

PROSPECT CAPITAL CORP  
Form 497  
March 31, 2014

**The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to Completion, dated March 31, 2014**

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

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

## **Prospect Capital Corporation**

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

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

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

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

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

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

**Per Note**

**Total**

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

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

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

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

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

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

**Prospectus Supplement dated April \_\_\_\_\_, 2014**

---

**FORWARD-LOOKING STATEMENTS**

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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,

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

the NASDAQ Global Select Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and

the risks, uncertainties and other factors we identify in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, ability to obtain certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying prospectus, respectively, should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the "Securities Act."

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

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

**TABLE OF CONTENTS  
PROSPECTUS SUPPLEMENT**

Prospectus Summary	S-1
Selected Condensed Financial Data	S-9
Risk Factors	S-10
Management's Discussion and Analysis of Financial Condition and Results of Operations	S-15
Quantitative and Qualitative Disclosures About Market Risk	S-59
Description of Notes	S-60
Registration and Settlement	S-71
Supplement to Material U.S. Federal Income Tax Considerations	S-75
Certain Considerations Applicable to ERISA, Governmental and Other Plan Investors	S-81
Use of Proceeds	S-82
Capitalization	S-83
Senior Securities	S-84
Ratio of Earnings to Fixed Charges	S-86
Underwriting	S-87
Legal Matters	S-89
Independent Registered Public Accounting Firm	S-89
Available Information	S-89
Index to Financial Statements	F-1

**PROSPECTUS**

About This Prospectus	1
Prospectus Summary	2
Selected Condensed Financial Data	10
Risk Factors	12
Management's Discussion and Analysis of Financial Condition and Results of Operations	44
Quantitative and Qualitative Disclosures about Market Risk	94
Report of Management on Internal Control Over Financial Reporting	95
Use of Proceeds	95
Forward-Looking Statements	96
Distributions	97
Senior Securities	100
Price Range of Common Stock	102
Business	104
Certain Relationships and Transactions	132
Control Persons and Principal Stockholders	133
Portfolio Companies	135
Determination of Net Asset Value	149
Sales of Common Stock Below Net Asset Value	150
Dividend Reinvestment Plan	154
Material U.S. Federal Income Tax Considerations	156
Description of Our Capital Stock	164
Description of Our Preferred Stock	171
Description of Our Debt Securities	171
Description of Our Subscription Rights	185
Description of Our Warrants	186
Description of Our Units	187
Regulation	188
Custodian, Transfer and Dividend Paying Agent and Registrar	193
Brokerage Allocation and Other Practices	194
Plan of Distribution	194
Legal Matters	196
Independent Registered Accounting Firm	196
Available Information	196
Index to Financial Statements	F-1



## PROSPECTUS SUMMARY

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

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

### The Company

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

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

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

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

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

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



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

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

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

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

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

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

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

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

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

## Recent Developments

### *Recent Investment Activity*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### ***Dividends***

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

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

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

S-4

---

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

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

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

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

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

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



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

## SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2013, 2012, 2011, 2010 and 2009 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and six months ended December 31, 2013 and 2012 has been derived from unaudited financial data. Interim results for the three and six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ending June 30, 2014. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-15 for more information.

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

disposals

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

- (1) Per share data is based on average weighted shares for the period.
- (2) Includes \$207,126 of acquired portfolio investments from Patriot Capital Funding, Inc.
- (3) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.
- (4) Excludes equity investments and non-performing loans.

**RISK FACTORS**

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

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

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

As of March 28, 2014, we and our subsidiary had \$629 million of secured indebtedness outstanding and approximately \$2,592 million of senior indebtedness outstanding.

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

making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;

resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in substantially all of our debt becoming immediately due and payable;

reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our credit facility; and

limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

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

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

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

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

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

***The Notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiary, and are due after our other outstanding notes.***

The Notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness, including without limitation, the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes, the 2023 Notes and any Prospect Capital InterNotes®. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiary. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The Notes do not restrict us or our subsidiary from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the Notes. As of March 28, 2014, we had \$629.0 million of borrowings under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the Notes to the extent of the value of such assets.

Each of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and \$260.5 million aggregate principal amount of Prospect Capital InterNotes® are due prior to the Notes. We do not currently know whether we will be able to replace any such notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes or any of \$260.5 million aggregate principal amount of Prospect Capital InterNotes® at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the Notes and our ability to qualify as a regulated investment company, or "RIC."

***The Indenture under which the Notes will be issued will contain limited protection for holders of the Notes.***

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

that could have an adverse impact on your investment in the Notes. In particular, the terms of the Indenture and the Notes will not place any restrictions on our or our subsidiary's ability to:

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

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

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

enter into transactions with affiliates;

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

make investments; or

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

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

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

Certain of our current debt instruments include more protections for their holders than the Indenture and the Notes. See in the accompanying prospectus "Risk Factors In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations." In addition, other debt we issue or incur in the future could contain more protections for its holders than the Indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

**Overview**

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

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

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

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

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

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

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

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

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

## Second Quarter Highlights

### *Investment Transactions*

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

### *Proposed Investment Transactions*

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

### Equity Issuance

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

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

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

### Dividend

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

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

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

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

### Credit Facility

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

### Debt Issuance

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

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00%	October 15, 2016
3.5	3,149	4.00%	4.00%	April 15, 2017
4	16,545	4.00%	4.00%	November 15, 2017 - December 15, 2017
5	74,043	5.00%	5.00%	October 15, 2018 - December 15, 2018
7	20,039	5.50%	5.50%	October 15, 2020 - December 15, 2020
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	1,555	6.00%	6.00%	October 15, 2028 - November 15, 2028
20	1,664	6.00%	6.00%	October 15, 2033
25	9,894	6.50%	6.50%	October 15, 2038 - December 15, 2038
30	4,948	6.50%	6.50%	October 15, 2043
<b>\$ 140,525</b>				



## Investment Holdings

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

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

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

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



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Total Debt Securities	\$ 4,721,334	100.0%	\$ 4,672,625	100.0%	\$ 4,110,707	100.0%	\$ 4,016,223	100.0%
-----------------------	--------------	--------	--------------	--------	--------------	--------	--------------	--------

S-20

---

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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>

S-21

---

**Portfolio Investment Activity**

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

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

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

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

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

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

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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.



## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

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

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



(3)

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

### Investment Valuation

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

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

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

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

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

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

#### *AIRMALL USA, Inc.*

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

### *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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

### Capitalization

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

	Total	Payments Due by Period			
		Less than 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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

### *Prospect Capital InterNotes®*

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

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

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

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





## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

**\$ 600,907**

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

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

### Net Asset Value

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

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

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

**Results of Operations**

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

S-42

---

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

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

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2013	2012	2013	2012
Interest on borrowings	\$ 25,096	\$ 13,140	\$ 48,620	\$ 23,610
Amortization of deferred financing costs		2,614		