

PROSPECT CAPITAL CORP  
Form 497  
February 04, 2014

Use these links to rapidly review the document

[TABLE OF CONTENTS PROSPECTUS SUPPLEMENT](#)

[TABLE OF CONTENTS 2](#)

[TABLE OF CONTENTS 3](#)

[INDEX TO FINANCIAL STATEMENTS](#)

[Table of Contents](#)

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

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

## **Up to 50,000,000 Shares**

### **Common Stock**

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

We have entered into equity distribution agreements, dated February 4, 2014, with KeyBanc Capital Markets Inc., or "KeyBanc," BMO Capital Markets Corp. or "BMO Capital Markets," BNP Paribas Securities Corp. or "BNP PARIBAS," Goldman, Sachs & Co. and UBS Securities LLC, relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. We sometimes refer to KeyBanc, BMO Capital Markets, Goldman, Sachs & Co., BNP PARIBAS and UBS Securities LLC individually as a "Sales Manager" and together as the "Sales Managers."

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

The Sales Managers will receive from us a commission to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of all shares of common stock sold through them as Sales Managers under the equity distribution agreements. The Sales Managers are not required to sell any specific number or dollar amount of common stock, but each will use its commercially reasonable efforts to sell the common stock offered by this prospectus supplement and the accompanying prospectus. See "Plan of Distribution" on page S-69 of this prospectus supplement.

These shares of common stock may be offered at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders at the 2013 annual meeting of stockholders held on December 6, 2013. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See "Risk Factors" beginning on page S-9 and "Recent Sales of Common Stock Below Net Asset Value"

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

beginning on page S-64 of this prospectus supplement and "Sales of Common Stock Below Net Asset Value" beginning on page 150 of the accompanying prospectus.

Our common stock is listed on The Nasdaq Global Select Market under the symbol "PSEC." The last reported sale price of our common stock on February 3, 2014 was \$10.73 per share. Our most recently estimated NAV per share is \$10.74 on an as adjusted basis solely to give effect to our issuance of common stock since December 31, 2013 in connection with our dividend reinvestment plan and our issuance of 10,547,971 shares of common stock during the period from January 1, 2014 to January 31, 2014 (with settlement through February 5, 2014), under our at-the-market offering program \$0.01 higher than the \$10.73 determined by us as of December 31, 2013.

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

**Investing in our common stock involves risks. See "Risk Factors" beginning on page S-9 of this prospectus supplement and on page 12 of the accompanying prospectus.**

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

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

Prospectus Supplement dated February 4, 2014

---

Table of Contents

**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,

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

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

Table of Contents

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 Sales Managers 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 Sales Managers are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement, 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

**TABLE OF CONTENTS  
PROSPECTUS SUPPLEMENT**

<u>Prospectus Summary</u>	<u>S-1</u>
<u>Selected Condensed Financial Data</u>	<u>S-8</u>
<u>Risk Factors</u>	<u>S-9</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>S-11</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>S-54</u>
<u>Use of Proceeds</u>	<u>S-55</u>
<u>Capitalization</u>	<u>S-56</u>
<u>Recent Sales of Common Stock Below Net Asset Value</u>	<u>S-58</u>
<u>Senior Securities</u>	<u>S-59</u>
<u>Distributions and Price Range of Common Stock</u>	<u>S-61</u>
<u>Sales of Common Stock Below Net Asset Value</u>	<u>S-64</u>
<u>Plan of Distribution</u>	<u>S-69</u>
<u>Legal Matters</u>	<u>S-71</u>
<u>Independent Registered Public Accounting Firm</u>	<u>S-71</u>
<u>Available Information</u>	<u>S-71</u>
<u>Index to Financial Statements</u>	<u>F-1</u>

**PROSPECTUS**

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



Table of Contents

**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.



Table of Contents

**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 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.

Table of Contents

**Recent Developments**

***Recent Investment Activity***

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

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

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

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

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

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

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

***Credit Facility***

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

***Debt Issuance***

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

***Common Stock Issuance***

During the period from January 1, 2014 to January 31, 2014 (with settlement through February 5, 2014), we sold 10,547,971 shares of our common stock at an average price of \$11.17 per share, and raised \$117.8 million of gross proceeds, under our at-the-market offering program, or the "ATM Program." Net proceeds were \$116.6 million after commissions to the broker-dealer on shares sold and offering costs.

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

***Dividends***

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

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

S-3

---

Table of Contents

**The Offering**

Common stock offered by us	Up to 50,000,000 shares.
Common stock outstanding as of the date of this prospectus supplement (including shares sold through the ATM program to be settled through February 5, 2014)	311,916,494 shares.
Use of proceeds	We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See "Use of Proceeds" in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current distribution rate	On August 21, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:  \$0.110325 per share for January 2014 to holders of record on January 31, 2014 with a payment date of February 20, 2014;  \$0.110350 per share for February 2014 to holders of record on February 28, 2014 with a payment date of March 20, 2014; and  \$0.110375 per share for March 2014 to holders of record on March 31, 2014 with a payment date of April 17, 2014. On November 4, 2013, we announced the declaration of monthly dividends in the following amounts with the following dates:  \$0.110400 cents per share for April 2014 to holders of record on April 30, 2014 with a payment date of May 22, 2014;  \$0.110425 cents per share for May 2014 to holders of record on May 30, 2014 with a payment date of June 19, 2014; and  \$0.110450 cents per share for June 2014 to holders of record on June 30, 2014 with a payment date of July 24, 2014.



Table of Contents

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

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

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

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

Based on the February 2014 distribution of \$0.110350, this represents an annualized yield of approximately 12.3% based on our February 3, 2014 closing stock price of \$10.73 per share. Such distributions are expected to be payable out of earnings. Our distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

**Fees and Expenses**

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$712.5 million under our credit facility, which is the maximum amount available under the credit facility, in addition to our other indebtedness of \$1.84 billion and a maximum sales load of 2.0% pursuant to the equity distribution agreements. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

**Stockholder transaction expenses:**

Sales load (as a percentage of offering price)(1)	2.00%
Offering expenses borne by us (as a percentage of offering price)(2)	0.05%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	2.05%

**Annual expenses (as a percentage of net assets attributable to common stock)(4):**

Management Fees(5)	3.68%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.70%
Total advisory fees	6.38%
Total interest expense(7)	3.92%
Acquired Fund Fees and Expenses(8)	0.01%
Other expenses(9)	1.32%
Total annual expenses(6)(9)	11.63%

Table of Contents**Example**

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we have borrowed all \$712.5 million available under our line of credit, in addition to our other indebtedness of \$1.84 billion and that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 107.94	\$ 272.70	\$ 424.77	\$ 755.63

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The income incentive fee under our Investment Advisory Agreement with Prospect Capital Management is unlikely to be material assuming a 5% annual return and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our distributions to our common stockholders and our expenses would likely be higher. In addition, while the example assumes reinvestment of all dividends and other distributions at net asset value, or NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

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

- (1) Represents the estimated commission with respect to the shares of common stock being sold in this offering. The Sales Managers will be entitled to compensation up to 2.00% of the gross proceeds of the sale of any shares of our common stock under the equity distribution agreements, with the exact amount of such compensation to be mutually agreed upon by the Company and the Sales Managers from time to time. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.
- (2) The offering expenses of this offering are estimated to be approximately \$250,000.
- (3) The expenses of the dividend reinvestment plan are included in "other expenses."
- (4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at December 31, 2013. See "Capitalization" in this prospectus supplement.
- (5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non-investment purposes, for which purpose we have not and have no intention of borrowing). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed \$2.55 billion, the 2% management fee of gross assets equals approximately 3.68% of net assets. Based on our borrowings as of December 31, 2013 of \$1.8 billion, the 2% management fee of gross assets equals approximately 3.25% of net assets. See "Business Management Services Investment Advisory Agreement" in the accompanying prospectus and footnote 6 below.
- (6) Based on the incentive fee paid during our most recently completed six month period ended December 31, 2013, all of which consisted of an income incentive fee. The capital gain incentive

Table of Contents

fee is paid without regard to pre-incentive fee income. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services Investment Advisory Agreement" in the accompanying prospectus.

- (7) As of February 3, 2014, Prospect has \$1.8 billion outstanding of its Senior Notes (as defined below) in various maturities, ranging from December 15, 2015 to December 15, 2043, and interest rates, ranging from 3.24% to 7.0%, some of which are convertible into shares of Prospect common stock at various conversion rates. Please see "Business of Prospect General" and "Risks Related to Prospect Risks Relating to Prospect's Business" below for more detail on the Senior Notes.
- (8) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of December 31, 2013. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's net assets used in calculating this percentage was based on net assets of approximately \$3.2 billion as of December 31, 2013.
- (9) "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents expenses during our six month period ended December 31, 2013 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement" in the accompanying prospectus.



Table of Contents**SELECTED CONDENSED FINANCIAL DATA**

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2013, 2012, 2011, 2010 and 2009 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and six months ended December 31, 2013 and 2012 has been derived from unaudited financial data. Interim results for the three and six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ending June 30, 2014. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-11 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	
<b>(in thousands except data relating to shares, per share and number of portfolio companies)</b>										
<b>Performance Data:</b>										
Interest income	\$ 147,103	\$ 116,866	\$ 285,524	\$ 195,176	\$ 435,455	\$ 219,536	\$ 134,454	\$ 86,518	\$ 62,926	
Dividend income	8,892	31,955	15,981	68,163	82,705	64,881	15,092	15,366	22,793	
Other income	22,095	17,214	37,619	26,332	58,176	36,493	19,930	12,675	14,762	
<b>Total investment income</b>	<b>178,090</b>	<b>166,035</b>	<b>339,124</b>	<b>289,671</b>	<b>576,336</b>	<b>320,910</b>	<b>169,476</b>	<b>114,559</b>	<b>100,481</b>	
Interest and credit facility expenses	(29,256)	(16,414)	(56,663)	(29,925)	(76,341)	(38,534)	(17,598)	(8,382)	(6,161)	
Investment advisory expense	(48,129)	(41,110)	(91,758)	(72,845)	(151,031)	(82,507)	(46,051)	(30,727)	(26,705)	
Other expenses	(8,490)	(9,295)	(16,151)	(13,658)	(24,040)	(13,185)	(11,606)	(8,260)	(8,452)	
<b>Total expenses</b>	<b>(85,875)</b>	<b>(66,819)</b>	<b>(164,572)</b>	<b>(116,428)</b>	<b>(251,412)</b>	<b>(134,226)</b>	<b>(75,255)</b>	<b>(47,369)</b>	<b>(41,318)</b>	
<b>Net investment income</b>	<b>92,215</b>	<b>99,216</b>	<b>174,552</b>	<b>173,243</b>	<b>324,924</b>	<b>186,684</b>	<b>94,221</b>	<b>67,190</b>	<b>59,163</b>	
Realized and unrealized (losses) gains	(6,853)	(52,727)	(9,290)	(79,505)	(104,068)	4,220	24,017	(47,565)	(24,059)	
<b>Net increase in net assets from operations</b>	<b>\$ 85,362</b>	<b>\$ 46,489</b>	<b>\$ 165,262</b>	<b>\$ 93,738</b>	<b>\$ 220,856</b>	<b>\$ 190,904</b>	<b>\$ 118,238</b>	<b>\$ 19,625</b>	<b>\$ 35,104</b>	
<b>Per Share Data:</b>										
<b>Net increase in net assets from operations(1)</b>	<b>\$ 0.30</b>	<b>\$ 0.24</b>	<b>\$ 0.61</b>	<b>\$ 0.52</b>	<b>\$ 1.07</b>	<b>\$ 1.67</b>	<b>\$ 1.38</b>	<b>\$ 0.33</b>	<b>\$ 1.11</b>	

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

(2)

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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.

S-8

---

Table of Contents

**RISK FACTORS**

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and in the accompanying prospectus on page 12, together with all of the other information included in this prospectus supplement and in the accompanying prospectus, before you decide whether to make an investment in our common stock. The risks set forth below and in the accompanying prospectus are not the only risks we face. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV and the trading price of our common stock could decline, we could reduce or eliminate our dividend and you could lose all or part of your investment.*

***Our most recent NAV was calculated on December 31, 2013 and our NAV when calculated effective March 31, 2014 may be higher or lower.***

Our most recently estimated NAV per share is \$10.74 on an as adjusted basis solely to give effect to our issuance of common stock since December 31, 2013 in connection with our dividend reinvestment plan and our issuance of 10,547,971 shares of common stock during the period from January 1, 2014 to January 31, 2014 (with settlement through February 5, 2014) under our ATM Program, \$0.01 higher than the \$10.73 determined by us as of December 31, 2013. NAV per share as of March 31, 2014, may be higher or lower than \$10.74 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to December 31, 2013. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, our Investment Adviser, our Administrator and the Audit Committee of our Board of Directors.

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

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

Table of Contents

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

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

national economic conditions;

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

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

changing demographics;

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

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

the quality of a property's construction and design;

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

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

potential environmental and other legal liabilities;

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

the availability and cost of refinancing;

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

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

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

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

S-10

---

Table of Contents

**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.

Table of Contents

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



Table of Contents

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 Common Share 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

### Table of Contents

#### *Equity Issuance*

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

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

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

#### *Dividend*

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

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

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

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

#### *Credit Facility*

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

#### *Debt Issuance*

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

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

\$ 140,525

S-14

---

Table of Contents

**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

Table of Contents

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%
Total Portfolio	\$ 4,976,354	100.0%	\$ 4,886,020	100.0%	\$ 4,255,778	100.0%	\$ 4,172,852	100.0%

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%
Total Portfolio	\$ 4,976,354	100.0%	\$ 4,886,020	100.0%	\$ 4,255,778	100.0%	\$ 4,172,852	100.0%

The following is our investments in interest bearing securities presented by type of 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%
Total Debt Securities	\$ 4,721,334	100.0%	\$ 4,672,625	100.0%	\$ 4,110,707	100.0%	\$ 4,016,223	100.0%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Table of Contents

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%
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%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Transportation	92,911	1.9%	90,702	1.9%	127,767	3.0%	127,474	3.1%
Total Portfolio	\$ 4,976,354	100.0%	\$ 4,886,020	100.0%	\$ 4,255,778	100.0%	\$ 4,172,852	100.0%

S-17

---

Table of Contents

**Portfolio Investment Activity**

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

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

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

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

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

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

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

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

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

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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

### Table of Contents

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.

Table of Contents

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.

Table of Contents

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

### Table of Contents

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

### Table of Contents

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

### Table of Contents

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.





Table of Contents

- (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.

Table of Contents

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-

Table of Contents

owned subsidiary of APH, distributed its investments in fourteen properties: eight to National Property 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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

S-27

---

Table of Contents

and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as cash distributions were received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the three 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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

### Table of Contents

\$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.

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
	146 Forest				
1	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
		Altamonte Springs,			
6	Central Park(1)	FL	11/19/2013	36,590	27,471
7	City West(1)	Orlando, FL	11/19/2013	23,562	18,533
	Matthews				
8	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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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.

S-29

---

Table of Contents

During September and October 2007, we provided \$1,170 to THS for working capital through our investment in ICS. In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS. As part of its strategy to diversify its revenues THS started VSA as a new business in the latter part of 2009. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of \$1,708 and \$874, respectively, to support the ongoing operations of THS and VSA. Effective October 19, 2011, the closing date of the sale by VSA of a commercial real estate asset, \$893 of the follow-on secured debt investments were repaid. In early May 2012, we made short-term secured debt investments of \$118 and \$42, respectively, to support the operations of THS and VSA, which short term debt was repaid in early June 2012. We made no additional fundings during the fiscal year ended June 30, 2013 and the 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.



Table of Contents

*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

Table of Contents

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

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

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

**Capitalization**

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

### Table of Contents

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

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

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

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

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

#### *Revolving Credit Facility*

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

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

Table of Contents

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

### Table of Contents

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.

Table of Contents

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

### Table of Contents

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 (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%	August 15, 2038 - December 15, 2038
30	20,150	6.50% - 6.75%	6.60%	July 15, 2043 - October 15, 2043
<b>\$ 238,780</b>				

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Table of Contents

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

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

**\$ 600,907**

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

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

**Net Asset Value**

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

	As of 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-38

---

Table of Contents

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

### Table of Contents

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
<b>Total investment income</b>	<b>\$ 178,090</b>	<b>\$ 166,035</b>	<b>\$ 339,124</b>	<b>\$ 289,671</b>
<b>Average debt principal of performing investments</b>	<b>\$ 4,484,433</b>	<b>\$ 2,536,141</b>	<b>\$ 4,331,891</b>	<b>\$ 2,341,813</b>
<b>Weighted average interest rate earned on performing assets</b>	<b>12.84%</b>	<b>18.03%</b>	<b>12.90%</b>	<b>16.31%</b>

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.

Table of Contents

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

Table of Contents

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

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

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

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

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

S-42

Table of Contents

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

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

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

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

**Net Investment Income**

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

Table of Contents

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

**Net Realized Losses**

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

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

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

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

Table of Contents

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

**Financial Condition, Liquidity and Capital Resources**

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

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

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

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

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

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

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

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



Table of Contents

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

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

**Off-Balance Sheet Arrangements**

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

**Recent Developments**

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

**Critical Accounting Policies and Estimates**

*Basis of Presentation*

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

*Reclassifications*

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

*Use of Estimates*

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

*Basis of Consolidation*

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

*Investment Classification*

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

Table of Contents

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

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

*Investment Risks*

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

*Market Risk*

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

*Credit Risk*

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

*Liquidity Risk*

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

*Interest Rate Risk*

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

*Prepayment Risk*

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

*Investment Valuation*

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

*Valuation of Other Financial Assets and Financial Liabilities*

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

*Senior Convertible Notes*

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

*Revenue Recognition*

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

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

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

Table of Contents

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

Dividend income is recorded on the ex-dividend date.

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

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

*Federal and State Income Taxes*

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

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

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

Table of Contents

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

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

*Dividends and Distributions*

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

*Financing Costs*

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

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

*Guarantees and Indemnification Agreements*

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

*Per Share Information*

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

Table of Contents

*Recent Accounting Pronouncements*

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

S-53

---



Table of Contents

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

S-54

---

Table of Contents

**USE OF PROCEEDS**

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made by means of ordinary brokers' transactions on the NASDAQ Global Select Market or that otherwise qualify for delivery of a prospectus to the NASDAQ Global Select Market in accordance with Rule 153 under the 1933 Act, at market prices prevailing at the time of sale, at prices related to prevailing market prices or negotiated transactions or as otherwise agreed with the applicable Sales Manager. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale, and may be for prices below our most recently determined net asset value per share. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all 50,000,000 shares of common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of \$10.73 per share for our common stock on the NASDAQ Global Select Market as of February 3, 2014, we estimate that the net proceeds of this offering will be approximately \$530.9 million after deducting the estimated Sales Manager' commission and our estimated offering expenses.

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

As of February 3, 2014, we had no borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately \$601.1 million was available to us for borrowing under our credit facility. Affiliates of the Sales Managers that are lenders under our credit facility may receive a portion of the net proceeds from offerings made pursuant to this prospectus supplement and the accompanying prospectus through the repayment of any borrowings. Interest on borrowings under the credit facility is one-month LIBOR plus 275 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least half of the credit facility is used or 100 basis points otherwise.

Table of Contents

**CAPITALIZATION**

The equity distribution agreements provide that we may offer and sell up to 50,000,000 shares of our common stock from time to time through the Sales Managers, as our agents for the offer and sale of such common stock. The table below assumes that we will sell all of the 50,000,000 shares at a price of \$10.73 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on February 3, 2014) but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than \$10.73, depending on the market price of our common stock at the time of any such sale and whether such sale is made at a discount to our most recently determined net asset value per share. The following table sets forth our capitalization as of December 31, 2013:

on an actual basis;

on an as adjusted basis giving effect to the issuance of 109,087 shares in connection with our dividend reinvestment plan since December 31, 2013 and our issuance of 10,547,971 shares of common stock during the period from January 1, 2014 to January 31, 2014 (with settlement through February 5, 2014) under our ATM Program and the issuance of \$44.7 million aggregate principal amount of Prospect Capital InterNotes® since December 31, 2013; and

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of 50,000,000 shares of our common stock at a price of \$10.73 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on February 3, 2014) less commissions and expenses.

This table should be read in conjunction with "Use of Proceeds" and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus. The adjusted information is illustrative only.

Table of Contents

	As of December 31, 2013		
	As Adjusted for Stock Issuances and Borrowings		
	Actual	After December 31, 2013	As further Adjusted for this Offering
	(In thousands, except shares and per share data)		
	(Unaudited)		
Long-term debt, including current maturities:			
Borrowings under senior credit facility(1)	\$	\$	\$
Senior Convertible Notes	847,500	847,500	847,500
Senior Unsecured Notes	347,814	347,814	347,814
Prospect Capital InterNotes®	600,907	644,456	644,456
Amount owed to affiliates	49,849	49,849	49,849
<b>Total long-term debt</b>	<b>1,846,070</b>	<b>1,889,619</b>	<b>1,889,619</b>
Stockholders' equity:			
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 301,259,436 shares outstanding actual, 311,916,494 shares outstanding as adjusted and 361,916,494 shares outstanding as further adjusted)	301	312	362
Paid-in capital in excess of par value	3,332,469	3,450,327	3,981,162
Net investment income in excess of distributions	68,321	68,321	68,321
Accumulated realized losses on investments	(79,658)	(79,658)	(79,658)
Net unrealized appreciation on investments	(90,334)	(90,334)	(90,334)
<b>Total stockholders' equity</b>	<b>3,231,099</b>	<b>3,348,968</b>	<b>3,879,853</b>
<b>Total capitalization</b>	<b>5,077,169</b>	<b>5,238,587</b>	<b>5,769,472</b>

(1)

As of February 3, 2014, we had no borrowings under our credit facility.

Table of Contents**RECENT SALES OF COMMON STOCK BELOW NET ASSET VALUE**

At our 2009, 2010, 2011, 2012 and 2013 annual meeting of stockholders, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount to NAV per share during the twelve-month period following such approval. Accordingly, we may make offerings of our common stock without any limitation on the total amount of dilution to stockholders. See "Sales of Common Stock Below Net Asset Value" in this prospectus supplement and in the accompanying prospectus. Pursuant to this authority and the approval of our Board of Directors, we have made the following offerings:

<b>Date of Offering</b>	<b>Price Per Share to Investors</b>	<b>Shares Issued</b>	<b>Estimated Net Asset Value per Share(1)</b>	<b>Percentage Dilution</b>
June 21, 2010 to June 25, 2010(2)	\$10.01 - \$10.67	1,072,500	\$10.39 - 10.40	0.06%
June 28, 2010 to July 16, 2010(2)	\$9.47 - \$10.04	2,748,600	\$10.31 - 10.34	0.29%
July 19, 2010 to August 19, 2010(2)	\$9.28 - \$10.04	3,814,528	\$10.26 - 10.36	0.39%
September 7, 2010 to September 23, 2010(2)	\$9.47 - \$9.98	2,185,472	\$10.22 - 10.25	0.18%
September 24, 2010 to September 27, 2010(2)	\$9.74 - \$9.92	302,400	\$10.25 - 10.26	0.02%
September 28, 2010 to October 29, 2010(2)	\$9.65 - \$10.09	4,929,556	\$10.13 - 10.27	0.32%
November 11, 2010 to December 10, 2010(2)	\$9.70 - \$10.54	4,513,920	\$10.18 - 10.28	0.22%
June 24, 2011	\$10.15	10,000,000	\$10.48	0.41%
July 18, 2011(3)	\$10.15	1,500,000	\$10.41	0.05%

- (1) The data for sales of shares below NAV pursuant to our previous equity distribution agreements are an estimate based on the last reported NAV adjusted and capital events occurring during the period since the last calculated NAV. All amounts presented are approximations based on the best available data at the time of issuance. Overall, the dilution from the issuance of shares below NAV in connection with the ATM Program is estimated to be less than 1.5%.
- (2) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later than the sale dates.
- (3) On July 18, 2011, the underwriter exercised its option to purchase an additional 1,500,000 shares at \$10.15.

Table of Contents**SENIOR SECURITIES**

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

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

**2015 Notes**

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

**2016 Notes**

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

**2017 Notes**

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

**2018 Notes**

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

**2019 Notes**

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

**2022 Notes**

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

**2023 Notes**

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

**Prospect Capital InterNotes®**

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

S-59

---

Table of Contents**All Senior Securities(5)**

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

- (1) Total amount of each class of senior securities outstanding at the end of the period presented (in 000's).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) This column is inapplicable.
- (4) This column is inapplicable, except for the 2022 Notes.
- (5) On February 16, 2012, we entered into the Selling Agent Agreement and began offering notes (the "Prospect Capital InterNotes® Program"). On March 4, 2013, we entered into a Second Amended and Restated Selling Agent Agreement which continued the Prospect Capital InterNotes® Program on substantially similar terms and provides for our issuance of floating rate notes in addition to fixed rate notes. On October 15, 2013, we entered into a Third Amended and Restated Selling Agent Agreement on substantially similar terms to provide for such issuances under our current shelf registration statement. Through January 31, 2014, we have sold \$644.5 million aggregate principal amount of notes. Amounts sold under the Prospect Capital InterNotes® Program after December 31, 2013 are not reflected in the table above.



Table of Contents

**DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK**

We have paid and intend to continue to distribute monthly distributions to our stockholders out of assets legally available for distribution. Our distributions, if any, will be determined by our Board of Directors. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the period as a result of our deliberate planning or by accounting reclassifications.

In order to maintain RIC tax treatment, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In order to avoid certain excise taxes imposed on RICs, we are required to distribute with respect to each calendar year by January 31 of the following year an amount at least equal to the sum of

98% of our ordinary income for the calendar year,

98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and

any ordinary income and net capital gains for preceding years that were not distributed during such years.

At December 31, 2012, we accrued, and subsequently paid, \$4.5 million for the undistributed ordinary income retained at December 31, 2012. At December 31, 2013, we accrued an additional \$4.0 million for the undistributed ordinary income retained at December 31, 2013.

In addition, although we currently intend to distribute realized net capital gains (which we define as net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may decide in the future to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock are subject to the same U.S. Federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan" in the accompanying prospectus. The tax consequences of distributions to stockholders are described in the accompanying prospectus under the label "Material U.S. Federal Income Tax Considerations". To the extent prudent and practicable, we intend to declare and pay dividends on a monthly basis.

With respect to the distributions paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies were treated as taxable income and accordingly, distributed to stockholders. For the fiscal year ending June 30, 2011, we recorded total distributions of approximately \$106.2 million. For the fiscal year ended June 30, 2012, we recorded total distributions of approximately \$141.4 million. For the fiscal year ended June 30, 2013, we recorded total distributions of approximately \$271.5 million.

Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the year. Our ability to pay distributions could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

### Table of Contents

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PSEC." The following table sets forth, for the periods indicated, our NAV per share of common stock and the high and low closing prices per share of our common stock as reported on the NASDAQ Global Select Market. Our common stock historically trades at prices both above and below its NAV per share. There can be no assurance, however, that such premium or discount, as applicable, to NAV per share will be maintained. Common stock of business development companies, like that of closed-end investment companies, frequently trades at a discount to current NAV per share. In the past, our common stock has traded at a discount to our NAV per share. The risk that our common stock may continue to trade at a discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline.

	NAV(1)	Stock Price High(2)	Low(2)	Premium (Discount) of High to NAV	Premium (Discount) of Low to NAV	Dividend Declared
<b>Twelve Months Ending June 30, 2012</b>						
First quarter	\$ 10.41	\$ 10.18	\$ 7.41	(2.2)%	(28.8)%	\$ 0.303900
Second quarter	10.69	9.88	7.99	(7.6)%	(25.3)%	0.304125
Third quarter	10.82	11.39	9.43	5.3%	(12.8)%	0.304350
Fourth quarter	10.83	11.39	10.55	5.2%	(2.5)%	0.304575
<b>Twelve Months Ending June 30, 2013</b>						
First quarter	\$ 10.88	\$ 12.21	\$ 10.83	12.2%	(0.5)%	\$ 0.304800
Second quarter	10.81	11.98	9.89	10.8%	(8.5)%	0.313325
Third quarter	10.71	11.49	10.91	7.3%	1.9%	0.330150
Fourth quarter	10.72	11.11	10.08	3.6%	(6.0)%	0.330375
<b>Twelve Months Ending June 30, 2014</b>						
First quarter	\$ 10.72(3)	\$ 11.61	\$ 10.76	8.3%	0.4%	\$ 0.330600
Second quarter	10.73	11.48	10.80	7.0%	0.7%	0.330825
Third quarter (through February 3, 2014)	(3)(4)	11.34	10.73	%(4)	%(4)	0.331050(5)

- (1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high or low sales price. The NAVs shown are based on outstanding shares of our common stock at the end of each period.
- (2) The High/Low Stock Price is calculated as of the closing price on a given day in the applicable quarter.
- (3) Our most recently estimated NAV per share is \$10.74 on an as adjusted basis solely to give effect to our issuance of common stock since December 31, 2013 in connection with our dividend reinvestment plan and our issuance of 10,547,971 shares of common stock during the period from January 1, 2014 to January 31, 2014 (with settlement through February 5, 2014) under our ATM Program, \$0.01 higher than the \$10.73 determined by us as of December 31, 2013. NAV per share as of March 31, 2014, may be higher or lower than \$10.74 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended.
- (4) NAV has not yet been finally determined for any day after December 31, 2013.
- (5) On August 21, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

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

S-62

---

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

### Table of Contents

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.

### *Dividends*

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

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

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

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

On February 3, 2014, the last reported sales price of our common stock was \$10.73 per share.

As of February 3, 2014, we had approximately 146 stockholders of record.

The below table sets forth each class of our outstanding securities as of February 3, 2014 (including shares sold with settlement dates through February 5, 2014).

<b>Title of Class</b>	<b>Amount Authorized</b>	<b>Amount Held by Registrant or for its Account</b>	<b>Amount Outstanding</b>
Common Stock	500,000,000	0	311,916,494

S-63

---

Table of Contents

**SALES OF COMMON STOCK BELOW NET ASSET VALUE**

At our 2013 annual meeting of stockholders held on December 6, 2013, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from NAV per share during the twelve-month period following such approval. In order to sell shares pursuant to this authorization a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, (b) in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares of common stock, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount, and (c) the number of shares sold on any given date does not exceed 25% of its outstanding common stock immediately prior to such sale.

**We may make sales of our common stock at prices below our most recently determined NAV per share. Pursuant to the approval of our Board of Directors, we have made such sales in the past, including under the previous equity distribution agreements, and we may continue to do so under this prospectus supplement and the accompanying prospectus.**

In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our Board of Directors considers a variety of factors including matters such as:

The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;

The relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;

Whether the estimated offering price would closely approximate the market value of our shares of common stock;

The potential market impact of being able to raise capital during the current financial market difficulties;

The nature of any new investors anticipated to acquire shares of common stock in the offering;

The anticipated rate of return on and quality, type and availability of investments; and

The leverage available to us.

Our Board of Directors also considers the fact that sales of common stock at a discount will benefit our Investment Adviser as the Investment Adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at a premium to NAV per share.

We will not sell shares of common stock under a prospectus supplement to the registration statement (the "current registration statement") if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV per share at the time of the first offering is \$10.74 and we have 310.0 million shares of common stock outstanding, sale of 50.0 million shares of common stock at net proceeds to us of \$5.37 per share (an approximately 50% discount) would



Table of Contents

produce dilution of 6.94%. If we subsequently determined that our NAV per share increased back to \$10.50 on the then 360.0 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 69.1 million shares of common stock at net proceeds to us of \$5.25 per share, which would produce dilution of 8.06%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

Sales by us of our common stock at a discount from NAV pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than NAV per share on three different set of investors:

existing shareholders who do not purchase any shares of common stock in the offering;

existing shareholders who purchase a relatively small amount of shares of common stock in the offering or a relatively large amount of shares of common stock in the offering; and

new investors who become shareholders by purchasing shares of common stock in the offering.

**NAV per share used in the tables below is based on our most recently determined NAV per share as of December 31, 2013, as adjusted to give effect to our issuances of our common stock since December 31, 2013. The NAV per share used for purposes of providing information in the table below is thus an estimate and does not necessarily reflect actual NAV per share at the time sales are made. Actual NAV per share may be higher or lower based on potential changes in valuations of our portfolio securities, accruals of income, expenses and distributions declared and thus may be higher or lower at the assumed sales prices than shown below.**

The tables below provide hypothetical examples of the impact that an offering at a price less than NAV per share may have on the NAV per share of shareholders and investors who do and do not participate in such an offering. However, the tables below do not show and are not intended to show any potential changes in market price that may occur from an offering at a price less than NAV per share and it is not possible to predict any potential market price change that may occur from such an offering.

**Impact On Existing Stockholders Who Do Not Participate in the Offering**

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares of common stock in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares of common stock they hold and their NAV per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to the offering. These shareholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share. It is not possible to predict the level of market price decline that may occur.

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Table of Contents

The examples assume that the issuer has 310,000,000 common shares outstanding, \$5,329,400,000 in total assets and \$2,000,000,000 in total liabilities. The current NAV and NAV per share are thus \$3,329,400,000 and \$10.74. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 15,500,000 shares of common stock (5% of the outstanding shares of common stock) at \$10.20 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 31,000,000 shares of common stock (10% of the outstanding shares of common stock) at \$9.67 per share after offering expenses and commissions (a 10% discount from NAV), (3) an offering of 77,500,000 shares of common stock (25% of the outstanding shares of common stock) at \$8.06 per share after offering expenses and commissions (a 25% discount from NAV), and (4) an offering of 77,500,000 shares of common stock (25% of the outstanding shares of common stock) at \$0.00 per share after offering expenses and commissions (a 100% discount from NAV).

	Example 1 5% Offering at 5% Discount			Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount		Example 4 25% Offering at 100% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
<b>Offering Price</b>									
Price per Share to Public		\$ 10.76		\$ 10.18		\$ 8.48		\$	
Net Proceeds per Share to Issuer		\$ 10.20		\$ 9.67		\$ 8.06		\$	
<b>Decrease to NAV</b>									
Total Shares Outstanding	310,000,000	325,500,000	5.00%	341,000,000	10.00%	387,500,000	25.00%	387,500,000	25.00%
NAV per Share	\$ 10.74	\$ 10.71	(0.24)%	\$ 10.64	(0.91)%	\$ 10.20	(5.00)%	\$ 8.59	(20.00)%
<b>Dilution to Nonparticipating Stockholder</b>									
Shares Held by Stockholder A	310,000	310,000	0.00%	310,000	0.00%	310,000	0.00%	310,000	0.00%
Percentage Held by Stockholder A	0.10%	0.10%	(4.76)%	0.09%	(9.09)%	0.08%	(20.00)%	0.08%	(20.00)%
Total NAV Held by Stockholder A	\$ 3,329,400	\$ 3,321,473	(0.24)%	\$ 3,299,133	(0.91)%	\$ 3,162,930	(5.00)%	\$ 2,663,520	(20.00)%
Total Investment by Stockholder A (Assumed to be \$10.74 per Share on Shares Held Prior to Sale)		\$ 3,329,400		\$ 3,329,400		\$ 3,329,400		\$ 3,329,400	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (7,927)		\$ (30,267)		\$ (166,470)		\$ (665,880)	
NAV per Share Held by Stockholder A		\$ 10.71		\$ 10.64		\$ 10.20		\$ 8.59	
Investment per Share Held by Stockholder A (Assumed to be \$10.74 per Share on Shares Held Prior to Sale)		\$ 10.74		\$ 10.74		\$ 10.74		\$ 10.74	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.03)		\$ (0.10)		\$ (0.54)		\$ (2.15)	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(0.24)%		(0.91)%		(5.00)%		(20.00)%

**Impact On Existing Stockholders Who Do Participate in the Offering**

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares of common stock in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares of common stock immediately prior to the offering. The level of NAV dilution will decrease as the number of shares of common stock such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution on their existing shares but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in average NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of common stock such stockholder



Table of Contents

purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These shareholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

The following chart illustrates the level of dilution and accretion in the hypothetical 25% discount offering from the prior chart (Example 3) for a stockholder that acquires shares of common stock equal to (1) 50% of its proportionate share of the offering (i.e., 38,750 shares of common stock, which is 0.05% of an offering of 77,500,000 shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e., 116,250 shares of common stock, which is 0.15% of an offering of 77,500,000 shares of common stock rather than its 0.10% proportionate share). It is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

	Prior to Sale Below NAV	50% Participation		150% Participation	
		Following Sale	% Change	Following Sale	% Change
Offering Price					