domestic political risk may adversely affect our business.***

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

**Risks Relating to Our Operation as a Business Development Company**

***If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.***

As a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could be found to be in violation of the 1940 Act provisions applicable to BDCs, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

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

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

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

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

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

If we fail to qualify as a RIC for any reason or become subject to corporate income tax, the resulting corporate taxes would substantially reduce our net assets, the amount of income available for

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distribution, and the actual amount of our distributions. Such a failure would have a materially adverse effect on us and our stockholders. For additional information regarding asset coverage ratio and RIC requirements, see "Material U.S. Federal Income Tax Considerations" and "Business  Regulation as a Business Development Company".

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

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

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

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

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

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

As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share without stockholder approval. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain

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circumstances, including if (i)(1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders' best interests and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at our annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share.

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

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

***Securitization of our assets subjects us to various risks.***

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

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

In accordance with the above description, to securitize loans, we may create a wholly owned subsidiary and contribute a pool of our assets to such subsidiary. The SPE may be funded with, among other things, whole loans and such loans may or may not be rated. The SPE would then sell its notes to purchasers who we would expect to be willing to accept a lower interest rate and the absence of any recourse against us to invest in a pool of income producing assets to which none of our creditors would have access. We would retain all or a portion of the equity in the SPE. An inability to successfully securitize portions of our portfolio or otherwise leverage our portfolio through secured and unsecured borrowings could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings. However, the successful securitization of portions of our portfolio exposes

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us to a risk of loss for the equity we retain in the SPE and might expose us to greater risk on our remaining portfolio because the assets we retain may tend to be those that are riskier and more likely to generate losses. A successful securitization may also impose financial and operating covenants that restrict our business activities and may include limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. The 1940 Act may also impose restrictions on the structure of any securitizations.

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

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

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

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

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

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

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**Risks Relating to Our Investments**

***We may not realize gains or income from our investments.***

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

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

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

In addition, decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Unprecedented declines in prices and liquidity in the corporate debt markets experienced during the recent financial crises resulted in significant net unrealized depreciation in our portfolio in the past. The effect of all of these factors on our portfolio reduced our NAV by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may continue to suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations. We have no policy regarding holding a minimum level of liquid assets. As such, a high percentage of our portfolio generally is not liquid at any given point in time. See "The lack of liquidity may adversely affect our business."

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

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. As part of the valuation process, the types of factors that we may take into account in determining the fair value of our investments include, as relevant and among other factors: available current market data, including relevant and applicable market trading and transaction comparables,

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applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, merger and acquisition comparables, our principal market (as the reporting entity) and enterprise values. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Investments in equity securities, many of which are illiquid with no readily available market, involve a substantial degree of risk.***

We may purchase common and other equity securities. Although common stock has historically generated higher average total returns than fixed income securities over the long-term, common stock also has experienced significantly more volatility in those returns and in recent years has significantly under performed relative to fixed income securities. The equity securities we acquire may fail to appreciate and may decline in value or become worthless and our ability to recover our investment will depend on our portfolio company's success. Investments in equity securities involve a number of significant risks, including:

- any equity investment we make in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness (including trade creditors) or senior securities in the

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event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process;

to the extent that the portfolio company requires additional capital and is unable to obtain it, we may not recover our investment; and

in some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of the portfolio company. Even if the portfolio company is successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can otherwise sell our investment. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

There are special risks associated with investing in preferred securities, including:

preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring its distributions, we may be required to report income for tax purposes before we receive such distributions;

preferred securities are subordinated to debt in terms of priority to income and liquidation payments, and therefore will be subject to greater credit risk than debt;

preferred securities may be substantially less liquid than many other securities, such as common stock or U.S. government securities; and

generally, preferred security holders have no voting rights with respect to the issuing company, subject to limited exceptions.

Additionally, when we invest in first lien senior secured loans (including unitranche loans), second lien senior secured loans or mezzanine debt, we may acquire warrants or other equity securities as well. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

We may invest, to the extent permitted by law, in the equity securities of investment funds that are operating pursuant to certain exceptions to the Investment Company Act and in advisers to similar investment funds and, to the extent we so invest, will bear our ratable share of any such company's expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to Prospect Capital Management with respect to the assets invested in the securities and instruments of such companies. With respect to each of these investments, each of our common stockholders will bear his or her share of the management and incentive fee of Prospect Capital Management as well as indirectly bearing the management and performance fees and other expenses of any such investment funds or advisers.

***There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.***

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize our debt holding as an equity investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken

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by them where they become too involved in the borrower's business or exercise control over the borrower. For example, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

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

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

The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements (including agreements governing "first out" and "last out" structures) that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

***When we are a debt or minority equity investor in a portfolio company, we are often not in a position to exert influence on the entity, and other equity holders and management of the company may make decisions that could decrease the value of our portfolio holdings.***

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

***Our portfolio companies may be highly leveraged.***

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

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

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

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

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

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

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

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

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

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

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

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

- our debt investments may be in the form of mezzanine loans, therefore our liens on the collateral, if any, are subordinated to those of the senior secured debt of the portfolio companies, if any. As a result, we may not be able to control remedies with respect to the collateral;

- the collateral may not be valuable enough to satisfy all of the obligations under our secured loan, particularly after giving effect to the repayment of secured debt of the portfolio company that ranks senior to our loan;

- bankruptcy laws may limit our ability to realize value from the collateral and may delay the realization process;

- our rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral;

- the need to obtain regulatory and contractual consents could impair or impede how effectively the collateral would be liquidated and could affect the value received; and

- some or all of the collateral may be illiquid and may have no readily ascertainable market value. The liquidity and value of the collateral could be impaired as a result of changing economic conditions, competition, and other factors, including the availability of suitable buyers.

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

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

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

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

We may employ hedging techniques to minimize certain investment risks, such as fluctuations in interest and currency exchange rates, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the

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

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

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

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

***Our investments in CLOs may be riskier and less transparent to us and our stockholders than direct investments in the underlying companies.***

We invest in CLOs. Generally, there may be less information available to us regarding the underlying debt investments held by CLOs than if we had invested directly in the debt of the underlying companies. As a result, our stockholders will not know the details of the underlying securities of the CLOs in which we will invest. Our CLO investments are subject to the risk of leverage associated with the debt issued by such CLOs and the repayment priority of senior debt holders in such CLOs. Our investments in portfolio companies may be risky, and we could lose all or part of our investment.

***CLOs typically will have no significant assets other than their underlying Senior Secured Loans; payments on CLO investments are and will be payable solely from the cashflows from such Senior Secured Loans.***

CLOs typically will have no significant assets other than their underlying Senior Secured Loans. Accordingly, payments on CLO investments are and will be payable solely from the cashflows from such Senior Secured Loans, net of all management fees and other expenses. Payments to us as a holder of CLO junior securities are and will be made only after payments due on the senior secured notes, and, where appropriate, the junior secured notes, have been made in full. This means that relatively small numbers of defaults of Senior Secured Loans may adversely impact our returns.

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***Our CLO investments are exposed to leveraged credit risk.***

Generally, we are in a subordinated position with respect to realized losses on the Senior Secured Loans underlying our investments in CLOs. The leveraged nature of CLOs, in particular, magnifies the adverse impact of Senior Secured Loan defaults. CLO investments represent a leveraged investment with respect to the underlying Senior Secured Loans. Therefore, changes in the market value of the CLO investments could be greater than the change in the market value of the underlying Senior Secured Loans, which are subject to credit, liquidity and interest rate risk.

***There is the potential for interruption and deferral of cashflow from CLO investments.***

If certain minimum collateral value ratios and/or interest coverage ratios are not met by a CLO, primarily due to Senior Secured Loan defaults, then cashflow that otherwise would have been available to pay distributions to us on our CLO investments may instead be used to redeem any senior notes or to purchase additional Senior Secured Loans, until the ratios again exceed the minimum required levels or any senior notes are repaid in full. This could result in an elimination, reduction or deferral in the distribution and/or principal paid to the holders of the CLO investments, which would adversely impact our returns.

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

Our CLO investment strategy involves investments in foreign CLOs. Investing in foreign entities may expose us to additional risks not typically associated with investing in U.S. issuers. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Further, we, and the CLOs in which we invest, may have difficulty enforcing creditor's rights in foreign jurisdictions. In addition, the underlying companies of the CLOs in which we invest may be foreign, which may create greater exposure for us to foreign economic developments.

***The payment of underlying portfolio manager fees and other charges on CLO investments could adversely impact our returns.***

We may invest in CLO investments where the underlying portfolio securities may be subject to management, administration and incentive or performance fees, in addition to those payable by us. Payment of such additional fees could adversely impact the returns we achieve.

***The inability of a CLO collateral manager to reinvest the proceeds of the prepayment of Senior Secured Loans may adversely affect us.***

There can be no assurance that for any CLO investment, in the event that any of the Senior Secured Loans of a CLO underlying such investment are prepaid, the CLO collateral manager will be able to reinvest such proceeds in new Senior Secured Loans with equivalent investment returns. If the CLO collateral manager cannot reinvest in new Senior Secured Loans with equivalent investment returns, the interest proceeds available to pay interest on the rated liabilities and investments may be adversely affected.

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***Our CLO investments are subject to prepayments and calls, increasing re-investment risk.***

Our CLO investments and/or the underlying senior secured loans may be prepaid more quickly than expected, which could have an adverse impact on our value. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond our control, and consequently cannot be predicted with certainty. In addition, for a CLO collateral manager there is often a strong incentive to refinance well performing portfolios once the senior tranches amortize. The yield to maturity of the investments will depend on the amount and timing of payments of principal on the loans and the price paid for the investments. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments of the debt.

Furthermore, our CLO investments generally do not contain optional call provisions, other than a call at the option of the holders of the equity tranches for the senior notes and the junior secured notes to be paid in full after the expiration of an initial period in the deal (referred to as the "non-call period").

The exercise of the call option is by the relevant percentage (usually a majority) of the holders of the equity tranches and, therefore, where we do not hold the relevant percentage we will not be able to control the timing of the exercise of the call option. The equity tranches also generally have a call at any time based on certain tax event triggers. In any event, the call can only be exercised by the holders of equity tranches if they can demonstrate (in accordance with the detailed provisions in the transaction) that the senior notes and junior secured notes will be paid in full if the call is exercised.

Early prepayments and/or the exercise of a call option other than at our request may also give rise to increased re-investment risk with respect to certain investments, as we may realize excess cash earlier than expected. If we are unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the investment repaid, this may reduce our net income and, consequently, could have an adverse impact on our ability to pay dividends.

***We have limited control of the administration and amendment of Senior Secured Loans owned by the CLOs in which we invest.***

We may not be able to directly enforce any rights and remedies in the event of a default of a Senior Secured Loan held by a CLO vehicle. In addition, the terms and conditions of the Senior Secured Loans underlying our CLO investments may be amended, modified or waived only by the agreement of the underlying lenders. Generally, any such agreement must include a majority or a super majority (measured by outstanding loans or commitments) or, in certain circumstances, a unanimous vote of the lenders. Consequently, the terms and conditions of the payment obligations arising from Senior Secured Loans could be modified, amended or waived in a manner contrary to our preferences.

***We have limited control of the administration and amendment of any CLO in which we invest.***

The terms and conditions of target securities may be amended, modified or waived only by the agreement of the underlying security holders. Generally, any such agreement must include a majority or a super majority (measured by outstanding amounts) or, in certain circumstances, a unanimous vote of the security holders. Consequently, the terms and conditions of the payment obligation arising from the CLOs in which we invest be modified, amended or waived in a manner contrary to our preferences.

***Senior Secured Loans of CLOs may be sold and replaced resulting in a loss to us.***

The Senior Secured Loans underlying our CLO investments may be sold and replacement collateral purchased within the parameters set out in the relevant CLO indenture between the CLO and the CLO trustee and those parameters may typically only be amended, modified or waived by the agreement of a majority of the holders of the senior notes and/or the junior secured notes and/or the

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equity tranche once the CLO has been established. If these transactions result in a net loss, the magnitude of the loss from the perspective of the equity tranche would be increased by the leveraged nature of the investment.

***Our financial results may be affected adversely if one or more of our significant equity or junior debt investments in a CLO vehicle defaults on its payment obligations or fails to perform as we expect.***

We expect that a majority of our portfolio will consist of equity and junior debt investments in CLOs, which involve a number of significant risks. CLOs are typically highly levered up to approximately 10 times, and therefore the junior debt and equity tranches that we will invest in are subject to a higher risk of total loss. In particular, investors in CLOs indirectly bear risks of the underlying debt investments held by such CLOs. We will generally have the right to receive payments only from the CLOs, and will generally not have direct rights against the underlying borrowers or the entities that sponsored the CLOs. Although it is difficult to predict whether the prices of indices and securities underlying CLOs will rise or fall, these prices, and therefore, the prices of the CLOs, will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally.

The investments we make in CLOs are thinly traded or have only a limited trading market. CLO investments are typically privately offered and sold, in the primary and secondary markets. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLOs carry additional risks, including, but not limited to: (i) the possibility that distributions from the underlying Senior Secured Loans will not be adequate to make interest or other payments; (ii) the quality of the underlying Senior Secured Loans may decline in value or default; and (iii) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO or unexpected investment results. Further, our investments in equity and junior debt tranches of CLOs are subordinate to the senior debt tranches thereof.

Investments in structured vehicles, including equity and junior debt instruments issued by CLOs, involve risks, including credit risk and market risk. Changes in interest rates and credit quality may cause significant price fluctuations. Additionally, changes in the underlying Senior Secured Loans held by a CLO may cause payments on the instruments we hold to be reduced, either temporarily or permanently. Structured investments, particularly the subordinated interests in which we invest, are less liquid than many other types of securities and may be more volatile than the Senior Secured Loans underlying the CLOs in which we invest.

***Non-investment grade debt involves a greater risk of default and higher price volatility than investment grade debt.***

The Senior Secured Loans underlying our CLO investments typically are rated non-investment grade and, in limited circumstances, are unrated. Non-investment grade securities are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal when due and therefore involve a greater risk of default and higher price volatility than investment grade debt.

***We will have no influence on management of underlying investments managed by non-affiliated third party CLO collateral managers.***

We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold as those portfolios are managed by non-affiliated third party CLO collateral managers. Similarly, we are not responsible for and have no influence over the day-to-day management, administration or any other aspect of the issuers of the individual securities.

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As a result, the values of the portfolios underlying our CLO investments could decrease as a result of decisions made by third party CLO collateral managers.

**Risks Relating To Our Securities**

***Our credit ratings may not reflect all risks of an investment in our debt securities.***

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities. Our debt securities are rated by Standard & Poors.

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

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

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

A likelihood of greater volatility in the net asset value and market price of our common stock;

Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;

The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;

Increased operating expenses due to the cost of leverage, including issuance and servicing costs;

Convertible or exchangeable securities, such as the Senior Convertible Notes outstanding or those issued in the future may have rights, preferences and privileges more favorable than those of our common stock;

Subordination to lenders' superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds will be distributed to our stockholders;

Making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;

The occurrence of an event of default if we fail to comply with the financial and/or other restrictive covenants contained in our debt agreements, including the credit agreement and each indenture governing the Notes, which event of default could result in all or some of our debt becoming immediately due and payable;

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Reduced availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

The risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and

Reduced flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

For example, the amount we may borrow under our revolving credit facility is determined, in part, by the fair value of our investments. If the fair value of our investments declines, we may be forced to sell investments at a loss to maintain compliance with our borrowing limits. Other debt facilities we may enter into in the future may contain similar provisions. Any such forced sales would reduce our net asset value and also make it difficult for the net asset value to recover. The Investment Adviser and our Board of Directors in their best judgment nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks.

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

*Illustration.* The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) $4.4 billion in total assets, (ii) an average cost of funds of 5.63%, (iii) $1.7 billion in debt outstanding and (iv) $2.7 billion of shareholders' equity.

| **Assumed Return on Our Portfolio (net of expenses)** | **(10)%** | **(5)%** | **0%** | **5%** | **10%** |
|---|---|---|---|---|---|
| Corresponding Return to Stockholder | (19.8)% | (11.7)% | (3.5)% | 4.6% | 12.7% |

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

***The Senior Convertible Notes, the 2022 Notes and the 2023 Notes present other risks to holders of our common stock, including the possibility that such Notes could discourage an acquisition of the Company by a third party and accounting uncertainty.***

Certain provisions of the Senior Convertible Notes, the 2022 Notes and the 2023 Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Senior Convertible Notes, the 2022 Notes and the 2023 Notes will have the right, at their option, to require us to repurchase all of their Senior Convertible Notes, the 2022 Notes and the 2023 Notes or any portion of the principal amount of such Senior Convertible Notes, the 2022 Notes and the 2023 Notes in integral multiples of $1,000, in the case of the Senior Convertible Notes and the 2023 Notes, and $25, in the case of the

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2022 Notes. We may also be required to increase the conversion rate or provide for conversion into the acquirer's capital stock in the event of certain fundamental changes with respect to the Senior Convertible Notes. These provisions could discourage an acquisition of us by a third party.

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

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

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

***Holders of any preferred stock we might issue would have the right to elect members of the board of directors and class voting rights on certain matters.***

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of the board of directors at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies or the terms of our credit facilities, might impair our ability to maintain our qualification as a RIC for federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

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

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

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

As of June 30, 2013, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of

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repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

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

The revolving period for our credit facility with a syndicate of lenders is currently scheduled to terminate on March 27, 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due if required by the lenders. If the credit facility is not renewed or extended by the participant banks by March 27, 2015, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on March 27, 2017. At June 30, 2013 we had $124.0 million of outstanding borrowings under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 275 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The credit facility requires us to pledge assets as collateral in order to borrow under the credit facility. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the two-year term-out period through one or more of the following: (1) principal collections on our securities pledged under the facility, (2) at our option, interest collections on our securities pledged under the facility and cash collections on our securities not pledged under the facility, or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position and may force us to decrease or stop paying certain expenses and making distributions until the facility is repaid. In addition, our stock price could decline significantly, we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

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

Our Senior Notes mature at various dates from December 15, 2015 to June 15, 2043. If we are unable to refinance our Senior Notes or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding at maturity under the facility during the two-year term-out period through one or more of the following: (1) borrowing additional funds under our then current credit facility, (2) issuance of additional common stock or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position. In addition, our stock price could decline significantly; we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

***The trading market or market value of our publicly issued debt securities may fluctuate.***

Our publicly issued debt securities may or may not have an established trading market. We cannot assure our noteholders that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely

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affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

Our noteholders should also be aware that there may be a limited number of buyers when they decide to sell their debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

***Terms relating to redemption may materially adversely affect our noteholders return on any debt securities that we may issue.***

If our noteholders' debt securities are redeemable at our option, we may choose to redeem their debt securities at times when prevailing interest rates are lower than the interest rate paid on their debt securities. In addition, if our noteholders' debt securities are subject to mandatory redemption, we may be required to redeem their debt securities also at times when prevailing interest rates are lower than the interest rate paid on their debt securities. In this circumstance, our noteholders may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as their debt securities being redeemed.

***Our shares of common stock have traded at a discount from net asset value and may do so again in the future, which could limit our ability to raise additional equity capital.***

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of our common stock will trade at, above, or below net asset value. In the recent past, including during much of 2009, the stocks of BDCs as an industry, including at times shares of our common stock, traded below net asset value and at near historic lows as a result of concerns over liquidity, leverage restrictions and distribution requirements. When our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2012 annual meeting of stockholders held on December 7, 2012, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 7, 2012. It should be noted that, theoretically, we may offer up to 25% of our then outstanding common stock each day.

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***There is a risk that investors in our common stock may not receive dividends or that our dividends may not grow over time and investors in our debt securities may not receive all of the interest income to which they are entitled.***

We intend to make distributions on a monthly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. If we declare a dividend and if more stockholders opt to receive cash distributions rather than participate in our dividend reinvestment plan, we may be forced to sell some of our investments in order to make cash dividend payments.

In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution.

The above-referenced restrictions on distributions may also inhibit our ability to make required interest payments to holders of our debt, which may cause a default under the terms of our debt agreements. Such a default could materially increase our cost of raising capital, as well as cause us to incur penalties under the terms of our debt agreements.

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

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

***Our stockholders will experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.***

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

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

Sales of substantial amounts of our common stock, or the availability of such common stock for sale (including as a result of the conversion of our Senior Convertible Notes into common stock), could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

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

At our 2012 annual meeting of stockholders held on December 7, 2012, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 7, 2012. It should be noted that, theoretically, we may offer up to 25% of our then

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outstanding common stock each day. The issuance or sale by us of shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have sold shares of our common stock at prices below net asset value per share in the past and may do so to the future. We have not sold any shares of our common stock at prices below net asset value per share since July 18, 2011.

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

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

We and Priority Senior Secured Income Fund, Inc., Pathway Energy Infrastructure Fund, Inc., Prospect Capital Funding LLC, Prospect Capital Management LLC, Priority Senior Secured Income Management, LLC and Pathway Energy Infrastructure Management, LLC have submitted an exemptive application to the SEC to permit us to participate in negotiated co-investments with other 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. However, there is no assurance that we will obtain such exemptive relief.

***The market price of our securities may fluctuate significantly.***

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

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

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changes in the value of our portfolio of investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

departure of one or more of Prospect Capital Management's key personnel;

operating performance of companies comparable to us;

short-selling pressure with respect to shares of our common stock or BDCs generally;

future sales of our securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities, including the Convertible Unsecured Notes;

uncertainty surrounding the strength of the U.S. economic recovery;

concerns regarding European sovereign debt;

changes in prevailing interest rates;

litigation matters;

general economic trends and other external factors; and

loss of a major funding source.

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

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

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

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

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

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

market prices.

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

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

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

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

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

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

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

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

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

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

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

We may distribute taxable dividends that are payable in part in our stock. The IRS has issued private letter rulings on cash/stock dividends paid by RICs and real estate investment trusts if certain requirements are satisfied, and we have received such a ruling permitting us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2012 and August 31, 2013. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. Stockholder (as defined in "Material U.S. Federal Income Tax Considerations") may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. Stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of its stock at the time of the sale. Furthermore, with respect to Non-U.S. Stockholders (as defined in "Material U.S. Federal Income Tax Considerations"), we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock.

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

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

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

**Note on Forward Looking Statements**

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

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

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

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

**Overview**

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

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

We 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. This strategy has represented approximately 50%-60% 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-compliant partnership, enhancing returns. This strategy has comprised approximately 10%-15% of our business.

Investments in Structured Credit We make investments in 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 represented 10%-20% of the portfolio.

Real Estate Investments We make investments in real estate through our wholly-owned tax-efficient real estate investment trust ("REIT"), American Property Holding Corp. ("APHC"). 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 represented less than 5% of our business.

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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 represented approximately 5%-10% of the portfolio.

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 seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was $4,172,852 and $2,094,221 as of June 30, 2013 and June 30, 2012, respectively. During the year ended June 30, 2013, our net cost of investments increased by $2,156,465, or 102.7%, as a result of 68 new investments, 25 follow-on investments and several revolver advances of $3,043,531, accrued of payment-in-kind interest of $10,947, structuring fees of $52,699 and amortization of discounts and premiums of $11,016, while we received full repayment on 23 investments, sold ten investments, impaired one investment, and received several partial prepayments, amortization payments and a revolver repayment, totaling $931,534.

Compared to the end of last fiscal year (ended June 30, 2012), net assets increased by $1,144,520, or 75.7% during the year ended June 30, 2013, from $1,511,974 to $2,656,494. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $1,179,084, dividend reinvestments of $16,087, and $220,856 from operations. These increases, in turn, were offset by $271,507 in dividend distributions to our stockholders. The $220,856 increase in net assets resulting from operations is net of the following: net investment income of $324,924, net realized loss on investments of $26,234, and a decrease in net assets due to changes in net unrealized depreciation of investments of $77,834.

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

**Fourth Quarter Highlights**

*Investment Transactions*

On April 1, 2013, we refinanced our existing $18,635 of subordinated loans to Ajax Rolled Ring & Machine, Inc. ("Ajax"), increasing the size of our debt investment to $38,537. Concurrent with the refinancing, we received repayment of the $18,635 subordinated loans that were previously outstanding. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

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

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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 NPI 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 NPI agreement which was recognized as other income during the fiscal year ended June 30, 2013.

On April 17, 2013, we made an investment of $43,650 to purchase 97% of the subordinated notes in Mountain View CLO 2013-I Ltd. ("Mountain View").

On April 22, 2013, we provided $34,375 of senior secured financing, of which $31,875 was funded at closing, to support the acquisition of Pegasus Business Intelligence, LP ("Pegasus"), the world's largest processor of commissions paid by hotels to travel agencies for room booking services. The $15,938 Term Loan A note bears interest in cash at the greater of 6.75% or Libor plus 5.5% and has a final maturity of April 18, 2018. The $15,938 Term Loan B note bears interest in cash at the greater of 13.75% or Libor plus 12.5% and has a final maturity of April 18, 2018. The $2,500 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.75% and has a final maturity of April 18, 2014.

On April 25, 2013, we made an investment of $26,000 to purchase 50.9% of the subordinated notes in Brookside Mill CLO Ltd. ("Brookside").

On April 30, 2013, we made a $21,247 follow-on investment in APH, to acquire Lofton Place Apartments and Vista at Palma Sola, multi-family residential properties located in Florida. We invested $3,247 of equity and $18,000 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.

On April 30, 2013, we sold our investment in Fischbein, LLC ("Fischbein") for net proceeds of $3,168, recognizing a realized gain of $2,293 on the sale. In addition, there is $310 being held in escrow which will be recognized as additional gain if and when received.

On May 8, 2013, we made a $6,119 follow-on investment in APH, to acquire Arlington Park, a multi-family residential property located in Marietta, Georgia. We invested $2,119 of equity and $4,000 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.

On May 9, 2013, we provided a $55,000 senior secured credit facility to support the recapitalization of Sandow Media, LLC ("Sandow"), a provider of multimedia content and services to businesses and consumers focused on the areas of design and luxury. The senior secured first lien loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 1.5% and has a final maturity of May 8, 2018.

On May 10, 2013, we provided $150,000 of secured second lien financing to support the recapitalization of Arctic Glacier, Inc. ("Arctic Glacier"), a leading producer, marketer, and distributor of high-quality packaged ice to consumers in the United States and Canada. After the financing, we received repayment of $86,982 of subordinated unsecured term loan previously outstanding. The senior secured second lien loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of November 10, 2019.

On May 14, 2013, we provided $4,000 of senior secured financing to SourceHOV, LLC ("SourceHOV"), a leading provider of business and knowledge process outsourcing. The second lien term loan bears interest in cash at the greater of 8.75% or Libor plus 7.5% and has a final maturity of

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April 30, 2019. On June 13, 2013, we sold our $4,000 investment in SourceHOV and realized a gain of $40 on this investment.

On May 16, 2013, Out Rage, LLC ("Out Rage") repaid the $11,836 loan receivable to us.

On May 23, 2013, Snacks Holding Corporation ("Snacks Holding") repaid the $15,366 loan receivable to us.

On May 31, 2013, we made a follow-on secured second lien debt investment of $7,190 in Injured Workers Pharmacy LLC ("IWP"), a specialty pharmacy services company. The secured second lien loan bears interest in cash at the greater of 11.5% or Libor plus 7.0% and interest payment in kind of 1.0% and has a final maturity of May 31, 2019.

On June 3, 2013, Nobel Learning Communities, Inc. ("Nobel") repaid the $15,262 loan receivable to us.

On June 4, 2013, Springs Window Fashions, LLC ("Springs") repaid the $35,000 loan receivable to us.

On June 11, 2013, we provided $115,000 of senior secured financing to CI Holdings ("Transplace"), a third-party logistics company that services many of the largest shippers in the world. The senior secured first lien loan bears interest in cash at the greater of 10.0% or Libor plus 5.0% and has a final maturity of June 11, 2019.

On June 11, 2013, we provided $7,000 of secured second lien financing to Armor Holding II LLC ("AST"), a leading North American third-party provider of share registry and associated value added services to shareholders on behalf of listed public companies. The second lien loan bears interest in cash at the greater of 9.25% or Libor plus 8.0% and has a final maturity of December 26, 2020.

On June 12, 2013, we made a $23,250 follow-on investment in R-V Industries, Inc. ("R-V"). The senior subordinated note bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of June 12, 2018.

On June 14, 2013, we sold our $10,000 investment in Transaction Networks Services, Inc. ("TNS") and realized a gain of $117 on this investment.

On June 18, 2013, we served as sole agent and provider of $70,000 senior secured financing, of which $65,643 was funded at closing, to support the recapitalization of Traeger Pellet Grills LLC ("Traeger"), a leading designer, marketer, and distributor of wood pellet grills, flavored wood pellets, and grill accessories. The $30,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 4.5% and has a final maturity of June 18, 2018. The $30,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 9.5% and has a final maturity of June 18, 2018. The $10,000 senior secured revolver, of which $5,643 was drawn at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.0% and has a final maturity of June 18, 2014.

On June 24, 2013, we made a $76,533 follow-on investment in APH, to acquire Arium Resort (f/k/a The Resort at Pembroke Pines), a prominent multi-family residential community located in Pembroke Pines, Florida. We invested $13,533 of equity and $63,000 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.

On June 25, 2013, we made an investment of $26,500 to purchase 84.13% of the subordinated notes in LCM XIV CLO Ltd. ("LCM XIV").

On June 27, 2013, we provided $11,000 of secured second lien financing to Blue Coat Systems, Inc. ("Blue Coat"), a leading provider of web security and wide area network (WAN) optimization

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solutions. The second lien note bears interest in cash at the greater of 9.5% or Libor plus 8.5% and has a final maturity of June 28, 2020.

On June 27, 2013, we made a follow-on secured debt investment of $87,500 to support the recapitalization of Progrexion Holdings, Inc. ("Progrexion"). After the financing, we now hold $241,033 of senior secured debt of Progrexion. 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 June 28, 2013, Sandow repaid $30,100 of the $55,000 loan receivable to us. After the repayment, we now hold $24,900 of senior secured debt of Sandow.

On June 28, 2013, we made a $1,000 follow-on investment in Ajax. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On June 28, 2013, we made an $18,000 secured debt follow-on investment in New Star Metals, Inc. ("New Star"), a provider of specialized processing services to the steel industry. The senior subordinated term loan bears interest in cash at 11.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

In June 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of $9,397 for the amount that the amortized cost exceeded the fair market value.

*Equity Issuance*

During the period from April 1, 2013 to May 31, 2013, we sold 8,836,237 shares of our common stock at an average price of $10.92 per share, and raised $96,476 of gross proceeds, under the ATM Program. Net proceeds were $95,474 after commissions to the broker-dealer on shares sold and offering costs. No additional shares were sold from June 1, 2013 to June 30, 2013.

On April 18, 2013, May 23, 2013 and June 20, 2013, we issued 138,087, 117,497 and 117,107 shares of our common stock in connection with the dividend reinvestment plan, respectively.

*Dividend*

On May 6, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

$0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;

$0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013;

$0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and

$0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

On June 17, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

$0.110225 per share for September 2013 to holders of record on September 30, 2013 with a payment date of October 24, 2013;

$0.110250 per share for October 2013 to holders of record on October 31, 2013 with a payment date of November 21, 2013;

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$0.110275 per share for November 2013 to holders of record on November 29, 2013 with a payment date of December 19, 2013; and

$0.110300 per share for December 2013 to holders of record on December 31, 2013 with a payment date of January 23, 2014.

*Debt Issuance*

During the quarter ended June 30, 2013, we issued $164,376 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately $159,983, as follows:

| Date of Issuance | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date |
|---|---|---|---|---|
| April 4, 2013 - April 25, 2013 | $ 29,528 | 4.50% - 5.00% | 4.96% | April 15, 2020 |
| April 4, 2013 - April 25, 2013 | 264 | 3.78% - 3.78% | 3.78% | April 15, 2023 |
| April 4, 2013 - April 25, 2013 | 5,164 | 4.63% - 5.50% | 5.34% | April 15, 2031 |
| April 4, 2013 - April 25, 2013 | 12,280 | 6.00% | 6.00% | April 15, 2043 |
| May 2, 2013 - May 31, 2013 | 42,482 | 5.00% | 5.00% | May 15, 2020 |
| May 2, 2013 - May 31, 2013 | 10,000 | 5.00% | 5.00% | May 15, 2028 |
| May 2, 2013 - May 31, 2013 | 7,548 | 5.75% | 5.75% | May 15, 2031 |
| May 2, 2013 - May 31, 2013 | 33,641 | 6.25% | 6.25% | May 15, 2043 |
| June 6, 2013 - June 27, 2013 | 9,905 | 5.00% - 5.25% | 5.04% | June 15, 2020 |
| June 6, 2013 - June 27, 2013 | 5,000 | 5.00% | 5.00% | June 15, 2028 |
| June 6, 2013 - June 27, 2013 | 1,707 | 5.75% - 6.00% | 5.85% | June 15, 2031 |
| June 6, 2013 - June 27, 2013 | 6,857 | 6.25% - 6.50% | 6.31% | June 15, 2043 |
| | **$ 164,376** | | | |

**Investment Holdings**

As of June 30, 2013, we continue to pursue our diversified investment strategy. At June 30, 2013, approximately $4,172,852 or 157.1% of our net assets are invested in 124 long-term portfolio investments and CLOs and 5.4% of our net assets are invested in money market funds.

During the year ended June 30, 2013, we originated $3,103,217 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close select junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our annualized current yield was 13.9% and 13.6% as of June 30, 2012 and June 30, 2013, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily due to recent originations being at lower yields than the existing portfolio. 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

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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 June 30, 2013, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax, APH, AWCNC, LLC, Borga, Inc., CCPI Holdings, Inc. ("CCPI"), 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 Delaware"), Manx Energy, Inc. ("Manx"), Nationwide Acceptance Holdings, LLC ("Nationwide"), NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V"), The Healing Staff, Inc. ("THS"), 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) ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

The following is a summary of our investment portfolio by level of control at June 30, 2013 and June 30, 2012, respectively:

| | June 30, 2013 | | | | June 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Level of Control** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** |
| Control | $ 830,151 | 19.5% | $ 811,634 | 19.5% | $ 518,015 | 24.7% | $ 564,489 | 27.0% |
| Affiliate | 49,189 | 1.2% | 42,443 | 1.0% | 44,229 | 2.1% | 46,116 | 2.2% |
| Non-control/Non-affiliate | 3,376,438 | 79.3% | 3,318,775 | 79.5% | 1,537,069 | 73.2% | 1,483,616 | 70.8% |
| Total Portfolio | $ 4,255,778 | 100.0% | $ 4,172,852 | 100.0% | $ 2,099,313 | 100.0% | $ 2,094,221 | 100.0% |

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The following is our investment portfolio presented by type of investment at June 30, 2013 and June 30, 2012, respectively:

| | June 30, 2013 | | | | June 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Type of Investment** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** |
| Revolving Line of Credit | $ 9,238 | 0.2% | $ 8,729 | 0.2% | $ 1,145 | 0.1% | $ 868 | 0.0% |
| Senior Secured Debt | 2,262,327 | 53.1% | 2,207,091 | 52.8% | 1,146,454 | 54.6% | 1,080,053 | 52.0% |
| Subordinated Secured Debt | 1,062,386 | 25.0% | 1,024,901 | 24.6% | 536,900 | 25.6% | 488,113 | 22.9% |
| Subordinated Unsecured Debt | 88,470 | 2.1% | 88,827 | 2.1% | 72,617 | 3.5% | 73,195 | 3.5% |
| CLO Debt | 27,667 | 0.7% | 28,589 | 0.7% | 27,258 | 1.3% | 27,717 | 1.3% |
| CLO Residual Interest | 660,619 | 15.5% | 658,086 | 15.8% | 214,559 | 10.2% | 218,009 | 10.4% |
| Preferred Stock | 25,016 | 0.6% | 14,742 | 0.4% | 31,323 | 1.5% | 29,155 | 1.4% |
| Common Stock | 117,678 | 2.7% | 108,494 | 2.6% | 61,459 | 2.9% | 137,198 | 6.6% |
| Membership Interests | 216 | 0.0% | 492 | 0.0% | 5,437 | 0.2% | 13,844 | 0.7% |
| Overriding Royalty Interests | | % | | % | | % | 1,623 | 0.1% |
| Net Profit Interests | | % | 20,959 | 0.5% | | % | | % |
| Escrows Receivable | | % | 4,662 | 0.1% | | % | 17,686 | 0.8% |
| Warrants | 2,161 | 0.1% | 7,280 | 0.2% | 2,161 | 0.1% | 6,760 | 0.3% |
| Total Portfolio | $ 4,255,778 | 100.0% | $ 4,172,852 | 100.0% | $ 2,099,313 | 100.0% | $ 2,094,221 | 100.0% |

The following is our investments in interest bearing securities presented by type of security at June 30, 2013 and June 30, 2012, respectively:

| | June 30, 2013 | | | | June 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Type of Investment** | **Cost** | **Percent of Debt Securities** | **Fair Value** | **Percent of Debt Securities** | **Cost** | **Percent of Debt Securities** | **Fair Value** | **Percent of Debt Securities** |
| First Lien | $ 2,271,565 | 55.3% | $ 2,215,820 | 55.2% | $ 1,147,599 | 57.4% | $ 1,088,887 | 57.6% |
| Second Lien | 1,062,386 | 25.8% | 1,024,901 | 25.5% | 536,900 | 26.9% | 480,147 | 25.4% |
| Unsecured | 88,470 | 2.2% | 88,827 | 2.2% | 72,617 | 3.6% | 73,195 | 3.9% |
| CLO Residual Interest | 660,619 | 16.0% | 658,086 | 16.4% | 214,559 | 10.7% | 218,009 | 11.6% |
| CLO Debt | 27,667 | 0.7% | 28,589 | 0.7% | 27,258 | 1.4% | 27,717 | 1.5% |
| Total Debt Securities | $ 4,110,707 | 100.0% | $ 4,016,223 | 100.0% | $ 1,998,933 | 100.0% | $ 1,887,955 | 100.0% |

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The following is our investment portfolio presented by geographic location of the investment at June 30, 2013 and June 30, 2012, respectively:

| | June 30, 2013 | | | | June 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Geographic Location** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** | **Cost** | **Percent of Portfolio** | **Fair Value** | **Percent of Portfolio** |
| Canada | $ 165,000 | 3.9% | $ 165,000 | 4.0% | $ 15,134 | 0.7% | $ 17,040 | 0.8% |
| Cayman Islands | 688,286 | 16.2% | 686,675 | 16.5% | 241,817 | 11.5% | 245,726 | 11.7% |
| Ireland | 14,927 | 0.4% | 15,000 | 0.4% | 14,918 | 0.7% | 15,000 | 0.7% |
| Midwest US | 565,239 | 13.3% | 531,934 | 12.7% | 427,430 | 20.4% | 377,139 | 18.0% |
| Northeast US | 649,484 | 15.3% | 663,025 | 15.9% | 293,181 | 14.0% | 313,437 | 15.0% |
| Puerto Rico | 41,352 | 1.0% | 41,352 | 1.0% | | % | | % |
| Southeast US | 1,111,946 | 26.0% | 1,081,320 | 25.8% | 642,984 | 30.6% | 634,945 | 30.4% |
| Southwest US | 345,392 | 8.1% | 336,362 | 8.1% | 193,627 | 9.2% | 234,433 | 11.2% |
| Western US | 674,152 | 15.8% | 652,184 | 15.6% | 270,222 | 12.9% | 256,501 | 12.2% |
| Total Portfolio | $ 4,255,778 | 100.0% | $ 4,172,852 | 100.0% | $ 2,099,313 | 100.0% | $ 2,094,221 | 100.0% |

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The following is our investment portfolio presented by industry sector of the investment at June 30, 2013 and June 30, 2012, respectively:

| | June 30, 2013 | | | | June 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Industry | Cost | Percent of Portfolio | Fair Value | Percent of Portfolio | Cost | Percent of Portfolio | Fair Value | Percent of Portfolio |
| Aerospace and Defense | $ 56 | 0.0% | $ | % | $ 56 | 0.0% | $ | % |
| Automobile / Auto Finance | 23,214 | 0.6% | 22,917 | 0.5% | 32,806 | 1.6% | 32,478 | 1.6% |
| Biotechnology | | % | 14 | 0.0% | | % | | % |
| Business Services | 180,793 | 4.2% | 179,544 | 4.3% | 3,164 | 0.2% | 3,288 | 0.2% |
| Chemicals | 28,364 | 0.7% | 28,648 | 0.7% | 58,104 | 2.8% | 58,104 | 2.8% |
| Commercial Services | 252,073 | 5.9% | 252,073 | 6.0% | 80,418 | 3.8% | 80,407 | 3.8% |
| Construction and Engineering | 53,615 | 1.3% | 53,615 | 1.3% | | % | | % |
| Consumer Finance | 413,332 | 9.7% | 406,964 | 9.8% | 305,521 | 14.6% | 305,521 | 14.6% |
| Consumer Services | 330,343 | 7.8% | 332,394 | 8.0% | 146,335 | 7.0% | 147,809 | 7.1% |
| Contracting | 2,145 | 0.1% | | % | 15,949 | 0.8% | | % |
| Diversified Financial Services | 745,705 | 17.5% | 742,434 | 17.8% | 260,219 | 12.3% | 264,128 | 12.6% |
| Diversified / Conglomerate Service | | % | 143 | 0.0% | | % | 35 | 0.0% |
| Durable Consumer Products | 380,225 | 8.9% | 370,207 | 8.9% | 153,327 | 7.3% | 152,862 | 7.3% |
| Ecological | 141 | 0.0% | 335 | 0.0% | 141 | 0.0% | 240 | 0.0% |
| Electronics | | % | 149 | 0.0% | | % | 144 | 0.0% |
| Energy | 63,895 | 1.5% | 56,321 | 1.3% | 63,245 | 3.0% | 126,868 | 6.1% |
| Food Products | 177,423 | 4.2% | 177,428 | 4.3% | 101,975 | 4.9% | 96,146 | 4.5% |
| Healthcare | 275,124 | 6.5% | 273,838 | 6.6% | 141,990 | 6.8% | 143,561 | 6.9% |
| Hotel, Restaurant & Leisure | 11,764 | 0.3% | 12,000 | 0.3% | | % | | % |
| Insurance | | % | | % | 83,461 | 4.0% | 83,461 | 4.0% |
| Machinery | 396 | 0.0% | 790 | 0.0% | 4,684 | 0.2% | 6,485 | 0.3% |
| Manufacturing | 163,431 | 3.8% | 167,584 | 4.0% | 95,191 | 4.5% | 127,127 | 6.1% |
| Media | 171,290 | 4.0% | 161,325 | 3.9% | 165,866 | 7.9% | 161,843 | 7.7% |
| Metal Services and Minerals | 60,162 | 1.4% | 60,274 | 1.4% | | % | | % |
| Oil and Gas Equipment Services | | % | | % | 7,188 | 0.3% | 7,391 | 0.4% |
| Oil and Gas Production | 75,126 | 1.8% | 24,420 | 0.6% | 130,928 | 6.2% | 38,993 | 1.9% |
| Personal and Nondurable Consumer Products | 39,000 | 0.9% | 39,630 | 0.9% | 39,351 | 1.8% | 39,968 | 1.9% |
| Production Services | | % | | % | 268 | 0.0% | 2,040 | 0.1% |
| Property Management | 51,170 | 1.2% | 54,648 | 1.3% | 51,770 | 2.5% | 47,982 | 2.2% |
| Real Estate | 152,540 | 3.6% | 152,540 | 3.7% | | % | | % |
| Retail | 14,190 | 0.3% | 14,569 | 0.3% | 63 | 0.0% | 129 | 0.0% |
| Software & Computer Services | 307,734 | 7.2% | 309,308 | 7.4% | 53,908 | 2.6% | 54,711 | 2.6% |
| Specialty Minerals | 38,500 | 0.9% | 42,558 | 1.0% | 37,732 | 1.8% | 44,562 | 2.1% |
| Textiles, Apparel & Luxury Goods | 99,500 | 2.3% | 99,323 | 2.4% | | % | | % |
| Textiles and Leather | 16,760 | 0.4% | 9,385 | 0.2% | 15,123 | 0.7% | 17,161 | 0.8% |
| Transportation | 127,767 | 3.0% | 127,474 | 3.1% | 50,530 | 2.4% | 50,777 | 2.4% |
| Total Portfolio | $ 4,255,778 | 100.0% | $ 4,172,852 | 100.0% | $ 2,099,313 | 100.0% | $ 2,094,221 | 100.0% |

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**Portfolio Investment Activity**

During the year ended June 30, 2013, we acquired $2,574,755 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately $496,371, funded $21,143 of revolver advances, and recorded PIK interest of $10,947, resulting in gross investment originations of $3,103,217. The more significant of these investments are described briefly in the following:

On July 5, 2012, we made a senior secured debt investment of $28,000 to support the acquisition of Material Handling Services, LLC, d/b/a/ Total Fleet Solutions ("TFS"), a provider of forklift and other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC. 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 July 5, 2017.

On July 16, 2012, we provided $15,000 of secured second lien financing to Pelican Products, Inc., a leading provider of unbreakable, watertight protective cases and technically advanced professional lighting equipment. The second lien term loan bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of June 14, 2019.

On July 20, 2012, we provided $12,000 of senior secured financing to EIG Investors Corp ("EIG"), a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses. 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 October 22, 2018.

On July 20, 2012, we provided $10,000 of senior secured financing to FPG, LLC ("FPG"), a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The note payable bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On July 27, 2012, we provided $85,000 of subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. The new company, Arctic Glacier U.S.A., Inc., will continue to conduct business under the "Arctic Glacier" name and be a leading producer, marketer, and distributor of high-quality packaged ice to consumers in Canada and the United States. The unsecured subordinated term loan bears interest in cash at 12.0% and interest payment in kind of 3.0% and has a final maturity of July 27, 2019.

On August 2, 2012, we provided a $27,000 secured loan to support the acquisition of New Star, a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company. The senior subordinated note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

On August 3, 2012, we provided $120,000 of senior secured financing, of which $110,000 was funded at closing, to support the acquisition of InterDent, Inc. ("Interdent"), a leading provider of dental practice management services to dental professional corporations and associations in the United States, by funds managed by H.I.G. The $55,000 Term Loan A note bears interest in cash at the greater of 8.0% or Libor plus 6.5% and has a final maturity of August 3, 2017. The $55,000 Term Loan B note bears interest in cash at the greater of 13.0% or Libor plus 10.0% and has a final maturity of August 3, 2017. The $10,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.5% or Libor plus 8.25% and matured on February 3, 2013.

On August 3, 2012, we provided $44,000 of secured subordinated financing to support the refinancing of New Century Transportation, Inc., a leading transportation and logistics company.

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The senior subordinated loan bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest payment in kind of 3.0% and has a final maturity of February 3, 2018.

On August 3, 2012, we provided $10,000 of senior secured financing to Pinnacle (US) Acquisition Co Limited, the largest multi-national software company focused on the delivery of analytical and information management solutions for the discovery and extraction of subsurface natural resources. The second lien term loan originally bore interest in cash at the greater of 10.5% or Libor plus 8.25%. On January 17, 2013, we amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The second lien term loan has a final maturity of August 3, 2020.

On August 6, 2012, we made an investment of $22,210 to purchase 62.9% of the subordinated notes in Halcyon Loan Advisors Funding 2012-I, Ltd.

On August 7, 2012, we made an investment of $36,798 to purchase 95.0% of the subordinated notes in ING IM CLO 2012-II, Ltd.

On August 17, 2012, we made a secured second lien investment of $38,500 to support the recapitalization of American Gilsonite Company. The secured note bears interest in cash at 11.5% and has a final maturity of September 1, 2017. After the financing, on August 28, 2012, we received repayment of the $37,732 loan previously outstanding.

On September 14, 2012, we invested an additional $10,000 in Hoffmaster Group, Inc. 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 January 3, 2019.

On September 14, 2012, we made a secured investment of $135,000 to support the recapitalization of Progrexion. Concurrent with the financing, we received repayment of the $62,680 of loans that were previously outstanding. The senior secured loan 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 September 27, 2012, we made an investment of $45,746 to purchase 95% of the subordinated notes in ING IM CLO 2012-III, Ltd.

On September 28, 2012, we made an unsecured investment of $10,400 to support the acquisition of Evanta Ventures, Inc., a diversified event management company. The subordinated note bears interest in cash at 12.0% and interest payment in kind of 1.0% and has a final maturity of September 28, 2018.

On September 28, 2012, we made a secured second lien investment of $100,000 to support the recapitalization of United Sporting Companies, Inc. ("USC"), a national distributor of hunting, outdoor, marine and tackle products. The secured loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On October 3, 2012, we made a senior secured investment of $21,500 to support the acquisition of CP Well Testing, LLC, a leading provider of flowback services to oil and gas companies operating in Western Oklahoma and the Texas Panhandle. The first lien note bears interest in cash at the greater of 13.5% or Libor plus 11.0% and has a final maturity of October 3, 2017.

On October 11, 2012, we made a secured second lien investment of $12,000 in Deltek, Inc., an enterprise software and information solutions provider for professional services firms, government contractors, and government agencies. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of October 10, 2019.

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On October 12, 2012, we made a senior secured investment of $42,000 to support the acquisition of Gulf Coast Machine and Supply Company, a preferred provider of value-added forging solutions to energy and industrial end markets. The first lien note 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 October 18, 2012, we made a follow-on senior secured debt investment of $20,000 in First Tower Delaware, to support seasonal growth in finance receivables due to increased holiday borrowing activity among its customer base. The first lien note 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 October 24, 2012, we made an investment of $7,800 in APH, to acquire an industrial real estate property occupied by Filet-of-Chicken, a chicken processor in Georgia. We invested $1,809 of equity and $6,000 of debt in APH. The first lien note originally bore interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 2.0%. On January 17, 2013, we amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The first lien note has a final maturity of October 24, 2020.

On November 5, 2012, we made an investment of $39,475 to purchase 95.0% of the income notes in ING IM CLO 2012-IV, Ltd.

On November 9, 2012, we made a secured second lien investment of $22,000 to support the recapitalization of EIG. Concurrent with the financing, we received a repayment of the $12,000 loan previously outstanding. The new note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of May 9, 2020.

On November 26, 2012, we made a secured second lien investment of $22,000 in The Petroleum Place, Inc., a provider of enterprise resource planning software focused on the oil & gas industry. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of May 20, 2019.

On November 30, 2012, we made a secured second lien investment of $9,500 to support the recapitalization of R-V. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and has a final maturity of May 30, 2018. As part of the recapitalization, we received a dividend of $11,073 for our investment in R-V's common stock.

On December 6, 2012, we made an investment of $38,291 to purchase 90% of the subordinated notes in Apidos CLO XI, LLC.

On December 13, 2012, we completed a $33,921 recapitalization of CCPI, an international manufacturer of refractory materials and other consumable products for industrial applications. Through the recapitalization, Prospect acquired a controlling interest in CCPI for $28,334 in cash and 467,928 unregistered shares of our common stock. The first lien note issued to CCPI bears interest in cash at a fixed rate of 10.0% and has a final maturity of December 31, 2017. The first lien note issued to CCPI bears interest in cash at a fixed rate of 12.0% and interest payment in kind of 7.0%, and has a final maturity of June 30, 2018.

On December 14, 2012, we provided $10,000 of first lien financing to support the recapitalization of Prince Mineral Holding Corp. ("Prince"), a leading global specialty mineral processor and consolidator. The first lien note bears interest in cash at a fixed rate of 11.5% and has a final maturity of December 15, 2019.

On December 14, 2012, we made a $3,000 follow-on investment in Focus Brands, Inc. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of August 21, 2018.

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On December 17, 2012, we made a $39,800 first lien investment in Coverall North America, Inc. ("Coverall"), a leading franchiser of commercial cleaning businesses. 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 December 17, 2012, we made a $38,150 first lien follow-on investment in TFS, to support the acquisition of Miner Holding Company, Inc. The first lien note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 21, 2017.

On December 17, 2012, we made a secured debt investment of $30,000 to support the recapitalization of Biotronic. After the financing, we received repayment of the $26,227 loan that was previously outstanding. The new note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 17, 2017.

On December 19, 2012, we provided $17,500 of senior secured second lien financing to Grocery Outlet, Inc., to support the recapitalization of a retailer of food, beverages and general merchandise. The second lien note bears interest in cash at the greater of 10.5% or Libor plus 9.25% and has a final maturity of June 17, 2019.

On December 19, 2012, we provided $23,200 of senior secured second lien financing to support the recapitalization of TB Corp., a Mexican restaurant chain. The second lien note bears interest in cash at a fixed rate of 12.0% and interest payment in kind of 1.5% and has a final maturity of December 18, 2018.

On December 20, 2012, we made an additional follow-on senior secured debt investment of $19,500 to support the recapitalization of Progrexion. After the financing, we held $154,500 of senior secured debt of Progrexion. The 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 21, 2012, we made a $10,000 senior secured second lien follow-on investment in Seaton Corp. The second lien note bears interest in cash at the greater of 12.5% or Libor plus 9.0% and interest payment in kind of 2.0% and has a final maturity of March 14, 2015.

On December 21, 2012, we made a $37,500 senior secured first lien investment in Lasership, Inc., a leading provider of regional same day and next day distribution services for premier e-commerce and product supply businesses. The first lien note bears interest in cash at the greater of 10.25% or Libor plus 8.25% and has a final maturity of December 21, 2017.

On December 21, 2012, we made a $12,000 senior secured first lien follow-on investment in FPG, a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The first lien note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On December 24, 2012, we made a follow-on secured debt investment of $5,000 in New Star. The second lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

On December 24, 2012, we made a $7,000 second lien secured investment in Aderant North America, Inc., a leading provider of enterprise software solutions to professional services organizations. The second lien note bears interest in cash at the greater of 11.0% or PRIME plus 7.75% and has a final maturity of June 20, 2019.

On December 28, 2012, we made a $9,500 first lien secured investment in APH, to acquire Abbington Pointe, Inc., a multi-family property in Marietta, Georgia. We invested $3,193 of equity and $6,400 of debt in APH. The first lien note originally bore interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 2.0%. On January 17, 2013, we

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amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The first lien note has a final maturity of October 24, 2020.

On December 28, 2012, we made a $5,000 second lien secured investment in TransFirst Holdings, Inc., a payments processing firm that provides electronic credit card authorization to merchants located throughout the United States. The second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of June 27, 2018.

On December 28, 2012, we completed a $47,900 recapitalization of Credit Central, a branch-based provider of installment loans. Through the recapitalization, we acquired a controlling interest in Credit Central for $38,082 in cash and 897,906 unregistered shares of our common stock. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of December 31, 2020.

On December 28, 2012, we made a $3,600 follow-on subordinated unsecured investment in Ajax. The unsecured note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.00% and has a final maturity of December 31, 2017.

On December 28, 2012, we made a $30,000 first lien senior secured investment to support the recapitalization of Spartan Energy Services, LLC ("Spartan"), a leading provider of thru tubing and flow control services to oil and gas companies. 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 31, 2012, we provided $32,000 senior secured loan to support the acquisition of System One Holdings, LLC, a leading provider of professional staffing services. 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 December 31, 2012, we funded a 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. The first lien note issued to Valley Electric bears interest in cash at the greater of 9.0% or Libor plus 6.0% and interest payment in kind of 9.0% and has a final maturity of December 31, 2018. The first lien note issued to Valley Electric Co. of Mt. Vernon Inc. bears interest in cash at the greater of 8.0% or Libor plus 5.0% and interest payment in kind of 2.5% and has a final maturity of December 31, 2017.

On December 31, 2012, we provided $70,000 of secured second lien debt financing for the acquisition of Thomson Reuters Property Tax Services by Ryan, LLC ("Ryan"). The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and interest payment in kind of 3.0% and has a final maturity of June 30, 2018.

On January 11, 2013, we provided $27,100 of debt financing to Correctional Healthcare Holding Company, Inc. ("CHC"), a national provider of correctional medical and behavioral healthcare solutions. The subordinated secured second lien loan bears interest in cash at 11.25% and has a final maturity of January 11, 2020.

On January 17, 2013, we made a $30,348 follow-on investment in APH, to acquire 5100 Live Oaks Blvd, LLC, a multi-family residential property located in Tampa, Florida. We invested $2,748 of equity and $27,600 of debt in APH. The first lien 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.

On January 24, 2013, we made an investment of $24,870 to purchase 56.14% of the subordinated notes in Cent 17 CLO Limited.

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On January 24, 2013, we made an investment of $26,901 to purchase 50.12% of the subordinated notes in Octagon Investment Partners XV, Ltd.

On January 29, 2013, we provided $8,000 of secured second lien financing to TGG Medical Transitory, Inc., a developer of technologies for extracorporeal photopheresis treatments. The senior secured 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 January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide, which operate a specialty finance business based in Chicago, Illinois, with $21,308 of debt and $3,843 of equity financing. The senior secured term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of January 31, 2023.

On February 5, 2013, we received a distribution of $3,250 related to our investment in NRG Manufacturing, Inc. ("NRG"), for which we realized a gain of the same amount. This was a partial release of the amount held in escrow.

On February 5, 2013, we made a secured debt investment of $2,000 in Healogics, Inc. ("Healogics"), a provider of outpatient wound care management services located in Jacksonville, Florida.

On February 13, 2013, we made an investment of $35,025 to purchase 50.34% of the subordinated notes in Galaxy XV CLO, Ltd.

On February 14, 2013, we made a $2,000 secured second lien debt investment in J.G. Wentworth, LLC ("J.G. Wentworth"), the largest purchaser of structured settlement and annuity payments in the United States. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 7.5% and has a final maturity of February 8, 2019.

On February 14, 2013, we provided $15,000 of senior secured financing to Speedy Group Holdings Corp., a leading provider of short-term loans and financial services in the United States, the United Kingdom and Canada. The unsecured subordinated term loan bears interest in cash at 12.0% and has a final maturity of November 15, 2017.

On February 15, 2013, we made a $6,000 secured second lien debt investment in SESAC Holdco II LLC, a performing rights organization based in Nashville, Tennessee. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of July 12, 2019.

On February 21, 2013, we provided $39,550 of senior secured first lien financing to Atlantis Healthcare Group (Puerto Rico), Inc., a leading owner and operator of dialysis stations. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity date of February 21, 2018.

On February 25, 2013, we made a $10,000 secured second lien loan and a $2,000 secured first lien debt investment in TNS, an international data communications company that provides networking, data communications and other value added services. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 8.0% and has a final maturity of August 14, 2020.

On March 1, 2013, we made a $70,000 secured term loan investment in a subsidiary of Cinedigm DC Holdings, LLC, a leading provider of digital cinema services, software and content marketing and distribution. The senior secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.0% and interest payment in kind of 2.5% and has a final maturity of March 31, 2021.

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On March 6, 2013, we made a $5,000 follow-on investment in Rocket Software, Inc. The senior secured second lien term loan bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On March 7, 2013, we made a secured second lien follow-on investment of $60,000 in USC. The senior secured second lien term loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On March 8, 2013, we made an investment of $40,400 to purchase 78.60% of the subordinated notes in Halcyon Loan Advisors Funding 2013-I, Ltd.

On March 12, 2013, we provided $12,000 of secured second lien financing to ALG USA Holding, LLC, a vertically integrated travel company that focuses on providing all-inclusive vacations in Mexico and the Caribbean to U.S. customers. The senior secured second lien term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of February 28, 2020.

On March 15, 2013, we made an investment of $44,063 to purchase 95.27% of the subordinated notes in Apidos CLO XII, Ltd.

On March 18, 2013, we provided a $197,291 first lien senior secured credit facility to support the refinancing of Capstone Logistics, LLC ("Capstone"), a logistics services portfolio company. After the financing, we received repayment of $69,139 of loans previously outstanding. The $97,291 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.0% and has a final maturity of September 16, 2016. The $100,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of September 16, 2016.

On March 27, 2013, we provided $100,000 of senior secured debt financing to support the recapitalization of Broder Bros., Co. ("Broder"), a leading distributor of imprintable sportswear and accessories in the United States. The senior secured term loan bears interest in cash at the greater of 10.75% or Libor plus 9.0% and has a final maturity of June 27, 2018.

On April 1, 2013, we refinanced our existing $38,472 senior and subordinated 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. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On April 17, 2013, we made an investment of $43,650 to purchase 97% of the subordinated notes in Mountain View.

On April 22, 2013, we provided $34,375 of senior secured financing, of which $31,875 was funded at closing, to support the acquisition of Pegasus, the world's largest processor of commissions paid by hotels to travel agencies for room booking services. The Term Loan A note bears interest in cash at the greater of 6.75% or Libor plus 5.5% and has a final maturity of April 18, 2018. The Term Loan B note bears interest in cash at the greater of 13.75% or Libor plus 12.5% and has a final maturity of April 18, 2018. The $5,000 senior secured revolver bears interest in cash at the greater of 9.0% or Libor plus 7.75% and has a final maturity of April 18, 2014.

On April 25, 2013, we made an investment of $26,000 to purchase 50.9% of the subordinated notes in Brookside.

On April 30, 2013, we made a $21,247 follow-on investment in APH, to acquire Lofton Place Apartments and Vista at Palma Sola, multi-family residential properties located in Florida. We invested $3,247 of equity and $18,000 of debt in APH. The senior secured note bears interest in

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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.

On May 8, 2013, we made a $6,119 follow-on investment in APH, to acquire Arlington Park, a multi-family residential property located in Marietta, Georgia. We invested $2,118 of equity and $4,000 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.

On May 9, 2013, we provided a $60,000 senior secured credit facility, of which $55,000 was funded at closing, to support the recapitalization of Sandow, a provider of multimedia content and services to businesses and consumers focused on the areas of design and luxury. The senior secured first lien loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 1.5% and has a final maturity of May 8, 2018.

On May 10, 2013, we provided a $150,000 senior secured term loan to support the recapitalization of Arctic Glacier, a leading producer, marketer, and distributor of high-quality packaged ice to consumers in the United States and Canada. After the financing, we received repayment of $86,982 of subordinated unsecured term loan previously outstanding. The senior secured second lien loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of November 10, 2019.

On May 14, 2013, we provided $4,000 of senior secured financing to SourceHOV, a leading provider of business and knowledge process outsourcing. The senior secured second lien loan bears interest in cash at the greater of 8.75% or Libor plus 7.5% and has a final maturity of April 30, 2019.

On May 31, 2013, we made a follow-on secured second lien debt investment of $7,190 in IWP, a specialty pharmacy services company. The secured second lien loan bears interest in cash at the greater of 11.5% or Libor plus 7.0% and interest payment in kind of 1.0% and has a final maturity of May 31, 2019.

On June 11, 2013, we provided $115,000 of senior secured financing to Transplace, a third-party logistics company that services many of the largest shippers in the world. The senior secured first lien loan bears interest in cash at the greater of 10.0% or Libor plus 5.0% and has a final maturity of June 11, 2019.

On June 11, 2013, we provided $7,000 of secured second lien financing to AST, a leading North American third-party provider of share registry and associated value added services to shareholders on behalf of listed public companies. The second lien loan bears interest in cash at the greater of 9.25% or Libor plus 8.0% and has a final maturity of December 26, 2020.

On June 12, 2013, we made a $23,250 follow-on investment in R-V. The senior subordinated note bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of June 12, 2018.

On June 18, 2013, we served as sole agent and provider of $70,000 senior secured financing, of which $65,643 was funded at closing, to support the recapitalization of Traeger, a leading designer, marketer, and distributor of wood pellet grills, flavored wood pellets, and grill accessories. The $30,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 4.5% and has a final maturity of June 18, 2018. The $30,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 9.5% and has a final maturity of June 18, 2018. The $10,000 senior secured revolver, of which $5,643 was drawn at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.0% and has a final maturity of June 18, 2014.

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On June 24, 2013, we made a $76,533 follow-on investment in APH, to acquire Arium Resort (f/k/a The Resort at Pembroke Pines), a prominent multi-family residential community located in Pembroke Pines, Florida. We invested $13,533 of equity and $63,000 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.

On June 25, 2013, we made an investment of $26,500 to purchase 84.13% of the subordinated notes in LCM XIV.

On June 27, 2013, we provided $11,000 of secured second lien financing to Blue Coat, a leading provider of web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 9.5% or Libor plus 8.5% and has a final maturity of June 28, 2020.

On June 27, 2013, we made a follow-on secured debt investment of $87,500 to support the recapitalization of Progrexion. After the financing, we now hold $241,033 of senior secured debt of Progrexion. 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 June 28, 2013, we made a $1,000 follow-on investment in Ajax. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On June 28, 2013, we made an $18,000 secured debt follow-on investment in New Star, a provider of specialized processing services to the steel industry. The senior subordinated term loan bears interest in cash at 11.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

During the year ended June 30, 2013, we closed-out twenty-three positions which are briefly described below.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. ("Iron Horse") common stock in connection with the exercise of an equity buyout option, receiving $2,040 of net proceeds and realizing a gain of approximately $1,772 on the sale.

On August 3, 2012, Pinnacle Treatment Centers, Inc. repaid the $17,475 loan receivable to us.

On August 10, 2012, U.S. HealthWorks Holding Company, Inc. repaid the $25,000 loan receivable to us.

On September 20, 2012, Fischbein repaid the $3,425 loan receivable to us.

On October 5, 2012, Northwestern Management Services, LLC ("Northwestern") repaid the $15,092 loan receivable to us and we sold our 50 shares of Northwestern common stock for total proceeds of $2,233, realizing a gain of $1,862.

On October 16, 2012, Blue Coat repaid the $25,000 loan receivable to us.

On October 18, 2012, Hi-Tech Testing Services, Inc. and Wilson Inspection X-Ray Services, Inc. repaid the $7,200 loan receivable to us.

On October 19, 2012, Mood Media Corporation repaid the $15,000 loan receivable to us.

On October 31, 2012, Shearer's Foods, Inc. ("Shearer's") repaid the $37,999 loan receivable to us. On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's, receiving $6,022 of net proceeds and realizing a gain of approximately $2,027 on the redemption.

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On November 8, 2012, Potters Holdings II, L.P. repaid the $15,000 loan receivable to us.

On November 15, 2012, Renaissance Learning, Inc. repaid the $6,000 loan receivable to us.

On December 3, 2012, VanDeMark Chemicals, Inc. repaid the $29,658 loan receivable to us.

On December 7, 2012, Hudson Products Holdings, Inc. ("Hudson") repaid the $6,267 loan receivable to us.

On December 21, 2012, ST Products, LLC repaid the $23,162 loan receivable to us.

On December 21, 2012, SG Acquisition, Inc. repaid the $83,242 loan receivable to us.

On February 5, 2013, we sold our $2,000 investment in Healogics and realized a gain of $60 on this investment.

On February 25, 2013, we sold our $2,000 secured first lien investment in TNS and realized a gain of $20 on this investment.

On March 18, 2013, we sold our $2,000 investment in J.G. Wentworth and realized a gain of $75 on this investment.

On March 28, 2013, we sold our investment in New Meatco Provisions, LLC ("Meatco") for net proceeds of approximately $1,965, realizing a loss of $10,814 on the sale.

On March 29, 2013, we received net proceeds of $1,251 for the partial sale of our equity investment in Caleel + Hayden, LLC, realizing a gain of $900 on the sale.

On April 30, 2013, we sold our investment in Fischbein for net proceeds of $3,168, recognizing a realized gain of $2,293 on the sale. In addition, there is $310 being held in escrow which will be recognized as additional gain if and when received.

On May 16, 2013, Out Rage repaid the $11,836 loan receivable to us.

On May 23, 2013, Snacks Holding repaid the $15,366 loan receivable to us.

On June 3, 2013, Nobel repaid the $15,262 loan receivable to us.

On June 4, 2013, Springs repaid the $35,000 loan receivable to us.

On June 13, 2013, we sold our $4,000 investment in SourceHOV and realized a gain of $40 on this investment.

On June 14, 2013, we sold our $10,000 investment in TNS and realized a gain of $117 on this investment.

On June 28, 2013, Sandow repaid $30,100 of the $55,000 loan receivable to us. After the repayment, we now hold $24,900 of senior secured debt of Sandow.

In addition to the repayments noted above, during the year ended June 30, 2013, we received principal amortization payments of $19,568 on several loans, and $99,066 of partial prepayments primarily related to Byrider Systems Acquisition Corp, Capstone, Cargo Airport Services USA, LLC ("Cargo"), Energy Solutions, NMMB, Northwestern, and Sandow.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of $199,805, adjusted for the final working capital settlement, including a potential earnout of $28,000 that will be paid based on the future performance of Gas Solutions. We do not know the timing, if any, related to this potential earnout and have valued the $28,000 at zero as of June 30, 2013. After expenses, including structuring fees of $9,966 paid to us, Energy Solutions received approximately $158,687 in cash. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas

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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, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, *Financial Services  Investment Companies*, as cash distributions are received from Energy Solutions to the extent there are earnings and profits sufficient to support such recognition. During the year ended June 30, 2013, Energy Solutions repaid $28,500 of senior and subordinated secured debt. We received $19,543 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the year ended June 30, 2013. During the year ended June 30, 2013, we received distributions of $53,820 from Energy Solutions which were recorded as dividend income. Energy Solutions continues to hold $23,979 of cash for future investment and repayment of the remaining debt.

During the year ended June 30, 2013, we recognized $1,481 of interest income due to purchase discount accretion from the assets acquired from Patriot Capital Funding, Inc. ("Patriot"). Included in the $1,481 recorded during the year ended June 30, 2013 is $1,111 of normal accretion and $370 of accelerated accretion resulting from the repayment of Hudson. We expect to recognize $240 of normal accretion during the three months ended September 30, 2013.

During the year ended June 30, 2012, we recognized $6,613 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $6,613 is $3,083 of normal accretion and $3,530 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC ("Mac & Massey"), Nupla Corporation ("Nupla"), ROM Acquisition Corp and Sport Helmets Holdings, LLC ("Sport Helmets").

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

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

| Quarter-End | Acquisitions(1) | Dispositions(2) |
|---|---|---|
| June 30, 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 |