

PROSPECT CAPITAL CORP  
 Form 497  
 February 13, 2014

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**Prospect Capital Corporation**  
**Prospect Capital InterNotes®**  
**4.75% Senior Notes due 2019 (the "Notes")**

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

Pricing Supplement No. 267 Dated Thursday, February 13, 2014  
 (To: Prospectus Dated October 15, 2013, and Prospectus Supplement Dated February 3, 2014)

| CUSIP Number | ISIN Number  | Principal Amount | Selling Price | Gross Concession | Net Proceeds    | Coupon Type | Coupon Rate | Coupon Frequency | Maturity Date | 1 <sup>st</sup> Coupon Date | 1 <sup>st</sup> Coupon Amount | Survivor's Option | Product Ranking        |
|--------------|--------------|------------------|---------------|------------------|-----------------|-------------|-------------|------------------|---------------|-----------------------------|-------------------------------|-------------------|------------------------|
| 74348YMA6    | US74348YMA63 | \$40,000,000.00  | 100.000%      | 1.000%           | \$39,600,000.00 | Fixed       | 4.75%       | Semi-Annual      | 8/15/2019     | 8/15/2014                   | \$23.22                       | No                | Senior Unsecured Notes |

Trade Date: Thursday, February 13, 2014 @ 4:00 PM ET  
 Settle Date: Wednesday, February 19, 2014  
 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 Sixty-Seventh Supplemental Indenture, dated as of February 19, 2014.

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

This 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 PS-5 of this pricing supplement, 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 preliminary pricing supplement. Any representation to the contrary is a criminal offense. Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

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InterNotes® is a registered trademark of Incapital Holdings LLC.

### Recent Developments:

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

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

On February 7, 2014, we made an investment of \$22.9 million to purchase 62.99% of the subordinated notes in Halcyon Loan Advisors Funding 2014-I, Ltd.

On February 10, 2014, the SEC granted our exemptive application to permit us to participate in negotiated co-investments with 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.

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

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

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

On February 13, 2014, we issued \$9.6 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$9.4 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 (I)(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 Third 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 40<sup>th</sup> Street, 44<sup>th</sup> 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 Sixty-Seventh Supplemental Indenture, between the Company and American Stock Transfer & Trust Company, and the global note representing the Notes issued pursuant to 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 February 13, 2014 and is limited to the laws of the State of Maryland as in effect on February 13, 2014. 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 (I)(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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**SPECIFIC TERMS OF THE NOTES AND THE OFFERING**

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

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| Issuer   | Prospect Capital Corporation  |
| Title of securities                              | 4.75% Senior Notes due 2019   |
| Initial aggregate principal amount being offered | \$40,000,000  |
| Initial public offering price                    | 100% of the aggregate principal amount of Notes.  |
| Principal payable at maturity                    | 100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in The City of New York as we may designate.  |
| Type of note                                     | Fixed rate note   |
| Interest rate                                    | 4.75% per year  |
| Original issue date                              | February 19, 2014   |
| Stated maturity date                             | August 15, 2019   |
| Date interest starts accruing                    | February 19, 2014   |
| Interest payment dates                           | Every February 15 and August 15, commencing August 15, 2014. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.   |
| Interest periods                                 | The initial interest period will be the period from and including February 19, 2014, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be. |
| Repayment at option of holders                   | Holders will not have the option to have the Notes repaid prior to the stated maturity date unless we undergo a fundamental change (as defined in this pricing supplement). See "Description of the Notes Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change."   |
| Defeasance                                       | The Notes are subject to defeasance by us.  |
| Covenant defeasance                              | The Notes are subject to covenant defeasance by us.   |

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| Optional redemption                                 | We may redeem some or all of the Notes at any time, or from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes to be redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of accrued and unpaid interest to the date of redemption) on the Notes to be redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) using the applicable Treasury Rate plus 50 basis points, plus, in each case, accrued and unpaid interest to the redemption date.  |
| Fundamental change repurchase right of holders      | If we undergo a fundamental change (as defined in this pricing supplement) prior to maturity, Holders will have the right, at their option, to require us to repurchase for cash some or all of their Notes at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. See "Description of the Notes Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change."  |
| Option to exchange upon subsequent company offering | In the event we (i) issue additional notes which are pari passu with the Notes sold pursuant to this pricing supplement, whether in a publicly registered or privately placed debt offering, including without limitation any offering pursuant to Regulation S, Rule 144A, or other similar rule or regulation under the Securities Act, of at least \$250,000,000 in an aggregate principal amount (the "Debt Offering"), during the period of 90 calendar days following the issuance date of the Notes (the "Exchange Period"), or (ii) issue additional Notes on terms similar to these Notes but at any discount to the face value of the Notes, during the period of 90 calendar days (the "Discount Exchange Period") following the issuance date of the Notes (the "Discount Offering") (the notes issued in connection with a Debt Offering and a Discount Offering collectively referred to as the "New Notes"), each original holder of the Notes may exchange all, and not part, of its Notes for New Notes (the "Exchange Right"). The option to exchange Notes for any New Notes will apply only to the original holders of the Notes who purchase the Notes in this offering and who continue to hold the Notes as of the date of issuance of the New Notes (the "Applicable Noteholders"). Any subsequent holders of the Notes who acquire Notes during the Exchange Period or the Discount Exchange Period, as applicable, from Applicable Noteholders will not be permitted to exchange Notes for New Notes. See "Description of the Notes Option to Exchange upon Subsequent Company Offering." |

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| Events of default | If an event of default on the Notes occurs, the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the Indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving us as defined in the Indenture. |
| Other covenants   | In addition to the covenants described in the prospectus attached to this pricing supplement, the following covenants shall apply to the Notes:  |

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

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

|                               |   |
|-------------------------------|---|
| No established trading market | The Notes are a new issue of securities with no established trading market. The Notes will not be listed on any securities exchange or on any automated dealer quotation system. Although the underwriter has informed us that it intends to make a market in the Notes, it is not obligated to do so, and may discontinue any such market making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained. |
|-------------------------------|---|

|                  |  |
|------------------|--|
| Tax consequences | The tax consequences to a holder of Notes upon an exchange of Notes for New Notes pursuant to the Exchange Right may depend on, among other things, the maturity date, "issue price," interest payment terms, and other features of the New Notes, and, depending on the circumstances, it is possible that such exchange could be a taxable transaction to holders of the Notes or that the New Notes received in such exchange could be treated as having "original issue discount" for U.S. federal income tax purposes. Holders of Notes are urged to contact their tax advisors regarding the federal, state, local, and foreign tax consequences of exchanging Notes for New Notes pursuant to the Exchange Right and of owning and disposing of any New Notes received pursuant to such exchange. |
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## RISK FACTORS

*Your investment in the Notes will involve certain risks. This pricing supplement and the accompanying prospectus supplement and 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.*

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

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

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

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

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

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

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

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

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

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## DESCRIPTION OF THE NOTES

*The Notes will be issued under the Indenture referred to in the accompanying prospectus supplement and prospectus between us and U.S. Bank National Association, as trustee, and a supplemental indenture establishing the terms of the Notes (collectively, the indenture and supplemental indenture is referred to as the "Indenture"). The following description of particular terms of the Notes supplements the more general description of the debt securities contained in the accompanying prospectus supplement and prospectus. If there are any inconsistencies between the information in this section and the information in the accompanying prospectus supplement and prospectus, the information in this section controls. You should read this section together with the section entitled "Description of the Notes" in the accompanying prospectus supplement on page S-14 and the "Description of Our Debt Securities" in the accompanying prospectus beginning on page 171.*

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

### Brief Description of the Notes

The Notes will:

initially be limited to \$40 million aggregate principal amount;

bear interest at a rate of 4.75% per year, payable every February 15 and August 15, commencing on August 15, 2014, in each case having a record date of February 1 and August 1;

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

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

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

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

be due August 15, 2019.

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

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

The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive





certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC. For information regarding registration of transfer and exchange of the global note held in DTC, see "Registration and Settlement" on page S-70 of the accompanying prospectus supplement.

#### **Additional Notes**

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

#### **Ranking**

The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future senior, unsecured indebtedness (including, but not limited to, our 2015 Notes, 2016 Notes, 2017 Notes, 2018 Notes, 2019 Notes, 2022 Notes, 2023 Notes and any other outstanding Prospect Capital InterNotes®) and senior in right of payment to any of our subordinated indebtedness. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiary. As of February 3, 2014, we and our subsidiary had approximately \$1.8 billion of senior indebtedness outstanding, none of which was secured indebtedness and all of which was unsecured indebtedness.

#### **Payment at Maturity**

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

#### **Optional Redemption**

We may redeem some or all of the Notes at any time, or from time to time. If we choose to redeem any Notes prior to maturity, we will pay a redemption price equal to the greater of the following amounts, plus, in each case, accrued and unpaid interest to the redemption date:

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

the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of accrued and unpaid interest to the date of redemption) on the Notes to be redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) using the applicable Treasury Rate plus 50 basis points.

If we choose to redeem any Notes, we will deliver a notice of redemption to holders of Notes not less than 30 nor more than 60 days before the redemption date. If we are redeeming less than all of the Notes, the particular Notes to be redeemed will be selected in accordance with the applicable procedures of the trustee and, so long as the Notes are registered to DTC or its nominee, DTC;

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*provided, however*, that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than \$1,000. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes or portions of the Notes called for redemption.

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

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield-to-maturity of the Comparable Treasury Issue (computed as of the third business day immediately preceding the redemption), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The redemption price and the Treasury Rate will be determined by us.

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

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

"Quotation Agent" means a Reference Treasury Dealer selected by us.

"Reference Treasury Dealer" means any primary U.S. government securities dealers selected by us (and their respective successors); *provided, however*, that if any such dealer selected by us shall cease to be a primary U.S. government securities dealer in the United States (a "Primary Treasury Dealer"), we shall select another Primary Treasury Dealer.

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

All determinations made by any Reference Treasury Dealer, including the Quotation Agent, with respect to determining the redemption price will be final and binding absent manifest error.

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

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

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

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We may be unable to repurchase your Notes in cash upon a fundamental change. Our ability to repurchase the Notes in cash in the future may be limited by the terms of our then-existing borrowing agreements. In addition, the occurrence of a fundamental change could cause an event of default under the terms of our then-existing borrowing agreements. We cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price in cash. See "Risk Factors We may be unable to repurchase the Notes following a fundamental change" on page PS-5 of this pricing supplement.

A "fundamental change" will be deemed to have occurred upon the occurrence of both (i) a "below investment grade rating event" and (ii) any of the following events (each such event is referred to as a "fundamental change event"):

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

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

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

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

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

For purposes of determining the occurrence of a fundamental change, a "below investment grade event" means the Notes are downgraded below Investment Grade by the Rating Agency on any date from the date of the public notice of an arrangement that results in a fundamental change event until the end of the 60-day period following public notice of the occurrence of a fundamental change event (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by the Rating Agency); *provided* that a downgrade contemplated by this paragraph otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular fundamental change event (and thus shall not be deemed a downgrade as contemplated by this paragraph for purposes of the definition of fundamental change hereunder) if the Rating Agency making the reduction in rating to which this paragraph would otherwise apply does not announce or publicly confirm or inform the trustee in writing at its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable fundamental change event (whether or not the

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applicable fundamental change event shall have occurred at the time of any downgrade contemplated by this paragraph). For purposes of this paragraph "Rating Agency" means Standard & Poor's Rating Service, a division of McGraw-Hill, Inc. or any successor thereto and "Investment Grade" means a rating of BBB- or better by the Rating Agency (or if such Rating Agency ceases to rate the Notes for reasons outside of our control, the equivalent investment grade rating from any "nationally recognized statistical rating organization" as defined in Section (3)(a)(62) of the Exchange Act selected by us as a replacement for the Rating Agency).

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

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

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

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

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

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

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

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

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

the principal amount of the withdrawn Notes; and

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

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

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will be made promptly following the later of the repurchase date and the time of book-entry transfer or delivery of the Notes, as the case may be.

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

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

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

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

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

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

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

This fundamental change repurchase right could discourage a potential acquirer of us. However, this fundamental change repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions. See "Risk Factors Provisions of the Notes could discourage an acquisition of us by a third party" on page PS-6 of this pricing supplement.

Our obligation to repurchase the Notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged or other transaction involving us that may adversely affect holders. We also could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a fundamental change but would increase the amount of our (or our subsidiary's) outstanding debt. The incurrence of significant amounts of additional debt could adversely affect our ability to service our then existing debt, including the Notes. See "Risk Factors Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to repurchase the Notes" on page PS-5 of this pricing supplement.

### **Consolidation, Merger and Sale of Assets by Us**

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

either (a) we are the continuing corporation or (b) the resulting, surviving or transferee person (if other than us) is a corporation or limited liability company organized and existing under the laws of the United States, any state thereof or the District of Columbia and such person assumes, by a supplemental indenture in a form reasonably satisfactory to the trustee, all of our obligations under the Notes and the Indenture;

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

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

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

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

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

#### **Option to Exchange upon Subsequent Company Offering**

In the event we (i) issue additional notes which are pari passu with the Notes sold pursuant to this pricing supplement, whether in a publicly registered or privately placed debt offering, including without limitation any offering pursuant to Regulation S, Rule 144A, or other similar rule or regulation under the Securities Act, of at least \$250,000,000 in an aggregate principal amount (the "Debt Offering"), during the period of 90 calendar days following the issuance date of the Notes (the "Exchange Period"), or (ii) issue additional Notes on terms similar to these Notes but at any discount to the face value of the Notes, during the period of 90 calendar days (the "Discount Exchange Period") following the issuance date of the Notes (the "Discount Offering") (the notes issued in connection with a Debt Offering and a Discount Offering collectively referred to as the "New Notes"), each original holder of the Notes may exchange all, and not part, of its Notes for New Notes (the "Exchange Right"). The option to exchange Notes for any New Notes will apply only to the original holders of the Notes who purchase the Notes in this offering and who continue to hold the Notes as of the date of issuance of the New Notes (the "Applicable Noteholders"). Any subsequent holders of the Notes who acquire Notes during the Exchange Period or the Discount Exchange Period, as applicable, from Applicable Noteholders will not be permitted to exchange Notes for New Notes.

Any New Notes issued to Applicable Noteholders in connection with a Debt Offering will be for an equal aggregate principal amount of the Notes to be exchanged, will be issued without penalty to, or additional consideration provided by, Applicable Noteholders and will have such terms as agreed to by us in the Debt Offering pursuant to which the New Notes are issued.

Any New Notes issued to Applicable Noteholders in connection with a Discount Offering will be issued without penalty to, or additional consideration provided by, Applicable Noteholders and will have such terms as agreed to by us in the Debt Offering or the Discount Offering pursuant to which the New Notes are issued. The principal amount of the New Notes issued in connection with a Discount Offering will be increased proportionately to the discount offered in the Discount Offering.

During the Exchange Period or the Discount Exchange Period, as applicable, we will notify the Applicable Noteholders of a proposed Debt Offering or Discount Offering upon commencement of such Debt Offering or Discount Offering, as applicable, (the "New Offering Notice"). To exercise the Exchange Right, Applicable Noteholders must deliver, prior to 5:00 p.m., New York City time, on the

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first business day following receipt of the New Offering Notice, a written notice to us of the Applicable Noteholder's exercise of its Exchange Right. The exchange notice must state the full principal amount of the Notes to be exchanged, which must be \$1,000 or \$1,000 integral multiples in excess thereof. Settlement for the exchange of Notes for New Notes will be made on the date of issuance of the New Notes pursuant to the Debt Offering or the Discount Offering, as applicable.

In connection with any exchange of Notes for New Notes, we will:

reserve (i) up to \$40 million in aggregate principal amount of New Notes in an applicable Debt Offering or (ii) an amount equal to the proportionate increase in principal amount of the Notes with respect to the discount offered in the Discount Offering, in each case solely for purposes of the exchange by us of the Notes for New Notes;

provide to the Applicable Noteholders on the date of the commencement of the Debt Offering or the Discount Offering, as applicable, a copy of the preliminary prospectus supplement or pricing supplement, as applicable, relating to the New Notes to be offered and sold by us in the Debt Offering or Discount Offering, as applicable.

comply with any exchange offer rules under the Securities Act that may be applicable to the exchange by us of any Notes for New Notes; and

comply with all other applicable federal and state securities laws in connection with any exchange by us of the Notes for New Notes.

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

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

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

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

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

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

certain events involving our bankruptcy, insolvency or reorganization of us, including any related court orders or decrees that remain unstayed and in effect for a period of 90 days.

We are required to notify the trustee promptly upon becoming aware of the occurrence of any default under the Indenture known to us. The trustee is then required within 90 calendar days of being notified by us of the occurrence of any default to give to the registered holders of the Notes notice of





all uncured defaults known to it. However, the trustee may withhold notice to the holders of the Notes of any default, except defaults in payment of principal or interest (including additional interest, if any) on the Notes, if the trustee, in good faith, determines that the withholding of such notice is in the interests of the holders. We are also required to deliver to the trustee, on or before a date not more than 120 calendar days after the end of each fiscal year, a written statement as to compliance with the Indenture, including whether or not any default has occurred.

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

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

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

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

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

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

*Waiver*

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

**Modification**

*Changes Requiring Approval of Each Affected Holder*

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

reduce any amount payable upon repurchase of any Notes;

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

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

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

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

*Changes Requiring Majority Approval*

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

*Changes Requiring No Approval*

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

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

provide for the execution and consummation of the exchange of Notes for New Notes;

secure the Notes;

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

surrender any right or power conferred upon us;

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

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

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

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

add guarantees of obligations under the Notes; and

provide for a successor trustee.

*Other*

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

*Notes Not Entitled to Consent*

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

**Reports**

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

**Satisfaction and Discharge**

The Indenture shall upon the written request or order signed in our name, or the "Company Request," cease to be of further effect with respect to any series of notes specified in such Company Request (except as to any surviving rights of registration of transfer or exchange of notes of such series expressly provided in the Indenture, any surviving rights of tender for repayment at the option of the holders and any right to receive additional amounts, as provided in the Indenture), and the trustee, upon receipt of a company order, and at our expense, shall execute proper instruments acknowledging satisfaction and discharge of the Indenture as to such series when (1) either:

- (A) all notes of such series theretofore authenticated and delivered and all coupons, if any, appertaining thereto (other than (i) coupons appertaining to bearer securities surrendered for exchange for registered securities and maturing after such exchange, whose surrender is not

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required or has been waived as provided in the Indenture, (ii) notes and coupons of such series which have been destroyed, lost or stolen and which have been replaced or paid as provided in the Indenture, (iii) coupons appertaining to the notes called for redemption and maturing after the relevant redemption date, whose surrender has been waived as provided in the Indenture, and (iv) notes and coupons of such series for whose payment money has theretofore been deposited in trust with the trustee or any paying agent or segregated and held in trust by us and thereafter repaid to us or discharged from such trust), as provided in the Indenture have been delivered to the trustee for cancellation; or

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

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

(2) we have irrevocably paid or caused to be irrevocably paid all other sums payable under the Indenture by us; and

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

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

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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](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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

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

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

**Incapital LLC**

**BofA Merrill Lynch**

**Citigroup**

**RBC Capital Markets**

Prospectus Supplement dated February 3, 2014.

®InterNotes is a registered trademark of Incapital Holdings LLC

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**FORWARD-LOOKING STATEMENTS**

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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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-14. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in "Description of Notes." In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.*

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

**The Company**

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

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

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

**Lending Directly to Companies** We provide debt financing to companies owned by non-private equity firms, the company founder, a management team or a family. Here, in addition to the strengths we look for in a sponsored transaction, we also look for the alignment with the management team with significant invested capital. This strategy often has less competition than the private equity sponsor strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. Direct lending can result in higher returns and lower leverage than sponsor transactions and may include warrants or equity to us. This strategy generally has comprised approximately 10%-15% of our business.

**Control Investments in Corporate Operating Companies** This strategy involves acquiring controlling stakes in non-financial operating companies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. We provide certainty of

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closure to our counterparties, give the seller personal liquidity and generally look for management to continue on in their current roles. This strategy has comprised approximately 10%-15% of our business.

**Control Investments in Financial Companies** This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, subprime auto lending and other strategies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC (as defined below) -compliant partnership, enhancing returns. This strategy has comprised approximately 10%-15% of our business.

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

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

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

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

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

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of

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these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of December 31, 2013, we held investments in 130 portfolio companies. The aggregate fair value as of December 31, 2013 of investments in these portfolio companies held on that date is approximately \$4.9 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 12.9% as of December 31, 2013.

**Recent Developments**

***Recent Investment Activity***

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

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

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

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

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

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

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

***Credit Facility***

On January 15, 2014, we expanded the accordion feature of our credit facility from \$650.0 million to \$1.0 billion and increased the commitments to the credit facility by \$62.5 million. The commitments to the credit facility now stand at \$712.5 million.

***Debt Issuance***

During the period from January 1, 2014 to January 31, 2014, we issued \$44.7 million in aggregate principal amount of our Prospect Capital InterNotes for net proceeds of \$44.0 million. In addition, we sold \$11.2 million in aggregate principal amount of our Prospect Capital InterNotes for net proceeds of \$11.0 million with expected closing on February 6, 2014.

***Common Stock Issuance***

During the period from January 1, 2014 to January 31, 2014 (with settlement through February 5, 2014), we sold 10,547,971 shares of our common stock at an average price of \$11.17 per share, and raised \$117.8 million gross proceeds, under our at-the-market offering program, or the "ATM



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Program." Net proceeds were \$116.6 million after commissions to the broker-dealer on shares sold and offering costs.

On January 23, 2014, we issued 109,087 shares of our common stock in connection with the dividend reinvestment plan.

*Dividends*

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

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

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

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

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**The Offering**

|                         |   |
|-------------------------|---|
| <b>Issuer</b>           | Prospect Capital Corporation  |
| <b>Purchasing Agent</b> | Incapital LLC   |
| <b>Agents</b>           | Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC. From time to time, we may sell the notes to or through additional agents.   |
| <b>Title of Notes</b>   | Prospect Capital InterNotes®  |
| <b>Amount</b>           | 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 January 31, 2014, \$647.3 million aggregate principal amount of notes has been issued. In addition, we sold \$11.2 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$11.0 million with expected closing on February 6, 2014. 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. |
| <b>Denominations</b>    | The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).   |
| <b>Status</b>           | 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.  |
| <b>Maturities</b>       | Each note will mature 12 months or more from its date of original issuance.   |
| <b>Interest</b>         | <p>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").</p> <p>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.</p> <p>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.</p>               |
| <b>Principal</b>        | 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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|                                 |  |
|---------------------------------|--|
| <b>Redemption and Repayment</b> | 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.  |
| <b>Survivor's Option</b>        | 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."   |
| <b>Sale and Clearance</b>       | 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.  |
| <b>Trustee</b>                  | 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.   |
| <b>Selling Group</b>            | 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. On February 3, 2014, RBC Capital Markets, LLC entered into a joinder agreement to become a party 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 <a href="mailto:info@incapital.com">info@incapital.com</a> for a list of selling group members. |

Table of Contents**SELECTED CONDENSED FINANCIAL DATA**

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2013, 2012, 2011, 2010 and 2009 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and six months ended December 31, 2013 and 2012 has been derived from unaudited financial data. Interim results for the three and six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ending June 30, 2014. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-26 for more information.

|   | For the Three<br>Months Ended<br>December 31, |                  | For the Six<br>Months Ended<br>December 31, |                  | For the Year Ended June 30, |                   |                   |                  |                  |  |
|---|---|------------------|---|------------------|-----------------------------|-------------------|-------------------|------------------|------------------|--|
|   | 2013  | 2012             | 2013  | 2012             | 2013                        | 2012              | 2011              | 2010             | 2009             |  |
| <b>(in thousands except data relating to shares, per share and number of portfolio companies)</b> |   |                  |   |                  |                             |                   |                   |                  |                  |  |
| <b>Performance Data:</b>  |   |                  |   |                  |                             |                   |                   |                  |                  |  |
| Interest income   | \$ 147,103                                    | \$ 116,866       | \$ 285,524                                  | \$ 195,176       | \$ 435,455                  | \$ 219,536        | \$ 134,454        | \$ 86,518        | \$ 62,926        |  |
| Dividend income   | 8,892   | 31,955           | 15,981                                      | 68,163           | 82,705                      | 64,881            | 15,092            | 15,366           | 22,793           |  |
| Other income  | 22,095  | 17,214           | 37,619                                      | 26,332           | 58,176                      | 36,493            | 19,930            | 12,675           | 14,762           |  |
| <b>Total investment income</b>  | <b>178,090</b>                                | <b>166,035</b>   | <b>339,124</b>                              | <b>289,671</b>   | <b>576,336</b>              | <b>320,910</b>    | <b>169,476</b>    | <b>114,559</b>   | <b>100,481</b>   |  |
| Interest and credit facility expenses   | (29,256)                                      | (16,414)         | (56,663)                                    | (29,925)         | (76,341)                    | (38,534)          | (17,598)          | (8,382)          | (6,161)          |  |
| Investment advisory expense   | (48,129)                                      | (41,110)         | (91,758)                                    | (72,845)         | (151,031)                   | (82,507)          | (46,051)          | (30,727)         | (26,705)         |  |
| Other expenses  | (8,490)                                       | (9,295)          | (16,151)                                    | (13,658)         | (24,040)                    | (13,185)          | (11,606)          | (8,260)          | (8,452)          |  |
| <b>Total expenses</b>   | <b>(85,875)</b>                               | <b>(66,819)</b>  | <b>(164,572)</b>                            | <b>(116,428)</b> | <b>(251,412)</b>            | <b>(134,226)</b>  | <b>(75,255)</b>   | <b>(47,369)</b>  | <b>(41,318)</b>  |  |
| <b>Net investment income</b>  | <b>92,215</b>                                 | <b>99,216</b>    | <b>174,552</b>                              | <b>173,243</b>   | <b>324,924</b>              | <b>186,684</b>    | <b>94,221</b>     | <b>67,190</b>    | <b>59,163</b>    |  |
| Realized and unrealized (losses) gains  | (6,853)                                       | (52,727)         | (9,290)                                     | (79,505)         | (104,068)                   | 4,220             | 24,017            | (47,565)         | (24,059)         |  |
| <b>Net increase in net assets from operations</b>   | <b>\$ 85,362</b>                              | <b>\$ 46,489</b> | <b>\$ 165,262</b>                           | <b>\$ 93,738</b> | <b>\$ 220,856</b>           | <b>\$ 190,904</b> | <b>\$ 118,238</b> | <b>\$ 19,625</b> | <b>\$ 35,104</b> |  |
| <b>Per Share Data:</b>  |   |                  |   |                  |                             |                   |                   |                  |                  |  |
| <b>Net increase in net assets from operations(1)</b>  | <b>\$ 0.30</b>                                | <b>\$ 0.24</b>   | <b>\$ 0.61</b>                              | <b>\$ 0.52</b>   | <b>\$ 1.07</b>              | <b>\$ 1.67</b>    | <b>\$ 1.38</b>    | <b>\$ 0.33</b>   | <b>\$ 1.11</b>   |  |

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|  |              |              |              |              |              |              |              |               |            |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|------------|
| Distributions declared per share                   | \$ (0.33)    | \$ (0.31)    | \$ (0.66)    | \$ (0.62)    | \$ (1.28)    | \$ (1.22)    | \$ (1.21)    | \$ (1.33)     | \$ (1.62)  |
| Average weighted shares outstanding for the period | 287,016,433  | 195,585,502  | 272,550,293  | 179,039,198  | 207,069,971  | 114,394,554  | 85,978,757   | 59,429,222    | 31,559,905 |
| <b>Assets and Liabilities Data:</b>                |              |              |              |              |              |              |              |               |            |
| Investments  | \$ 4,886,020 | \$ 3,038,808 | \$ 4,886,020 | \$ 3,038,808 | \$ 4,172,852 | \$ 2,094,221 | \$ 1,463,010 | \$ 748,483    | \$ 547,168 |
| Other assets                                       | 308,002      | 490,913      | 308,002      | 490,913      | 275,365      | 161,033      | 86,307       | 84,212        | 119,857    |
| Total assets                                       | 5,194,022    | 3,529,721    | 5,194,022    | 3,529,721    | 4,448,217    | 2,255,254    | 1,549,317    | 832,695       | 667,025    |
| Amount drawn on credit facility                    |              |              |              |              | 124,000      | 96,000       | 84,200       | 100,300       | 124,800    |
| Senior convertible notes                           | 847,500      | 847,500      | 847,500      | 847,500      | 847,500      | 447,500      | 322,500      |               |            |
| Senior unsecured notes                             | 347,814      | 100,000      | 347,814      | 100,000      | 347,725      | 100,000      |              |               |            |
| InterNotes®  | 600,907      | 164,993      | 600,907      | 164,993      | 363,777      | 20,638       |              |               |            |
| Amount owed to related parties                     | 49,849       | 2,392        | 49,849       | 2,392        | 6,690        | 8,571        | 7,918        | 9,300         | 6,713      |
| Other liabilities                                  | 116,853      | 88,201       | 116,853      | 88,201       | 102,031      | 70,571       | 20,342       | 11,671        | 2,916      |
| Total liabilities                                  | 1,962,923    | 1,203,086    | 1,962,923    | 1,203,086    | 1,791,723    | 743,280      | 434,960      | 121,271       | 134,429    |
| Net assets   | \$ 3,231,099 | \$ 2,326,635 | \$ 3,231,099 | \$ 2,326,635 | \$ 2,656,494 | \$ 1,511,974 | \$ 1,114,357 | \$ 711,424    | \$ 532,596 |
| <b>Investment Activity Data:</b>                   |              |              |              |              |              |              |              |               |            |
| No. of portfolio companies at period end           | 130          | 106          | 130          | 106          | 124          | 85           | 72           | 58            | 30         |
| Acquisitions                                       | \$ 607,657   | \$ 772,125   | \$ 1,164,500 | \$ 1,520,062 | \$ 3,103,217 | \$ 1,120,659 | \$ 953,337   | \$ 364,788(2) | \$ 98,305  |
| Sales, repayments, and other disposals             | \$ 255,238   | \$ 349,269   | \$ 419,405   | \$ 507,392   | \$ 931,534   | \$ 500,952   | \$ 285,562   | \$ 136,221    | \$ 27,007  |
| Total return based on market value(3)              | 3.41%        | (2.99)%      | 10.12%       | 0.71%        | 6.2%         | 27.2%        | 17.2%        | 17.7%         | (18.6)%    |
| Total return based on net asset value(3)           | 3.04%        | 2.14%        | 6.09%        | 5.33%        | 10.9%        | 18.0%        | 12.5%        | (6.8)%        | (0.6)%     |
| Weighted average yield at end of period(4)         | 12.9%        | 14.7%        | 12.9%        | 14.7%        | 13.6%        | 13.9%        | 12.8%        | 16.2%         | 14.6%      |

(1) Per share data is based on average weighted shares for the period.

(2)

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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 January 31, 2014, we and our subsidiary had no secured indebtedness outstanding and approximately \$1.8 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 January 31, 2014, 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.

***Risks affecting investments in real estate.***

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

national economic conditions;

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

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

changing demographics;

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

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

the quality of a property's construction and design;

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

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

potential environmental and other legal liabilities;



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the level of financing used by the Prospect REITs in respect of their properties, increases in interest rate levels on such financings and the risk that a Prospect REIT will default on such financings, each of which increases the risk of loss to us;

the availability and cost of refinancing;

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

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

potential limited number of prospective buyers interested in purchasing a property that a Prospect REIT wishes to sell; and

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

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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 January 31, 2014, \$647.3 million aggregate principal amount of notes has been issued. In addition, we sold \$11.2 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$11.0 million with expected closing on February 6, 2014.

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<sub>1</sub>" is the year, expressed as a number, in which the first day of the interest period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the interest period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" 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<sub>1</sub> is greater than 29, in which case D<sub>2</sub> 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:

| <b>Interest Payment Frequency</b> | <b>Interest Payment Dates</b>  |
|-----------------------------------|--|
| 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. Historically, this strategy has comprised approximately 50%-60% of our business, but more recently it is less than 50% of our business.

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

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

**Control Investments in Financial Companies** This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, subprime auto lending and other strategies.

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Our investments in these companies are generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 10%-15% of our business.

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

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

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

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

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

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

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

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

**Second Quarter Highlights**

*Investment Transactions*

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

*Proposed Investment Transactions*

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

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

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

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

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#### *Equity Issuance*

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

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

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

#### *Dividend*

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

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

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

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

#### *Credit Facility*

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

#### *Debt Issuance*

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

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                   |
|---------------------------------|------------------|---------------------|--------------------------------|---------------------------------------|
| 3                               | \$ 5,710         | 4.00%               | 4.00%                          | October 15, 2016                      |
| 3.5                             | 3,149            | 4.00%               | 4.00%                          | April 15, 2017                        |
| 4                               | 16,545           | 4.00%               | 4.00%                          | November 15, 2017 - December 15, 2017 |
| 5                               | 74,043           | 5.00%               | 5.00%                          | October 15, 2018 - December 15, 2018  |
| 7                               | 20,039           | 5.50%               | 5.50%                          | October 15, 2020 - December 15, 2020  |
| 12                              | 2,978            | 6.00%               | 6.00%                          | November 15, 2025 - December 15, 2025 |
| 15                              | 1,555            | 6.00%               | 6.00%                          | October 15, 2028 - November 15, 2028  |
| 20                              | 1,664            | 6.00%               | 6.00%                          | October 15, 2033                      |
| 25                              | 9,894            | 6.50%               | 6.50%                          | October 15, 2038 - December 15, 2038  |
| 30                              | 4,948            | 6.50%               | 6.50%                          | October 15, 2043                      |



\$ 140,525

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**Investment Holdings**

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

During the six months ended December 31, 2013, we originated \$1,164,500 of new investments, primarily composed of \$529,376 of debt and equity financing to non-control investments, \$429,405 of debt and equity financing to controlled investments, and \$205,719 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close select junior debt and equity investments. Our annualized current yield was 13.6% and 12.9% as of June 30, 2013 and December 31, 2013, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily the result of senior secured loan refinancing activity that took place in the leveraged loan market and within our CLO portfolios during the first half of calendar year 2013. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of more than 25% of the voting securities of an investee company. Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of the investee company.

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

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

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

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

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

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

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

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|                       |              |        |              |        |              |        |              |        |
|-----------------------|--------------|--------|--------------|--------|--------------|--------|--------------|--------|
| CLO Debt              | 27,889       | 0.6%   | 33,466       | 0.7%   | 27,667       | 0.7%   | 28,589       | 0.7%   |
| Total Debt Securities | \$ 4,721,334 | 100.0% | \$ 4,672,625 | 100.0% | \$ 4,110,707 | 100.0% | \$ 4,016,223 | 100.0% |

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

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

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

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

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|                                  |                     |               |                     |               |                     |               |                     |               |
|----------------------------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|
| Retail                           | 14,209              | 0.3%          | 14,622              | 0.3%          | 14,190              | 0.3%          | 14,569              | 0.3%          |
| Software & Computer Services     | 262,300             | 5.3%          | 263,255             | 5.4%          | 307,734             | 7.2%          | 309,308             | 7.4%          |
| Specialty Minerals               | 38,500              | 0.8%          | 40,488              | 0.8%          | 38,500              | 0.9%          | 42,558              | 1.0%          |
| Telecommunications               | 75,000              | 1.5%          | 75,000              | 1.5%          | 99,500              | 2.3%          | 99,323              | 2.4%          |
| Textiles, Apparel & Luxury Goods | 115,649             | 2.3%          | 104,111             | 2.1%          | 16,760              | 0.4%          | 9,385               | 0.2%          |
| Transportation                   | 92,911              | 1.9%          | 90,702              | 1.9%          | 127,767             | 3.0%          | 127,474             | 3.1%          |
| <b>Total Portfolio</b>           | <b>\$ 4,976,354</b> | <b>100.0%</b> | <b>\$ 4,886,020</b> | <b>100.0%</b> | <b>\$ 4,255,778</b> | <b>100.0%</b> | <b>\$ 4,172,852</b> | <b>100.0%</b> |

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**Portfolio Investment Activity**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On October 11, 2013, we provided \$25,000 in preferred equity for the recapitalization of Ajax. After the financing, we received repayment of the \$20,008 loan previously outstanding.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On December 23, 2013, we provided \$102,400 of senior secured financing, of which \$87,400 was funded at closing, for the recapitalization of PrimeSport, Inc. ("PrimeSport"), a global live entertainment and event management company. The \$43,700 Term Loan A note bears interest in cash at the greater of 7.5% or Libor plus 6.5% and has a final maturity of December 23, 2019. The \$43,700 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.5% and interest payment in kind of 1.0% and has a final maturity of December 23, 2019. The \$15,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.0% or Libor plus 9.5% and has a final maturity of June 23, 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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



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

**Investment Valuation**

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

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

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

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analyses, applied to each investment, was a total valuation of \$4,886,020, excluding money market investments.

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

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

*AIRMALL USA, Inc.*

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



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

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

*Ajax Rolled Ring & Machine, Inc.*

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

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. During the quarter ended December 31, 2012, we funded an additional \$3,600 of unsecured debt to refinance first lien debt held by Wells Fargo.

On April 1, 2013, we refinanced our existing \$38,472 senior loans to Ajax, increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans that were previously outstanding. On October 11, 2013, we provided \$25,000 in preferred equity for the recapitalization of Ajax. After the financing, we received repayment of the \$20,008 subordinated unsecured loan previously outstanding. As of December 31, 2013, we control 78.01% of the fully-diluted common and preferred equity.

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

*APH Property Holdings, LLC*

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

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

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

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

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

(1) These properties comprise the Gulf Coast Portfolio.

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

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

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

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

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

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

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

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

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

*First Tower Holdings of Delaware, LLC*

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 170 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower, LLC businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. During the three months ended December 31, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. During the three months ended June 30, 2012, we received \$8,075 in structuring fee income. During the three months ended December 31, 2013, we funded an additional \$10,000 to again support seasonal demand. We received \$8,000 of structuring fees related to the renegotiation and expansion of First Tower's revolver with a third party which was recognized as other income during the six months ended December 31, 2013. As of October 31, 2013, First Tower had total assets of approximately \$630,325 including \$402,475 of finance receivables net of unearned charges. As of December 31, 2013, First Tower's total debt outstanding to parties senior to us was \$273,260.

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

*NPH Property Holdings, LLC*

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

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

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

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

(1)

These properties comprise the Oxford Portfolio.

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

*The Healing Staff, Inc.*

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

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

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

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

*UPH Property Holdings, LLC*

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

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

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

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

(1)

These properties comprise the Stonemark Portfolio.

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

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*Valley Electric Holdings I, Inc.*

Valley Electric is a leading provider of specialty electrical services in the state of Washington and is among the top 50 electrical contractors in the U.S. The company, with its headquarters in Everett, Washington, offers a comprehensive array of contracting services, primarily for commercial, industrial, and transportation infrastructure applications, including new installation, engineering and design, design-build, traffic lighting and signalization, low to medium voltage power distribution, construction management, energy management and control systems, 24-hour electrical maintenance and testing, as well as special projects and tenant improvement services. Valley Electric was founded in 1982 by the Ward family, who held the company until the end of 2012.

On December 31, 2012, Valley Electric Holdings II, Inc., a wholly-owned subsidiary of Valley Electric Holdings I, Inc., and management acquired 100% of the outstanding shares of Valley Electric Company of Mount Vernon, Inc. We funded the recapitalization of Valley Electric with \$42,572 of debt and \$9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley Electric for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. As of December 31, 2013, we control 96.3% of the common equity.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Valley Electric to \$38,941 as of December 31, 2013, a discount of \$16,287 from its amortized cost, compared to being valued at cost as of June 30, 2013.

*Wolf Energy Holdings, Inc.*

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

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

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

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Four of our controlled companies, Ajax, First Tower, Gulf Coast and Valley Electric, experienced such volatility and experienced fluctuations in valuation during the six months ended December 31, 2013. The value of Ajax decreased

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

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

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. Two of our Non-control/Non-affiliate investments, Stryker Energy, LLC ("Stryker") and Wind River Resources Corporation ("Wind River"), are valued at a discount to amortized cost due to a decline in the operating results of the operating companies from those originally underwritten. Overall, at December 31, 2013, other non-control/non-affiliate investments are valued at \$40,511 above their amortized cost, excluding our investments in Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

**Capitalization**

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012 and December 2012, Senior Unsecured Notes, and Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible

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

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

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

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

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of December 31, 2013, we can issue up to \$4,595,882 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

### *Revolving Credit Facility*

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

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



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

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points, if at least half of the credit facility is drawn, or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of December 31, 2013 and June 30, 2013, we had \$577,548 and \$473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was zero and \$124,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the current commitment amount of \$712,500. At December 31, 2013, the investments used as collateral for the 2012 Facility had an aggregate fair value of \$1,075,441, which represents 21.1% of our total investments and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the 2012 Facility, we incurred \$12,127 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$5,639 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of December 31, 2013.

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

*Senior Convertible Notes*

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

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

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

On August 14, 2012, we issued \$200,000 aggregate principal amount of senior convertible notes that mature on March 15, 2018 (the "2018 Notes"), unless previously converted or repurchased in

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accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600.

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

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

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

- (1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Senior Convertible Notes converted.
- (2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.
- (3) The conversion price in effect at December 31, 2013 was calculated on the last anniversary of the issuance and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.
- (4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

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

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

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

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

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

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

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

*Senior Unsecured Notes*

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

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

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

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

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

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

### *Prospect Capital InterNotes®*

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

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

During the six months ended December 31, 2013, we issued \$238,780 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$234,239. These notes were issued with stated interest rates ranging from 4.0% to 6.75% with a weighted average rate of 5.25%. These notes mature between October 15, 2016 and October 15, 2043.

| Tenor at<br>Origination<br>(in years) | Principal<br>Amount | Interest<br>Rate Range | Weighted<br>Average<br>Interest<br>Rate | Maturity Date Range                      |
|---------------------------------------|---------------------|------------------------|---|--|
| 3                                     | \$ 5,710            | 4.00%                  | 4.00%                                   | October 15, 2016                         |
| 3.5                                   | 3,149               | 4.00%                  | 4.00%                                   | April 15, 2017                           |
| 4                                     | 16,545              | 4.00%                  | 4.00%                                   | November 15, 2017 -<br>December 15, 2017 |
| 5                                     | 125,580             | 4.75% -<br>5.00%       | 4.99%                                   | July 15, 2018 - December 15,<br>2018     |
| 5.5                                   | 3,820               | 5.00%                  | 5.00%                                   | February 15, 2019                        |
| 6.5                                   | 1,800               | 5.50%                  | 5.50%                                   | February 15, 2020                        |
| 7                                     | 34,438              | 5.50% -<br>5.75%       | 5.54%                                   | June 15, 2020 - December 15,<br>2020     |
| 7.5                                   | 1,996               | 5.75%                  | 5.75%                                   | February 15, 2021                        |
| 12                                    | 2,978               | 6.00%                  | 6.00%                                   | November 15, 2025 -<br>December 15, 2025 |
| 15                                    | 2,495               | 6.00% -<br>6.00%       | 6.00%                                   | August 15, 2028 - November 15,<br>2028   |
| 18                                    | 4,062               | 6.25%                  | 6.21%                                   | July 15, 2031 - August 15, 2031          |
| 20                                    | 2,791               | 6.00%                  | 6.00%                                   | September 15, 2033 -<br>October 15, 2033 |
| 25                                    | 13,266              | 6.50%                  | 6.50%                                   | August 15, 2038 - December 15,<br>2038   |
| 30                                    | 20,150              | 6.50% -<br>6.75%       | 6.60%                                   | July 15, 2043 - October 15, 2043         |
| <b>\$ 238,780</b>                     |                     |                        |   |  |

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



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

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                   |
|---------------------------------|------------------|---------------------|--------------------------------|---------------------------------------|
| 3                               | \$ 5,710         | 4.00%               | 4.00%                          | October 15, 2016                      |
| 3.5                             | 3,149            | 4.00%               | 4.00%                          | April 15, 2017                        |
| 4                               | 16,545           | 4.00% - 4.75%       | 4.00%                          | November 15, 2017 - December 15, 2017 |
| 5                               | 125,580          | 5.00%               | 4.99%                          | July 15, 2018 - December 15, 2018     |
| 5.5                             | 3,820            | 5.00%               | 5.00%                          | February 15, 2019                     |
| 6.5                             | 1,800            | 5.50%               | 5.50%                          | February 15, 2020                     |
| 7                               | 229,220          | 4.00% - 6.55%       | 5.40%                          | June 15, 2019 - December 15, 2020     |
| 7.5                             | 1,996            | 5.75%               | 5.75%                          | February 15, 2021                     |
| 10                              | 18,102           | 3.24% - 7.00%       | 6.55%                          | March 15, 2022 - April 15, 2023       |
| 12                              | 2,978            | 6.00%               | 6.00%                          | November 15, 2025 - December 15, 2025 |
| 15                              | 17,495           | 5.00% - 6.00%       | 5.14%                          | May 15, 2028 - November 15, 2028      |
| 18                              | 26,099           | 4.125% - 6.25%      | 5.48%                          | December 15, 2030 - August 15, 2031   |
| 20                              | 5,897            | 5.625% - 6.00%      | 5.84%                          | November 15, 2032 - October 15, 2033  |
| 25                              | 13,266           | 6.50%               | 6.50%                          | August 15, 2038 - December 15, 2038   |
| 30                              | 129,250          | 5.50% - 6.75%       | 6.22%                          | November 15, 2042 - October 15, 2043  |

**\$ 600,907**

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

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

### **Net Asset Value**

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

|   | As of<br>December 31, 2013 | As of<br>June 30, 2013 |
|---|----------------------------|------------------------|
| Net assets                                    | \$ 3,231,099               | \$ 2,656,494           |
| Shares of common stock issued and outstanding | 301,259,436                | 247,836,965            |

|                           |    |       |    |       |
|---------------------------|----|-------|----|-------|
| Net asset value per share | \$ | 10.73 | \$ | 10.72 |
|---------------------------|----|-------|----|-------|

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

**Results of Operations**

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

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

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

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

**Investment Income**

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$178,090 and \$166,035 for the three months ended December 31, 2013 and December 31, 2012, respectively. Investment income was \$339,124 and \$289,671 for the six months ended December 31, 2013 and December 31, 2012, respectively. During the three and six months ended December 31, 2013, the increase in investment income is primarily the result of a larger income producing portfolio.



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

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

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

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

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

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

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

**Operating Expenses**

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative

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services and facilities for us. Our investment advisory fees compensate Prospect Capital Management (the "Investment Adviser") for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$85,875 and \$66,819 for the three months ended December 31, 2013 and December 31, 2012, respectively, or approximately \$0.30 and \$0.34 per weighted average share outstanding, respectively. Operating expenses were \$164,572 and \$116,428 for the six months ended December 31, 2013 and December 31, 2012, respectively, or approximately \$0.60 and \$0.65 per weighted average share outstanding, respectively.

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

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

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

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

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

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

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

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

**Net Investment Income**

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

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

**Net Realized Losses**

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

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

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

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

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

**Financial Condition, Liquidity and Capital Resources**

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

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

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

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

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

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

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

On August 22, 2013, we entered into an ATM Program with BMO Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from August 29, 2013 to November 4, 2013, we sold 24,127,242 shares of our common stock at

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an average price of \$11.28 per share, and raised \$272,114 of gross proceeds, under the ATM Program. Net proceeds were \$268,997 after commissions to the broker-dealer on shares sold and offering costs.

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

**Off-Balance Sheet Arrangements**

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

**Recent Developments**

During the period from January 1, 2014 to January 31, 2014, we issued \$44,717 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$43,957. In addition, we sold \$11,172 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$10,980 with expected closing on February 6, 2014.

During the period from January 1, 2014 to January 31, 2014 (with settlement through February 5, 2014), we sold 10,547,971 shares of our common stock at an average price of \$11.17 per share, and raised \$117,809 of gross proceeds, under the ATM Program. Net proceeds were \$116,632 after commissions to the broker-dealer on shares sold and offering costs.

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

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

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

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

On January 15, 2014, we expanded the accordion feature of our credit facility from \$650,000 to \$1,000,000 and increased the commitments to the credit facility by \$62,500. The commitments to the credit facility now stand at \$712,500.

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

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

On January 23, 2014, we issued 109,087 shares of our common stock in connection with the dividend reinvestment plan.

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

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

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

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

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

**Critical Accounting Policies and Estimates**

*Basis of Presentation*

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

*Reclassifications*

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

*Use of Estimates*

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

*Basis of Consolidation*

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

*Investment Classification*

We are a non-diversified company within the meaning of the 1940 Act. We classify our investments by level of control. As defined in the 1940 Act, controlled investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee



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company. Under the 1940 Act, Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person.

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

*Investment Risks*

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

*Market Risk*

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

*Credit Risk*

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

*Liquidity Risk*

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

*Interest Rate Risk*

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

*Prepayment Risk*

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

*Investment Valuation*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Valuation of Other Financial Assets and Financial Liabilities*

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

*Senior Convertible Notes*

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

*Revenue Recognition*

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

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

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

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

Dividend income is recorded on the ex-dividend date.

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

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

*Federal and State Income Taxes*

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

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

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

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

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

*Dividends and Distributions*

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

*Financing Costs*

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

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

*Guarantees and Indemnification Agreements*

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

*Per Share Information*

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

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*Recent Accounting Pronouncements*

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

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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

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**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 depository 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 depository for the notes. The notes will be issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. 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](http://www.dtcc.com).

Purchases of the notes under the DTC system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The beneficial interest of each actual purchaser of 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 depository is not obtained, we will print and deliver certificated notes. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, we will print and deliver certificated notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but neither we, the 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.

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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 January 31, 2014, we had no borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately \$601.1 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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Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of December 31, 2013.

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

**2015 Notes**

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

**2016 Notes**

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

**2017 Notes**

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

**2018 Notes**

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

**2019 Notes**

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

**2022 Notes**

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

**2023 Notes**

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

**Prospect Capital InterNotes®**

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

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**All Senior Securities(5)**

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

- (1) Total amount of each class of senior securities outstanding at the end of the period presented (in 000's).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) This column is inapplicable.
- (4) This column is inapplicable, except for the 2022 Notes.
- (5) On February 16, 2012, we entered into the Selling Agent Agreement and began offering notes (the "Prospect Capital InterNotes® Program"). On March 4, 2013, we entered into a Second Amended and Restated Selling Agent Agreement which continued the Prospect Capital InterNotes® Program on substantially similar terms and provides for our issuance of floating rate notes in addition to fixed rate notes. On October 15, 2013, we entered into a Third Amended and Restated Selling Agent Agreement on substantially similar terms to provide for such issuances under our current shelf registration statement. Through January 31, 2014, we have sold \$647.3 million aggregate principal amount of notes. Amounts sold under the Prospect Capital InterNotes® Program after December 31, 2013 are not reflected in the table above.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

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

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

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

(1)

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



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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., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC 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](mailto: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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**Financial Statements**

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

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

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

|   | <b>December 31,<br/>2013</b> | <b>June 30,<br/>2013</b> |
|---|------------------------------|--------------------------|
|   | <b>(Unaudited)</b>           | <b>(Audited)</b>         |
| <b>Assets (Note 4)</b>  |                              |                          |
| Investments at fair value:  |                              |                          |
| Control investments (amortized cost of \$1,236,286 and \$830,151, respectively)   | \$ 1,163,300                 | \$ 811,634               |
| Affiliate investments (amortized cost of \$49,278 and \$49,189, respectively)   | 38,880                       | 42,443                   |
| Non-control/Non-affiliate investments (amortized cost of \$3,690,790 and \$3,376,438, respectively)   | 3,683,840                    | 3,318,775                |
| Total investments at fair value (amortized cost of \$4,976,354 and \$4,255,778, respectively) (Note 3)  | 4,886,020                    | 4,172,852                |
| Investments in money market funds   | 220,850                      | 143,262                  |
| Cash  | 25,154                       | 59,974                   |
| Receivables for:  |                              |                          |
| Interest, net   | 14,184                       | 22,863                   |
| Other   | 2,067                        | 4,397                    |
| Prepaid expenses  | 277                          | 540                      |
| Deferred financing costs  | 45,470                       | 44,329                   |
| <b>Total Assets</b>   | <b>5,194,022</b>             | <b>4,448,217</b>         |
| <b>Liabilities</b>  |                              |                          |
| Credit facility payable (Notes 4 and 8)   |                              | 124,000                  |
| Senior Convertible Notes (Notes 5 and 8)  | 847,500                      | 847,500                  |
| Senior Unsecured Notes (Notes 6 and 8)  | 347,814                      | 347,725                  |
| Prospect Capital InterNotes® (Notes 7 and 8)  | 600,907                      | 363,777                  |
| Due to broker   | 44,826                       | 43,588                   |
| Dividends payable   | 33,229                       | 27,299                   |
| Due to Prospect Administration (Note 12)  | 1,741                        | 1,366                    |
| Due to Prospect Capital Management (Note 12)  | 48,108                       | 5,324                    |
| Accrued expenses  | 3,624                        | 2,345                    |
| Interest payable  | 26,753                       | 24,384                   |
| Other liabilities   | 8,421                        | 4,415                    |
| <b>Total Liabilities</b>  | <b>1,962,923</b>             | <b>1,791,723</b>         |
| <b>Net Assets</b>   | <b>\$ 3,231,099</b>          | <b>\$ 2,656,494</b>      |
| <b>Components of Net Assets</b>   |                              |                          |
| Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 301,259,436 and 247,836,965 issued and outstanding, respectively) (Note 9) | \$ 301                       | \$ 248                   |
| Paid-in capital in excess of par (Note 9)   | 3,332,469                    | 2,739,864                |
| Undistributed net investment income   | 68,321                       | 77,084                   |
| Accumulated realized losses on investments  | (79,658)                     | (77,776)                 |
| Unrealized depreciation on investments  | (90,334)                     | (82,926)                 |
| <b>Net Assets</b>   | <b>\$ 3,231,099</b>          | <b>\$ 2,656,494</b>      |

|  |    |       |    |       |
|--|----|-------|----|-------|
| <b>Net Asset Value Per Share (Note 15)</b> | \$ | 10.73 | \$ | 10.72 |
|--|----|-------|----|-------|

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.



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

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

(in thousands, except share data)

(Unaudited)

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

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

See notes to consolidated financial statements.

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

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|   |           |           |
|---|-----------|-----------|
| Cash balance at beginning of period                                       | 59,974    | 2,825     |
| <b>Cash Balance at End of Period</b>                                      | \$ 25,154 | \$ 2,219  |
| <b>Cash Paid For Interest</b>   | \$ 47,226 | \$ 17,442 |
| <b>Non-Cash Financing Activity:</b>                                       |           |           |
| Proceeds from shares issued in connection with dividend reinvestment plan | \$ 9,093  | \$ 7,027  |
| Proceeds from shares issued in conjunction with controlled investments    | \$ 21,006 | \$ 59,251 |

See notes to consolidated financial statements.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULES OF INVESTMENTS****December 31, 2013 (Unaudited) and June 30, 2013 (Audited)****(in thousands, except share data)**

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

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|  |       |              |             |
|--|-------|--------------|-------------|
| 03/02/2010, past due)(4)(25)<br>Senior Secured Term Loan B (8.50%<br>(PRIME + 5.25%) plus 3.00% default interest,<br>in non-accrual status effective 03/02/2010, past<br>due)(4) | 1,612 | 1,501        | 0.0%        |
| Senior Secured Term Loan C (12.00% plus<br>4.00% PIK plus 3.00% default interest, in<br>non-accrual status effective 03/02/2010, past<br>due)                                    | 9,940 | 707          | 0.0%        |
| Common Stock (100 shares)(21)  |       |              | 0.0%        |
| Warrants (33,750 warrants)(21)   |       |              | 0.0%        |
|  |       | <b>3,303</b> | <b>474</b>  |
|  |       |              | <b>0.0%</b> |

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

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

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

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

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|   |                                |  | 42,267         | 33,551         | 1.1%         |      |
|---|--------------------------------|--|----------------|----------------|--------------|------|
| First Tower Holdings of Delaware, LLC(22)(29) | Mississippi / Consumer Finance | Senior Secured Revolving Credit Facility \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(4)(25) | 273,260        | 273,260        | 273,260      | 8.4% |
|   |                                | Membership Units (100 shares)  |                | 44,693         | 34,648       | 1.1% |
|   |                                | Net Revenue Interest (5% of Net Revenue & Distributions)   |                |                | 14,603       | 0.5% |
|   |                                |  | <b>317,953</b> | <b>322,511</b> | <b>10.0%</b> |      |
| Gulf Coast Machine & Supply Company           | Texas / Manufacturing          | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(4)  | 17,500         | 17,500         | 12,414       | 0.4% |
|   |                                | Convertible Preferred Stock Series A (99,900 shares)   |                | 25,950         |              | 0.0% |
|   |                                |  | <b>43,450</b>  | <b>12,414</b>  | <b>0.4%</b>  |      |



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

| Portfolio Company   | Locale / Industry                | Investments(1)  | December 31, 2013 (Unaudited) |               |               |                 |
|---|----------------------------------|---|-------------------------------|---------------|---------------|-----------------|
|   |                                  |   | Principal Value               | Cost          | Fair Value(2) | % of Net Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                  |   |                               |               |               |                 |
| <b>Control Investments (greater than 25.00% voting control)(42)</b> |                                  |   |                               |               |               |                 |
| The Healing Staff, Inc.(9)  | North Carolina / Contracting     | Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, past due)   | \$ 1,688                      | \$ 1,686      |               | \$ 0.0%         |
|   |                                  | Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)  | 1,170                         | 1,170         |               | 0.0%            |
|   |                                  | Common Stock (1,000 shares)   |                               | 975           |               | 0.0%            |
|   |                                  |   |                               | <b>3,831</b>  |               | <b>0.0%</b>     |
| Manx Energy, Inc.(12)   | Kansas / Oil & Gas Production    | Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)   | 225                           | 225           |               | 0.0%            |
|   |                                  | Preferred Stock (6,635 shares)  |                               |               |               | 0.0%            |
|   |                                  | Common Stock (17,082 shares)  |                               |               |               | 0.0%            |
|   |                                  |   |                               | <b>225</b>    |               | <b>0.0%</b>     |
| MITY Holdings of Delaware Inc.(17)                                  | Utah / Durable Consumer Products | Senior Secured Note (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 9/19/2019)(4)                                 | 22,968                        | 22,968        | 22,968        | 0.7%            |
|   |                                  | Senior Secured Note (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)  | 18,250                        | 18,250        | 18,250        | 0.6%            |
|   |                                  | Common Stock (100 shares)   |                               | 6,943         | 6,943         | 0.2%            |
|   |                                  |   |                               | <b>48,161</b> | <b>48,161</b> | <b>1.5%</b>     |
| 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)  |                               |               | 1,739         | 0.1%            |
|   |                                  |   |                               | <b>25,151</b> | <b>26,890</b> | <b>0.9%</b>     |
| NMMB Holdings, Inc.(24)   | New York / Media                 | Senior Secured Note (14.00%, due 5/6/2016)  | 10,714                        | 10,714        | 10,714        | 0.3%            |
|   |                                  | Series A Preferred Stock (8,086 shares)   |                               | 12,486        | 453           | 0.0%            |

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|                                |                              |   |                |                |             |
|--------------------------------|------------------------------|---|----------------|----------------|-------------|
|                                |                              |   | <b>23,200</b>  | <b>11,167</b>  | <b>0.3%</b> |
| NPH Property Holdings, LLC(40) | Texas / Real Estate          | Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4) | 88,109         | 88,109         | 2.7%        |
|                                |                              | Membership Units (100 shares)   |                | 18,135         | 0.6%        |
|                                |                              |   | <b>106,244</b> | <b>106,244</b> | <b>3.3%</b> |
| 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         | 1.0%        |
|                                |                              | Warrants (200,000 warrants, expiring 6/30/2017)   |                | 1,682          | 0.2%        |
|                                |                              | Common Stock (545,107 shares)   |                | 5,087          | 0.6%        |
|                                |                              |   | <b>39,519</b>  | <b>57,680</b>  | <b>1.8%</b> |

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(in thousands, except share data)

| Portfolio Company   | Locale / Industry                       | Investments(1)  | December 31, 2013 (Unaudited) |                  | % of Net Assets |               |
|---|---|---|-------------------------------|------------------|-----------------|---------------|
|   |   |   | Principal Value               | Cost             |                 | Fair Value(2) |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |   |   |                               |                  |                 |               |
| <b>Control Investments (greater than 25.00% voting control)(42)</b> |   |   |                               |                  |                 |               |
| UPH Property Holdings, LLC(41)                                      | 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)                                      | \$ 18,855                     | \$ 18,855        | \$ 18,855       | 0.6%          |
|   |   | Membership Units (100 shares)   |                               | 3,707            | 3,707           | 0.1%          |
|   |   |   |                               | <b>22,562</b>    | <b>22,562</b>   | <b>0.7%</b>   |
| 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)                                     | 35,648                        | 35,648           | 28,163          | 0.9%          |
|   |   | Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)                                   | 10,054                        | 10,054           | 10,054          | 0.3%          |
|   |   | Common Stock (50,000 shares)  |                               | 9,526            |                 | 0.0%          |
|   |   | Net Revenue Interest (5% of Net Revenue)  |                               |                  | 724             | 0.0%          |
|   |   |   |                               | <b>55,228</b>    | <b>38,941</b>   | <b>1.2%</b>   |
| 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                        |                  | 4,043           | 0.1%          |
|   |   | Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, past due)      | 2,753                         | 2,000            |                 | 0.0%          |
|   |   | Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status, past due)                          | 54                            | 50               |                 | 0.0%          |
|   |   | Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6)  | 8,258                         | 5,991            |                 | 0.0%          |
|   |   | Common Stock (100 shares)   |                               |                  |                 | 0.0%          |
|   |   | Net Profits Interest (8.00% payable on Equity distributions)(7)   |                               |                  | 520             | 0.0%          |
|   |   |   |                               | <b>8,041</b>     | <b>4,563</b>    | <b>0.1%</b>   |
| <b>Total Control Investments</b>                                    |   |   | <b>1,236,286</b>              | <b>1,163,300</b> |                 | <b>36.0%</b>  |

**Affiliate Investments (5.00% to 24.99% voting control)(43)**

|  |                       |   |        |               |               |             |
|--|-----------------------|---|--------|---------------|---------------|-------------|
| BNN Holdings Corp.<br>(f/k/a Biotronic | Michigan / Healthcare | Senior Secured Note (10.00% (LIBOR + 8.00%<br>with 2.00% LIBOR floor), due<br>12/17/2017)(3)(4) | 29,250 | 29,250        | 29,250        | 0.9%        |
| NeuroNetwork)                          |                       | Preferred Stock Series A (9,925.455 shares)(13)   |        | 2,300         | 1,869         | 0.1%        |
|  |                       | Preferred Stock Series B (1,753.64 shares)(13)  |        | 579           | 405           | 0.0%        |
|  |                       |   |        | <b>32,129</b> | <b>31,524</b> | <b>1.0%</b> |

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(in thousands, except share data)

| Portfolio Company  | Locale / Industry                             | Investments(1)  | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|---|---|-------------------------------|---------------|---------------|-----------------|
|  |   |   | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |   |                               |               |               |                 |
| <b>Affiliate Investments (5.00% to 24.99% voting control)(43)</b>                |   |   |                               |               |               |                 |
| Boxercraft Incorporated(20)  | Georgia / Textiles & Leather                  | Senior Secured Term Loan A (10.00% plus 1.00% PIK, due 9/15/2015)                       | \$ 1,621                      | \$ 1,621      | \$ 1,621      | 0.0%            |
|  |   | Senior Secured Term Loan B (10.00% plus 1.00% PIK, due 9/15/2015)                       | 4,918                         | 4,918         | 3,990         | 0.1%            |
|  |   | Senior Secured Term Loan C (10.00% plus 1.00% PIK, due 9/15/2015)                       | 2,383                         | 2,383         |               | 0.0%            |
|  |   | Senior Secured Term Loan (10.00% plus 1.00% PIK, due 9/15/2015)                         | 8,368                         | 8,227         |               | 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%            |
|  |   |   |                               | <b>17,149</b> | <b>5,611</b>  | <b>0.1%</b>     |
| Smart, LLC(14)   | New York / Diversified / Conglomerate Service | Membership Interest   |                               |               | 1,745         | 0.1%            |
|  |   |   |                               |               | <b>1,745</b>  | <b>0.1%</b>     |
|  |   | <b>Total Affiliate Investments</b>  |                               | <b>49,278</b> | <b>38,880</b> | <b>1.2%</b>     |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |   |                               |               |               |                 |
| 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                         | 6,907         | 7,000         | 0.2%            |
|  |   |   |                               | <b>6,907</b>  | <b>7,000</b>  | <b>0.2%</b>     |
| Aircraft Fasteners International, LLC  | California / Machinery                        | Convertible Preferred Stock (32,500 units)  |                               | 396           | 571           | 0.0%            |
|  |   |   |                               | <b>396</b>    | <b>571</b>    | <b>0.0%</b>     |

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|  |  |  |        |               |                 |              |
|--|--|--|--------|---------------|-----------------|--------------|
| 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 | 11,778        | 12,000          | 0.4%         |
|  |  |  |        | <b>11,778</b> | <b>12,000</b>   | <b>0.4%</b>  |
| Allied Defense Group, Inc.   | Virginia / Aerospace & Defense               | Common Stock (10,000 shares)   |        | 5             |                 | 0.0%         |
|  |  |  |        | <b>5</b>      |                 | <b>0.0%</b>  |
| American Broadband Holding Company and Cameron Holdings of NC, Inc | North Carolina / Telecommunication Services  | Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)    | 75,000 | 75,000        | 75,000          | 2.3%         |
|  |  |  |        | <b>75,000</b> | <b>75,000</b>   | <b>2.3%</b>  |
| American Gilsonite Company   | Utah / Specialty Minerals                    | Second Lien Term Loan (11.50%, due 9/1/2017)<br>Membership Interest in AGC/PEP, LLC (99.9999%)(15) | 38,500 | 38,500        | 38,500<br>1,988 | 1.2%<br>0.1% |
|  |  |  |        | <b>38,500</b> | <b>40,488</b>   | <b>1.3%</b>  |

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(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)  | December 31, 2013 (Unaudited) |                | % of Net Assets |               |
|--|---|---|-------------------------------|----------------|-----------------|---------------|
|  |   |   | Principal Value               | Cost           |                 | Fair Value(2) |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |   |                               |                |                 |               |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |   |                               |                |                 |               |
| Apidos CLO IX, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | \$ 20,525                     | \$ 18,932      | \$ 20,196       | 0.6%          |
|  |   |   |                               | <b>18,932</b>  | <b>20,196</b>   | <b>0.6%</b>   |
| Apidos CLO XI, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 38,340                        | 35,440         | 38,755          | 1.2%          |
|  |   |   |                               | <b>35,440</b>  | <b>38,755</b>   | <b>1.2%</b>   |
| Apidos CLO XII, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 44,063                        | 42,873         | 41,681          | 1.3%          |
|  |   |   |                               | <b>42,873</b>  | <b>41,681</b>   | <b>1.3%</b>   |
| Apidos CLO XV, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 36,515                        | 37,111         | 36,326          | 1.1%          |
|  |   |   |                               | <b>37,111</b>  | <b>36,326</b>   | <b>1.1%</b>   |
| 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         | 4.6%          |
|  |   |   |                               | <b>150,000</b> | <b>150,000</b>  | <b>4.6%</b>   |
| 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                         | 6,867          | 6,867           | 0.2%          |

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|  |   |  |        |               |               |             |
|--|---|--|--------|---------------|---------------|-------------|
|  |   |  |        | <b>6,867</b>  | <b>6,867</b>  | <b>0.2%</b> |
| 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)                                 | 39,155 | 39,155        | 33,589        | 1.0%        |
|  |   |  |        | <b>41,155</b> | <b>35,589</b> | <b>1.1%</b> |
| Babson CLO Ltd 2011-I(22)                        | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 35,000 | 34,723        | 35,978        | 1.1%        |
|  |   |  |        | <b>34,723</b> | <b>35,978</b> | <b>1.1%</b> |
| Babson CLO Ltd 2012-IA(22)                       | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 29,075 | 24,535        | 28,339        | 0.9%        |
|  |   |  |        | <b>24,535</b> | <b>28,339</b> | <b>0.9%</b> |
| Babson CLO Ltd 2012-IIA(22)                      | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 27,850 | 27,963        | 28,758        | 0.9%        |
|  |   |  |        | <b>27,963</b> | <b>28,758</b> | <b>0.9%</b> |



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

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

(in thousands, except share data)

| Portfolio Company  | Locale / Industry                                  | Investments(1)  | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|--|---|-------------------------------|---------------|---------------|-----------------|
|  |  |   | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |   |                               |               |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |   |                               |               |               |                 |
| Blue Coat Systems, Inc.(16)  | Massachusetts / Software & Computer Services       | Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3)(4) | \$ 11,000                     | \$ 10,896     | \$ 11,000     | 0.3%            |
|  |  |   |                               | <b>10,896</b> | <b>11,000</b> | <b>0.3%</b>     |
| 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) | 98,500                        | 98,500        | 98,500        | 3.0%            |
|  |  |   |                               | <b>98,500</b> | <b>98,500</b> | <b>3.0%</b>     |
| Brookside Mill CLO Ltd.(22)  | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)  | 26,000                        | 23,291        | 25,347        | 0.8%            |
|  |  |   |                               | <b>23,291</b> | <b>25,347</b> | <b>0.8%</b>     |
| Byrider Systems Acquisition Corp(22)   | Indiana / Auto Finance                             | Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)                       | 11,027                        | 11,027        | 10,972        | 0.3%            |
|  |  |   |                               | <b>11,027</b> | <b>10,972</b> | <b>0.3%</b>     |
| Caleel + Hayden, LLC(14)(31)   | Colorado / Personal & Nondurable Consumer Products | Membership Units (13,220 shares)<br>Escrow Receivable                                     |                               |               | 119<br>91     | 0.0%<br>0.0%    |
|  |  |   |                               |               | <b>210</b>    | <b>0.0%</b>     |
| 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)  | 95,466                        | 95,466        | 95,466        | 3.0%            |

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|                                  |   |   |         |                |                |             |
|----------------------------------|---|---|---------|----------------|----------------|-------------|
|                                  |   | 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        | 3.1%        |
|                                  |   |   |         | <b>195,466</b> | <b>195,466</b> | <b>6.1%</b> |
| Cargo Airport Services USA, LLC  | New York / Transportation                       | Common Equity (1.6 units)   |         | 1,639          | 1,971          | 0.1%        |
|                                  |   |   |         | <b>1,639</b>   | <b>1,971</b>   | <b>0.1%</b> |
| Cent CLO 17 Limited(22)          | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 24,870  | 23,120         | 25,977         | 0.8%        |
|                                  |   |   |         | <b>23,120</b>  | <b>25,977</b>  | <b>0.8%</b> |
| Cent CLO 20 Limited(22)          | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 40,275  | 39,876         | 39,731         | 1.2%        |
|                                  |   |   |         | <b>39,876</b>  | <b>39,731</b>  | <b>1.2%</b> |
| CIFC Funding 2011-I, Ltd.(4)(22) | Cayman Islands / Diversified Financial Services | Secured Class D Notes (5.24% (LIBOR + 5.00%), due 1/19/2023)                                  | 19,000  | 15,165         | 18,202         | 0.6%        |
|                                  |   | Unsecured Class E Notes (7.24% (LIBOR + 7.00%), due 1/19/2023)                                | 15,400  | 12,724         | 15,264         | 0.5%        |
|                                  |   |   |         | <b>27,889</b>  | <b>33,466</b>  | <b>1.1%</b> |

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
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**(in thousands, except share data)**

| Portfolio Company  | Locale / Industry                               | Investments(1)   | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|---|--|-------------------------------|---------------|---------------|-----------------|
|  |   |  | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |  |                               |               |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |  |                               |               |               |                 |
| CIFC Funding 2013-III, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | \$ 44,100                     | \$ 42,374     | \$ 43,178     | 1.3%            |
|  |   |  |                               | <b>42,374</b> | <b>43,178</b> | <b>1.3%</b>     |
| CIFC Funding 2013-IV, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 45,500                        | 40,899        | 40,497        | 1.3%            |
|  |   |  |                               | <b>40,899</b> | <b>40,497</b> | <b>1.3%</b>     |
| 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) | 69,150                        | 69,150        | 69,150        | 2.1%            |
|  |   |  |                               | <b>69,150</b> | <b>69,150</b> | <b>2.1%</b>     |
| The Copernicus Group, Inc.   | North Carolina / Healthcare                     | Escrow Receivable  |                               | \$            | \$ 134        | 0.0%            |
|  |   |  |                               |               | <b>134</b>    | <b>0.0%</b>     |
| Correctional Healthcare Holding Company, Inc.                                    | Colorado / Healthcare                           | Second Lien Term Loan (11.25%, due 1/11/2020)(3)   | 27,100                        | 27,100        | 27,100        | 0.8%            |
|  |   |  |                               | <b>27,100</b> | <b>27,100</b> | <b>0.8%</b>     |
| 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)         | 43,841                        | 43,841        | 43,841        | 1.4%            |

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|  |  |   |        |               |               |             |
|--|--|---|--------|---------------|---------------|-------------|
|  |  |   |        | <b>43,841</b> | <b>43,841</b> | <b>1.4%</b> |
| Crosman Corporation  | New York /<br>Manufacturing                | Second Lien Term Loan (11.00%<br>(LIBOR + 9.50% with 1.50% LIBOR floor), due<br>12/30/2019)(4)      | 40,000 | 40,000        | 40,000        | 1.2%        |
|  |  |   |        | <b>40,000</b> | <b>40,000</b> | <b>1.2%</b> |
| CRT MIDCO, LLC   | Wisconsin / Media                          | Senior Secured Term Loan (10.50%<br>(LIBOR + 7.50% with 3.00% LIBOR floor), due<br>6/30/2017)(3)(4) | 70,356 | 70,356        | 70,356        | 2.2%        |
|  |  |   |        | <b>70,356</b> | <b>70,356</b> | <b>2.2%</b> |
| Deltek, Inc.   | Virginia / Software &<br>Computer Services | Second Lien Term Loan (10.00%<br>(LIBOR + 8.75% with 1.25% LIBOR floor), due<br>10/10/2019)(3)(4)   | 12,000 | 11,842        | 12,000        | 0.4%        |
|  |  |   |        | <b>11,842</b> | <b>12,000</b> | <b>0.4%</b> |
| Diamondback<br>Operating, LP                               | Oklahoma / Oil & Gas<br>Production         | Net Profits Interest (15.00% payable on Equity<br>distributions)(7)                                 |        |               |               | 0.0%        |
|  |  |   |        |               |               | <b>0.0%</b> |
| Edmentum, Inc.<br>(f/k/a Archipelago<br>Learning, Inc.)(4) | Minnesota / Consumer<br>Services           | Second Lien Term Loan (11.25%<br>(LIBOR + 9.75% with 1.50% LIBOR floor), due<br>5/17/2019)(3)       | 50,000 | 48,326        | 50,000        | 1.6%        |
|  |  |   |        | <b>48,326</b> | <b>50,000</b> | <b>1.6%</b> |
| Empire Today, LLC  | Illinois / Durable<br>Consumer Products    | Senior Secured Note (11.375%, due 2/1/2017)   | 15,700 | 15,374        | 15,700        | 0.5%        |
|  |  |   |        | <b>15,374</b> | <b>15,700</b> | <b>0.5%</b> |
| EXL Acquisition Corp.                                      | South Carolina /<br>Biotechnology          | Escrow Receivable   |        |               | 15            | 0.0%        |
|  |  |   |        |               | <b>15</b>     | <b>0.0%</b> |
| Fischbein, LLC   |  | Escrow Receivable   |        |               | 233           | 0.0%        |

North Carolina /  
Machinery

233 0.0%

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

(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)   | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|---|--|-------------------------------|---------------|---------------|-----------------|
|  |   |  | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |  |                               |               |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |  |                               |               |               |                 |
| 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                     | \$ 17,753     | \$ 18,000     | 0.6%            |
|  |   |  |                               | <b>17,753</b> | <b>18,000</b> | <b>0.6%</b>     |
| 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)<br>Common Stock (5,638 shares) | 20,573                        | 20,573<br>27  | 20,341<br>16  | 0.6%<br>0.0%    |
|  |   |  |                               | <b>20,600</b> | <b>20,357</b> | <b>0.6%</b>     |
| Galaxy XII CLO, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 22,000                        | 20,230        | 20,436        | 0.6%            |
|  |   |  |                               | <b>20,230</b> | <b>20,436</b> | <b>0.6%</b>     |
| Galaxy XV CLO, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 35,025                        | 30,880        | 32,067        | 1.0%            |
|  |   |  |                               | <b>30,880</b> | <b>32,067</b> | <b>1.0%</b>     |
| Galaxy XVI CLO, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 22,575                        | 21,118        | 20,410        | 0.6%            |
|  |   |  |                               | <b>21,118</b> | <b>20,410</b> | <b>0.6%</b>     |
| Grocery Outlet, Inc.   | California / Retail                             |  | 14,456                        | 14,146        | 14,456        | 0.5%            |

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|  |   |  |         |                |                |             |
|--|---|--|---------|----------------|----------------|-------------|
|  |   | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)        |         |                |                |             |
|  |   |  |         | <b>14,146</b>  | <b>14,456</b>  | <b>0.5%</b> |
| 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) | 114,138 | 114,138        | 114,138        | 3.5%        |
|  |   |  |         | <b>114,138</b> | <b>114,138</b> | <b>3.5%</b> |
| Halcyon Loan Advisors Funding 2012-I, Ltd.(22)               | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)   | 23,188  | 21,328         | 23,749         | 0.7%        |
|  |   |  |         | <b>21,328</b>  | <b>23,749</b>  | <b>0.7%</b> |
| Halcyon Loan Advisors Funding 2013-I, Ltd.(22)               | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)   | 40,400  | 41,027         | 39,773         | 1.2%        |
|  |   |  |         | <b>41,027</b>  | <b>39,773</b>  | <b>1.2%</b> |
| Harley Marine Services, Inc.                                 | Washington/ Transportation                          | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(4)       | 9,000   | 8,820          | 8,820          | 0.3%        |
|  |   |  |         | <b>8,820</b>   | <b>8,820</b>   | <b>0.3%</b> |
| Hoffmaster Group, Inc.(3)(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  | 19,842         | 19,842         | 0.6%        |
|  |   | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)            | 1,000   | 992            | 992            | 0.0%        |
|  |   |  |         | <b>20,834</b>  | <b>20,834</b>  | <b>0.6%</b> |
| ICON Health & Fitness, Inc.                                  | Utah / Durable Consumer Products                    | Senior Secured Note (11.875%, due 10/15/2016)(3)   | 43,100  | 43,283         | 38,790         | 1.2%        |
|  |   |  |         | <b>43,283</b>  | <b>38,790</b>  | <b>1.2%</b> |
| IDQ Holdings, Inc.   | Texas / Automobile                                  | Senior Secured Note (11.50%, due 4/1/2017)   | 12,500  | 12,322         | 12,500         | 0.4%        |

12,322 12,500 0.4%

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(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)   | December 31, 2013 (Unaudited) |                |                | % of Net Assets |
|--|---|--|-------------------------------|----------------|----------------|-----------------|
|  |   |  | Principal Value               | Cost           | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |  |                               |                |                |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |  |                               |                |                |                 |
| ING IM CLO 2012-II, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | \$ 38,070                     | \$ 32,550      | \$ 38,832      | 1.2%            |
|  |   |  |                               | <b>32,550</b>  | <b>38,832</b>  | <b>1.2%</b>     |
| ING IM CLO 2012-III, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 46,632                        | 41,388         | 47,676         | 1.5%            |
|  |   |  |                               | <b>41,388</b>  | <b>47,676</b>  | <b>1.5%</b>     |
| ING IM CLO 2012-IV, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)   | 40,613                        | 36,867         | 42,105         | 1.3%            |
|  |   |  |                               | <b>36,867</b>  | <b>42,105</b>  | <b>1.3%</b>     |
| 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) | 22,564                        | 22,564         | 22,564         | 0.7%            |
|  |   |  |                               | <b>22,564</b>  | <b>22,564</b>  | <b>0.7%</b>     |
| Interdent, Inc.(4)   | California / Healthcare                         | Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017)              | 51,288                        | 51,288         | 51,288         | 1.6%            |
|  |   | 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         | 1.7%            |
|  |   |  |                               | <b>106,288</b> | <b>106,288</b> | <b>3.3%</b>     |

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|                                   |   |  |        |               |               |             |
|-----------------------------------|---|--|--------|---------------|---------------|-------------|
| 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)              | 35,030 | 35,030        | 35,030        | 1.1%        |
|                                   |   |  |        | <b>35,030</b> | <b>35,030</b> | <b>1.1%</b> |
| 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)                        | 36,562 | 36,562        | 36,562        | 1.1%        |
|                                   |   |  |        | <b>36,562</b> | <b>36,562</b> | <b>1.1%</b> |
| LCM XIV CLO Ltd.(22)              | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 26,500 | 26,218        | 25,696        | 0.8%        |
|                                   |   |  |        | <b>26,218</b> | <b>25,696</b> | <b>0.8%</b> |
| 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)  | 2,165  | 2,165         | 2,165         | 0.1%        |
|                                   |   | Membership Interest (125 units)  |        | 216           | 259           | 0.0%        |
|                                   |   |  |        | <b>2,381</b>  | <b>2,424</b>  | <b>0.1%</b> |
| Madison Park Funding IX, Ltd.(22) | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)   | 31,110 | 25,601        | 27,903        | 0.9%        |
|                                   |   |  |        | <b>25,601</b> | <b>27,903</b> | <b>0.9%</b> |

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(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)   | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|---|--|-------------------------------|---------------|---------------|-----------------|
|  |   |  | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |  |                               |               |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |  |                               |               |               |                 |
| 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)                      | \$ 27,160                     | \$ 27,160     | \$ 27,160     | 0.8%            |
|  |   | Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017)                       | 37,387                        | 37,387        | 37,387        | 1.2%            |
|  |   |  | <b>64,547</b>                 | <b>64,547</b> | <b>2.0%</b>   |                 |
| 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) | 9,500                         | 9,500         | 9,500         | 0.3%            |
|  |   | Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018)                        | 34,562                        | 34,562        | 34,105        | 1.1%            |
|  |   | Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)(3)                   | 35,000                        | 35,000        | 33,452        | 1.0%            |
|  |   |  | <b>79,062</b>                 | <b>77,057</b> | <b>2.4%</b>   |                 |
| Maverick Healthcare, LLC   | Arizona / Healthcare                            | Preferred Units (1,250,000 units)  |                               | 1,252         | 366           | 0.0%            |
|  |   | Common Units (1,250,000 units)   |                               |               |               | 0.0%            |
|  |   |  | <b>1,252</b>                  | <b>366</b>    | <b>0.0%</b>   |                 |
| Mountain View CLO 2013-I Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 43,650                        | 42,534        | 43,056        | 1.3%            |
|  |   |  |                               | <b>42,534</b> | <b>43,056</b> | <b>1.3%</b>     |
| 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)(3)(4)(16)        | 11,970                        | 11,738        | 11,970        | 0.4%            |

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|  |   |   |        |               |               |             |
|--|---|---|--------|---------------|---------------|-------------|
|  |   |   |        | <b>11,738</b> | <b>11,970</b> | <b>0.4%</b> |
| New Century Transportation, Inc.         | New Jersey / Transportation                     | Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 4.00% PIK, due 2/3/2018)(3)(4) | 45,890 | 45,890        | 43,349        | 1.3%        |
|  |   |   |        | <b>45,890</b> | <b>43,349</b> | <b>1.3%</b> |
| 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)     | 50,534 | 50,534        | 49,586        | 1.5%        |
|  |   |   |        | <b>50,534</b> | <b>49,586</b> | <b>1.5%</b> |
| Nixon, Inc.                              | California / Durable Consumer Products          | Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)  | 13,862 | 13,625        | 13,625        | 0.4%        |
|  |   |   |        | <b>13,625</b> | <b>13,625</b> | <b>0.4%</b> |
| NRG Manufacturing, Inc.                  | Texas / Manufacturing                           | Escrow Receivable   |        |               | 1,068         | 0.0%        |
|  |   |   |        |               | <b>1,068</b>  | <b>0.0%</b> |
| Octagon Investment Partners XV, Ltd.(22) | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | 26,901 | 25,153        | 26,162        | 0.8%        |
|  |   |   |        | <b>25,153</b> | <b>26,162</b> | <b>0.8%</b> |

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

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

(in thousands, except share data)

| Portfolio Company  | Locale / Industry                      | Investments(1)  | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|--|---|-------------------------------|---------------|---------------|-----------------|
|  |  |   | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |   |                               |               |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |   |                               |               |               |                 |
| Onyx Payments, Inc. (f/k/a 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)                        | 15,531                        | 15,531        | 15,531        | 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%            |
|  |  |   |                               | <b>31,469</b> | <b>31,469</b> | <b>1.0%</b>     |
| 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                        | 14,745        | 15,000        | 0.5%            |
|  |  |   |                               | <b>14,745</b> | <b>15,000</b> | <b>0.5%</b>     |
| 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)                       | 10,500                        | 10,198        | 10,203        | 0.3%            |
|  |  |   |                               | <b>10,198</b> | <b>10,203</b> | <b>0.3%</b>     |
| 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                        | 9,824         | 10,000        | 0.3%            |
|  |  |   |                               | <b>9,824</b>  | <b>10,000</b> | <b>0.3%</b>     |
| PrimeSport, Inc.(4)  | Georgia/ Hotels, Restaurants & Leisure | Revolving Line of Credit \$15,000 Commitment (10.00% (LIBOR + 9.50% with 0.50% LIBOR floor), due 6/23/2014)(25) |                               |               |               | 0.0%            |
|  |  | Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 12/23/2019)                       | 43,700                        | 43,700        | 43,700        | 1.4%            |
|  |  |   | 43,700                        | 43,700        | 43,700        | 1.4%            |

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| Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 1.00% PIK, due 12/23/2019) |  |  |         |                |                |             |
|--|--|--|---------|----------------|----------------|-------------|
|  |  |  |         | <b>87,400</b>  | <b>87,400</b>  | <b>2.8%</b> |
| Prince Mineral Holding Corp.   | New York / Metal Services & Minerals         | Senior Secured Term Loan (11.50%, due 12/15/2019)  | 10,000  | 9,895          | 9,895          | 0.3%        |
|  |  |  |         | <b>9,895</b>   | <b>9,895</b>   | <b>0.3%</b> |
| 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)           | 284,521 | 284,521        | 284,521        | 8.8%        |
|  |  |  |         | <b>284,521</b> | <b>284,521</b> | <b>8.8%</b> |
| 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  | 19,738         | 19,967         | 0.6%        |
|  |  |  |         | <b>19,738</b>  | <b>19,967</b>  | <b>0.6%</b> |
| 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  | 19,619         | 19,619         | 0.6%        |
|  |  |  |         | <b>19,619</b>  | <b>19,619</b>  | <b>0.6%</b> |
| 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         | 2.2%        |
|  |  |  |         | <b>70,000</b>  | <b>70,000</b>  | <b>2.2%</b> |
| Sandow Media, LLC  | Florida / Media                              | Senior Secured Term Loan (12.00%, due 5/8/2018)(3)   | 25,143  | 25,143         | 24,403         | 0.8%        |
|  |  |  |         | <b>25,143</b>  | <b>24,403</b>  | <b>0.8%</b> |
| SESAC Holdco II LLC(3)   | Tennessee / Media                            | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 7/12/2019)(4)(16)          | 6,000   | 5,919          | 6,000          | 0.2%        |

5,919      6,000      0.2%

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**CONSOLIDATED SCHEDULES OF INVESTMENTS?(CONTINUED)**

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

(in thousands, except share data)

| Portfolio Company  | Locale / Industry                                  | Investments(1)  | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|--|---|-------------------------------|---------------|---------------|-----------------|
|  |  |   | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |   |                               |               |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |   |                               |               |               |                 |
| Skillsoft Public Limited Company(22)   | Ireland / Software & Computer Services             | Senior Unsecured (11.125%, due 6/1/2018)  | \$ 15,000                     | \$ 14,933     | \$ 15,000     | 0.5%            |
|  |  |   |                               | <b>14,933</b> | <b>15,000</b> | <b>0.5%</b>     |
| 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%            |
|  |  |   |                               | <b>591</b>    | <b>596</b>    | <b>0.0%</b>     |
| 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) | 36,225                        | 36,225        | 36,225        | 1.1%            |
|  |  |   |                               | <b>36,225</b> | <b>36,225</b> | <b>1.1%</b>     |
| Speedy Group Holdings Corp.  | Canada / Consumer Finance                          | Senior Unsecured (12.00%, due 11/15/2017)(22)   | 15,000                        | 15,000        | 15,000        | 0.5%            |
|  |  |   |                               | <b>15,000</b> | <b>15,000</b> | <b>0.5%</b>     |
| Sport Helmets Holdings, LLC(14)  | New York / Personal & Nondurable Consumer Products | Escrow Receivable   |                               |               | 401           | 0.0%            |
|  |  |   |                               |               | <b>401</b>    | <b>0.0%</b>     |
| Stauber Performance Ingredients, Inc. (3)(4)                                     | California / Food Products                         | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due                | 13,451                        | 13,451        | 13,451        | 0.4%            |



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|   |   |   |        |               |               |              |
|---|---|---|--------|---------------|---------------|--------------|
|   |   | 1/21/2016)<br>Senior Secured Term Loan (10.50%<br>(LIBOR + 7.50% with 3.00% LIBOR floor), due<br>5/21/2017)   | 10,106 | 10,106        | 10,106        | 0.3%         |
|   |   |   |        | <b>23,557</b> | <b>23,557</b> | <b>0.7%</b>  |
| Stryker Energy, LLC                     | Ohio / Oil & Gas<br>Production                        | Subordinated Secured Revolving Credit<br>Facility \$50,300 Commitment (12.25%<br>(LIBOR + 10.75% with 1.50% LIBOR floor) plus<br>3.75% PIK, in non-accrual status effective<br>12/1/2011, due 12/1/2015)(4)(25)<br>Overriding Royalty Interests(18) | 35,409 | 32,711        |               | 0.0%<br>0.0% |
|   |   |   |        | <b>32,711</b> |               | <b>0.0%</b>  |
| Sudbury Mill CLO Ltd.(22)               | Cayman Islands /<br>Diversified Financial<br>Services | Subordinated Notes (Residual Interest)  | 28,200 | 26,173        | 25,978        | 0.8%         |
|   |   |   |        | <b>26,173</b> | <b>25,978</b> | <b>0.8%</b>  |
| Symphony CLO<br>IX Ltd.(22)             | Cayman Islands /<br>Diversified Financial<br>Services | LP Certificates (Residual Interest)   | 45,500 | 39,449        | 46,012        | 1.4%         |
|   |   |   |        | <b>39,449</b> | <b>46,012</b> | <b>1.4%</b>  |
| System One<br>Holdings, LLC(3)(4)       | Pennsylvania / Business<br>Services                   | Senior Secured Term Loan (11.00%<br>(LIBOR + 9.50% with 1.50% LIBOR floor), due<br>12/31/2018)  | 48,000 | 48,000        | 48,000        | 1.5%         |
|   |   |   |        | <b>48,000</b> | <b>48,000</b> | <b>1.5%</b>  |
| TB Corp.(3)                             | Texas / Consumer<br>Service                           | Senior Subordinated Note (12.00% plus 1.50%<br>PIK, due 12/18/2018)   | 23,539 | 23,539        | 23,539        | 0.7%         |
|   |   |   |        | <b>23,539</b> | <b>23,539</b> | <b>0.7%</b>  |
| Targus Group<br>International, Inc.(16) | California / Durable<br>Consumer Products             | First Lien Term Loan (11.00% (LIBOR + 9.50%<br>with 1.50% LIBOR floor) plus 1.0% PIK, due<br>5/24/2016)(3)(4)   | 22,374 | 22,110        | 22,110        | 0.7%         |
|   |   |   |        | <b>22,110</b> | <b>22,110</b> | <b>0.7%</b>  |



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

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

(in thousands, except share data)

| Portfolio Company  | Locale / Industry                              | Investments(1)   | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|--|--|-------------------------------|---------------|---------------|-----------------|
|  |  |  | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |  |                               |               |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |  |                               |               |               |                 |
| 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) | \$ 13,000                     | \$ 12,741     | \$ 13,000     | 0.4%            |
|  |  |  |                               | <b>12,741</b> | <b>13,000</b> | <b>0.4%</b>     |
| 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                        | 52,836        | 52,836        | 1.6%            |
|  |  |  |                               | <b>52,836</b> | <b>52,836</b> | <b>1.6%</b>     |
| Traeger Pellet Grills LLC(4)   | Oregon / Durable Consumer Products             | Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)     | 29,550                        | 29,550        | 29,550        | 0.9%            |
|  |  | Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)(3) | 29,850                        | 29,850        | 29,850        | 0.9%            |
|  |  |  |                               | <b>59,400</b> | <b>59,400</b> | <b>1.8%</b>     |
| 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                         | 4,872         | 5,000         | 0.2%            |
|  |  |  |                               | <b>4,872</b>  | <b>5,000</b>  | <b>0.2%</b>     |
| 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)(3)(4) | 25,371                        | 25,371        | 25,371        | 0.8%            |
|  |  |  |                               | <b>25,371</b> | <b>25,371</b> | <b>0.8%</b>     |

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|  |  |   |         |                  |                  |               |
|--|--|---|---------|------------------|------------------|---------------|
| 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          | 5.0%          |
|  |  |   |         | <b>160,000</b>   | <b>160,000</b>   | <b>5.0%</b>   |
| 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  | 10,584           | 10,584           | 0.3%          |
|  |  |   |         | <b>10,584</b>    | <b>10,584</b>    | <b>0.3%</b>   |
| 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)<br>Net Profits Interest (5.00% payable on Equity distributions)(7) | 15,000  | 14,750           |                  | 0.0%          |
|  |  |   |         | <b>14,750</b>    |                  | <b>0.0%</b>   |
|  |  | <b>Total Non-control/Non-affiliate Investments (Level 3 Investments)</b>  |         | <b>3,690,727</b> | <b>3,683,674</b> | <b>114.0%</b> |
|  |  | <b>Total Level 3 Portfolio Investments</b>  |         | <b>4,976,291</b> | <b>4,885,854</b> | <b>151.2%</b> |
| <b>LEVEL 1 PORTFOLIO INVESTMENTS:</b>  |  |   |         |                  |                  |               |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |   |         |                  |                  |               |
| Dover Saddlery, Inc.   | Massachusetts / Retail                             | Common Stock (30,974 shares)  |         | 63               | 166              | 0.0%          |
|  |  |   |         | <b>63</b>        | <b>166</b>       | <b>0.0%</b>   |
|  |  | <b>Total Non-control/Non-affiliate Investments (Level 1 Investments)</b>  |         | <b>63</b>        | <b>166</b>       | <b>0.0%</b>   |
|  |  | <b>Total Portfolio Investments</b>  |         | <b>4,976,354</b> | <b>4,886,020</b> | <b>151.2%</b> |

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**SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)**

|   |         |         |      |
|---|---------|---------|------|
| Fidelity Institutional Money Market Funds Government Portfolio (Class I)    | 179,468 | 179,468 | 5.6% |
| Fidelity Institutional Money Market Funds Government Portfolio (Class I)(3) | 41,382  | 41,382  | 1.3% |
| Victory Government Money Market Funds                                       |         |         | 0.0% |

|                                 |                |                |             |
|---------------------------------|----------------|----------------|-------------|
| <b>Total Money Market Funds</b> | <b>220,850</b> | <b>220,850</b> | <b>6.9%</b> |
|---------------------------------|----------------|----------------|-------------|

|                          |                     |                     |               |
|--------------------------|---------------------|---------------------|---------------|
| <b>Total Investments</b> | <b>\$ 5,197,204</b> | <b>\$ 5,106,870</b> | <b>158.1%</b> |
|--------------------------|---------------------|---------------------|---------------|

See notes to consolidated financial statements.

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**CONSOLIDATED SCHEDULES OF INVESTMENTS?(CONTINUED)**

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

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

| Portfolio Company   | Locale / Industry                  | Investments(1)  | June 30, 2013 (Audited) |                |                | % of Net Assets |
|---|------------------------------------|---|-------------------------|----------------|----------------|-----------------|
|   |                                    |   | Principal Value         | Cost           | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                    |   |                         |                |                |                 |
| <b>Control Investments (greater than 25.00% voting control)(44)</b> |                                    |   |                         |                |                |                 |
| AIRMALL USA, Inc.(27)   | Pennsylvania / Property Management | Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3)(4)                     | \$ 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%            |
|   |                                    |   |                         | <b>51,170</b>  | <b>54,648</b>  | <b>2.1%</b>     |
| 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%            |
|   |                                    |   |                         | <b>45,494</b>  | <b>39,437</b>  | <b>1.4%</b>     |
| 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%            |
|   |                                    |   |                         | <b>152,540</b> | <b>152,540</b> | <b>5.8%</b>     |
| AWCNC, LLC(19)  | North Carolina / Machinery         | Members Units Class A (1,800,000 units)   |                         |                |                | 0.0%            |
|   |                                    | Members Units Class B-1 (1 unit)  |                         |                |                | 0.0%            |
|   |                                    | Members Units Class B-2 (7,999,999 units)   |                         |                |                | 0.0%            |
|   |                                    |   |                         |                |                | <b>0.0%</b>     |

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|  |                               |  |               |               |               |               |
|--|-------------------------------|--|---------------|---------------|---------------|---------------|
| Borga, Inc.                                      | California /<br>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%          |
|  |                               |  | <b>3,302</b>  | <b>586</b>    | <b>0.0%</b>   |               |
| 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%          |
|  |                               |  | <b>33,903</b> | <b>33,903</b> | <b>1.3%</b>   |               |
| 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%          |
|  |                               |  |               |               | <b>47,663</b> | <b>50,462</b> |

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

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

(in thousands, except share data)

| Portfolio Company   | Locale / Industry                    | Investments(1)  | June 30, 2013 (Audited) |                |                | % of Net Assets |
|---|--------------------------------------|---|-------------------------|----------------|----------------|-----------------|
|   |                                      |   | Principal Value         | Cost           | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                      |   |                         |                |                |                 |
| <b>Control Investments (greater than 25.00% voting control)(44)</b> |                                      |   |                         |                |                |                 |
| 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 Jettco Marine Services, 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%            |
|   |                                      |   |                         | <b>34,270</b>  | <b>26,696</b>  | <b>0.9%</b>     |
| 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%            |
|   |                                      |   |                         | <b>307,953</b> | <b>298,084</b> | <b>11.3%</b>    |
| 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            | 346            | 0.0%            |
|   |                                      | Preferred Stock (6,635 shares)  |                         |                |                | 0.0%            |
|   |                                      | Common Stock (17,082 shares)  |                         |                |                | 0.0%            |
|   |                                      |   |                         | <b>500</b>     | <b>346</b>     | <b>0.0%</b>     |
| 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%            |



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|                            |                              |  |        |               |               |             |
|----------------------------|------------------------------|--|--------|---------------|---------------|-------------|
|                            |                              |  |        | <b>25,151</b> | <b>25,151</b> | <b>1.0%</b> |
| 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%        |
|                            |                              |  |        | <b>23,200</b> | <b>13,149</b> | <b>0.5%</b> |
| 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%        |
|                            |                              |  |        | <b>39,519</b> | <b>58,068</b> | <b>2.2%</b> |
| The Healing Staff, Inc.(9) | North Carolina / Contracting | Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, past due)    | 1,688  | 1,686         |               | 0.0%        |
|                            |                              | Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)           | 1,170  | 1,170         |               | 0.0%        |
|                            |                              | Common Stock (1,000 shares)  |        | 975           |               | 0.0%        |
|                            |                              |  |        | <b>3,831</b>  |               | <b>0.0%</b> |

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

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

(in thousands, except share data)

| Portfolio Company   | Locale / Industry                       | Investments(1)  | June 30, 2013 (Audited) |                |                | % of Net Assets |
|---|---|---|-------------------------|----------------|----------------|-----------------|
|   |   |   | Principal Value         | Cost           | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |   |   |                         |                |                |                 |
| <b>Control Investments (greater than 25.00% voting control)(44)</b> |   |   |                         |                |                |                 |
| 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%            |
|   |   |   |                         | <b>53,615</b>  | <b>53,615</b>  | <b>2.1%</b>     |
| 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%            |
|   |   |   |                         | <b>8,040</b>   | <b>4,949</b>   | <b>0.1%</b>     |
| <b>Total Control Investments</b>                                    |   |   |                         | <b>830,151</b> | <b>811,634</b> | <b>30.6%</b>    |
| <b>Affiliate Investments (5.00% to 24.99% voting control)(45)</b>   |   |   |                         |                |                |                 |
| 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%            |

