

PROSPECT CAPITAL CORP  
Form 497  
November 05, 2013

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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 November 5, 2013, with KeyBanc Capital Markets Inc., or "KeyBanc," Barclays Capital Inc., or "Barclays," Goldman, Sachs & Co. and RBC Capital Markets, LLC, or "RBC," relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. We sometimes refer to KeyBanc, Barclays, Goldman, Sachs & Co. and RBC 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-60 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 2012 annual meeting of stockholders held on December 7, 2012. 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-10 and "Recent Sales of Common Stock Below Net Asset Value" beginning on page S-55 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 November 4, 2013 was \$11.43 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 September 30, 2013 in connection with our dividend reinvestment plan and our issuance of 12,652,811 shares of common stock during the period from October 1, 2013 to November 4, 2013 under our at-the-market offering program \$0.02 higher than the \$10.72 determined by us as of September 30, 2013.

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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-10 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

Barclays

Goldman, Sachs & Co.

RBC Capital Markets

Prospectus Supplement dated November 5, 2013

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**FORWARD-LOOKING STATEMENTS**

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

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

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

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

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

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

You should rely only on the information contained in this prospectus supplement, including any pricing supplement included hereto, and the accompanying prospectus. We have not, and the 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.

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**PROSPECTUS SUMMARY**

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

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

**The Company**

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. In this prospectus supplement and the accompanying prospectus, we use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$2 billion. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the "1940 Act." We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

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

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

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

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

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

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

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

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

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

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

We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. These may be in several industries, including industrial, service, real estate and financial businesses.

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. Motivated sellers, including commercial finance companies, hedge funds, other business development companies, total return swap counterparties, banks, collateralized loan obligation funds, and other entities, are suffering from excess leverage, and we believe we are well positioned to capitalize as potential buyers of such assets at attractive prices. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of September 30, 2013, we held investments in 129 portfolio companies. The aggregate fair value as of September 30, 2013 of investments in these portfolio companies held on that date is approximately \$4.6 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 12.5% as of September 30, 2013.



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**Recent Developments**

***Dividends***

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

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

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

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

***Recent Investment Activity***

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

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

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

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

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

On October 15, 2013, we made a secured debt investment of \$2.0 million in Digital Insight, a leading provider of digital banking software to financial institutions in the U.S. which allows financial institutions to offer a comprehensive, user friendly platform of products and services through the online and mobile channels. On the same day, we fully exited the deal and realized a gain of \$20,000 on this investment.

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to an additional \$5.0 billion of debt and equity securities.

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

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

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

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

On October 30, 2013, we made a secured debt investment of \$2.5 million in Omnitrac, Inc., one of the world's largest providers of satellite and terrestrial-based connectivity and position location



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solutions to transportation and logistics companies. On the same day, we fully exited the deal and realized a gain of \$25,000 on this investment.

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

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

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

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

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

On November 5, 2013, we made a \$2.0 million follow-on investment in APH.

***Debt Issuance***

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

***Common Stock Issuance***

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

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

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**The Offering**

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 November 4, 2013)	284,192,312 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 June 17, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:  \$0.110250 per share for October 2013 to holders of record on October 31, 2013 with a payment date of November 21, 2013;  \$0.110275 per share for November 2013 to holders of record on November 29, 2013 with a payment date of December 19, 2013; and  \$0.110300 per share for December 2013 to holders of record on December 31, 2013 with a payment date of January 23, 2014. On August 21, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:  \$0.110325 per share for January 2014 to holders of record on January 31, 2014 with a payment date of February 20, 2014;  \$0.110350 per share for February 2014 to holders of record on February 28, 2014 with a payment date of March 20, 2014; and  \$0.110375 per share for March 2014 to holders of record on March 31, 2014 with a payment date of April 17, 2014.



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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.

Based on the November 2013 distribution of \$0.110275, this represents an annualized yield of approximately 11.6% based on our November 4, 2013 closing stock price of \$11.43 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 \$587.5 million under our credit facility, which is the maximum amount available under the credit facility, in addition to our other indebtedness of \$1.7 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)	0.04%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	2.04%

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

Management Fees(5)	3.74%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.83%
Total advisory fees	6.57%
Total interest expense(7)	4.02%
Acquired Fund Fees and Expenses(8)	0.01%
Other expenses(9)	1.39%
Total annual expenses(6)(9)	11.99%

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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 \$587.5 million available under our line of credit, in addition to our other indebtedness of \$1.7 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	\$ 110.18	\$ 278.63	\$ 433.34	\$ 767.18

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 September 30, 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 \$2.3 billion, the 2% management fee of gross assets equals approximately 3.74% of net assets. Based on our borrowings as of September 30, 2013 of \$1.7 billion, the 2% management fee of gross assets equals approximately 3.34% 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 fiscal quarter ended September 30, 2013, all of which consisted of an income incentive fee. The capital gain incentive

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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)

On December 21, 2010, the Company issued \$150.0 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the "2015 Notes." On February 18, 2011, the Company issued \$172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the "2016 Notes." Between January 30, 2012 and February 2, 2012, we repurchased \$5.0 million of our 2016 Notes at a price of 97.5% of par, including commissions. The transactions resulted in us recognizing \$10,000 of loss in the quarter ended March 31, 2012. On April 16, 2012, the Company issued \$130.0 million in aggregate principal amount of 5.375% Convertible Senior Notes due 2017, which we refer to as the "2017 Notes." On August 14, 2012, the Company issued \$200.0 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018, which we refer to as the "2018 Notes." On December 21, 2012, the Company issued \$200.0 million aggregate principal amount of 5.875% Convertible Senior Notes due 2019, which we refer to as the "2019 Notes." The 2015 Notes, 2016 Notes, 2017 Notes, 2018 Notes and 2019 Notes are referred to collectively as the "Senior Convertible Notes." On May 1, 2012 the Company issued \$100.0 million in aggregate principal amount of 6.95% Senior Notes due 2022, which we refer to as the "2022 Notes." On March 15, 2013 the Company issued \$250.0 million in aggregate principal amount of 5.875% Senior Notes due 2023, which we refer to as the "2023 Notes." We may refer to the 2022 Notes and the 2023 Notes collectively as the "Senior Unsecured Notes." As of November 4, 2013, the Company has issued \$518.8 million in aggregate principal amount of our Prospect Capital InterNotes®. In addition, we sold \$8.2 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$8.0 million with expected closing on November 7, 2013. The Senior Convertible Notes, the Senior Unsecured Notes and the Prospect Capital InterNotes® are referred to collectively as the "Notes." See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this prospectus supplement and "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the Notes.

(8)

The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of September 30, 2013. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's net assets used in calculating this percentage was based on net assets of approximately \$2.9 billion as of September 30, 2013.

(9)

"Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents expenses during our quarter ended September 30, 2013 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement" in the accompanying prospectus.



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You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2013, 2012, 2011, 2010 and 2009 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months ended September 30, 2013 and 2012 has been derived from unaudited financial data. Interim results for the three months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending June 30, 2014. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-11 for more information.

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

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Amount owed to related parties							
Other liabilities	145,788	181,209	102,031	70,571	20,342	11,671	2,916
<b>Total liabilities</b>	<b>1,873,816</b>	<b>1,029,271</b>	<b>1,791,723</b>	<b>743,280</b>	<b>434,960</b>	<b>121,271</b>	<b>134,429</b>
Net assets	\$ 2,909,755	\$ 1,883,326	\$ 2,656,494	\$ 1,511,974	\$ 1,114,357	\$ 711,424	\$ 532,596

**Investment Activity Data:**

No. of portfolio companies at period end	129	96	124	85	72	58	30
Acquisitions	\$ 556,843	\$ 747,937	\$ 3,103,217	\$ 1,120,659	\$ 953,337	\$ 364,788(2)	\$ 98,305
Sales, repayments, and other disposals	\$ 164,167	\$ 158,123	\$ 931,534	\$ 500,952	\$ 285,562	\$ 136,221	\$ 27,007
Total return based on market value(3)	6.49%	3.82%	6.2%	27.2%	17.2%	17.7%	(18.6)%
Total return based on net asset value(3)	2.96%	3.12%	10.9%	18.0%	12.5%	(6.8)%	(0.6)%
Weighted average yield at end of period(4)	12.5%	13.3%	13.6%	13.9%	12.8%	16.2%	14.6%

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

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**RISK FACTORS**

*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 September 30, 2013 and our NAV when calculated effective December 31, 2013 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 September 30, 2013 in connection with our dividend reinvestment plan and our issuance of 12,652,811 shares of common stock during the period from October 1, 2013 to November 4, 2013 under our ATM Program, \$0.02 higher than the \$10.72 determined by us as of September 30, 2013. NAV per share as of December 31, 2013, 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 September 30, 2013. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, our Investment Adviser, our Administrator and the Audit Committee of our Board of Directors.

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

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

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

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

**Overview**

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

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

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

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

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

**Control Investments in Financial Companies** This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, subprime auto lending and other strategies. Our investments in these companies are generally structured as a combination of yield-producing debt

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and equity. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 10%-15% of our business.

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

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

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

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

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

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

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

**First Quarter Highlights**

*Investment Transactions*

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

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

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

On July 23, 2013, we made a \$2,000 investment in Carolina Beverage Group, LLC ("Carolina Beverage"), a contract beverage manufacturer. The senior secured note bears interest in cash at 10.5% and has a final maturity of July 23, 2018. On July 24, 2013, we sold our \$2,000 investment in Carolina Beverage and realized a gain of \$45 on this investment.

On July 26, 2013, we made a \$2,000 follow-on senior secured debt investment in Spartan Energy Services, Inc., a provider of thru tubing and flow control services to oil and gas companies. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

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

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

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

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

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

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

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

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to CP Well Testing Holding Company LLC bears interest in cash at the greater of 11.0% or Libor plus 9.0% and has a final maturity of August 2, 2018.

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

On August 15, 2013, we made a \$14,000 follow-on investment in Totes Isotoner Corporation, a designer, distributor and retailer of high quality, branded functional accessories. The second lien term loan bears interest in cash at the greater of 10.75% or Libor plus 9.25% and has a final maturity of January 8, 2018.

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

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

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

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

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

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

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

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

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

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

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

*Equity Issuance*

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

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

*Dividend*

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

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

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

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

*Credit Facility*

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

*Debt Issuance*

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

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



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

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

During the three months ended September 30, 2013, we originated \$556,843 of new investments, primarily composed of \$312,944 of secured lending to non-control investments, \$144,912 of debt and equity financing to controlled investments, and \$98,987 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close select junior debt and equity investments. Our annualized current yield was 13.6% and 12.5% as of June 30, 2013 and September 30, 2013, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily the result of senior secured loan refinancing activity that took place in the leveraged loan market and within our CLO portfolios during the first half of calendar year 2013. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

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

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

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

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

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

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

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

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

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

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

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

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

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**Portfolio Investment Activity**

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

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

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Through September 30, 2013, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as cash distributions were received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the three months ended September 30, 2013, Energy Solutions repaid \$4,250 of senior and subordinated secured debt. We received \$2,409 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the three months ended September 30, 2013. During the three months ended September 30, 2012, we received distributions of \$33,250 from Energy Solutions which were recorded as dividend income. No such dividends were received during the three months ended September 30, 2013. Energy Solutions continues to hold \$7,118 of cash for future investment and repayment of the remaining debt.

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

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

Quarter-End	Acquisitions(1)	Dispositions(2)
September 30, 2013	\$ 556,843	\$ 164,167
June 30, 2013	798,760	321,615
March 31, 2013	784,395	102,527
December 31, 2012	772,125	349,269
September 30, 2012	747,937	158,123
June 30, 2012	573,314	146,292
March 31, 2012	170,073	188,399
December 31, 2011	154,697	120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	\$ 6,909,373	\$ 2,253,378

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

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

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

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**Investment Valuation**

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

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

In determining the range of value for our investments in CLOs, management and the independent valuation firms used dynamic discounted cash flow models, where the projected future cash flow was estimated using Monte Carlo simulation techniques in accordance with the requirements of ASC 820. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. A discounted cash flow model is prepared, utilizing a waterfall engine to store the collateral data, generate numerous collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates to the various cash flows along each simulation path.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analyses, applied to each investment, was a total valuation of \$4,553,136, excluding money market investments.

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

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

*AIRMALL USA, Inc.*

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

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



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In September 2013, AIRMALL distributed \$7,000 of earnings to us which was recorded as dividend income during the quarter ended September 30, 2013. As a result of the distribution of earnings, our Board of Directors decreased the fair value of our investment in AIRMALL to \$51,411 as of September 30, 2013, a premium of \$391 from its amortized cost, compared to the \$3,478 unrealized appreciation recorded at June 30, 2013.

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

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

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

On April 1, 2013, we refinanced our existing \$38,472 senior loans to Ajax, increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans that were previously outstanding. As of September 30, 2013, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was \$19,636 and our subordinated debt was \$20,008 as of September 30, 2013.

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

#### *APH Property Holdings, LLC*

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

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

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

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

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

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

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

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Through September 30, 2013, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as cash distributions were received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the three months ended September 30, 2013, Energy Solutions repaid \$4,250 of senior and subordinated secured debt. We received \$2,409 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the three months ended September 30, 2013. During the three months ended September 30, 2012, we received distributions of \$33,250 from Energy Solutions which were recorded as dividend income. No such dividends were received during the three months ended September 30, 2013. Energy Solutions continues to hold \$7,118 of cash for future investment and repayment of the remaining debt.

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

*First Tower Holdings of Delaware, LLC*

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

On June 15, 2012, we acquired 80.1% of First Tower, LLC ("First Tower") businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower

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acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. During the three months ended June 30, 2012, we received \$8,075 in structuring fee income. During the three months ended December 31, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. As of August 31, 2013, First Tower had total assets of approximately \$635,483 including \$405,742 of finance receivables net of unearned charges. As of June 30, 2013, First Tower's total debt outstanding to parties senior to us was \$264,760.

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

*Manx Energy, Inc.*

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

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

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

*The Healing Staff, Inc.*

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

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

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

*Wolf Energy Holdings, Inc.*

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

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

Our Board of Directors set the fair value of our investment in Wolf at \$5,256 as of September 30, 2013, a reduction of \$2,785 from its amortized cost, compared to the \$3,091 unrealized depreciation recorded at June 30, 2013.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Three of our portfolio companies, Ajax, First Tower Delaware, and Valley Electric experienced such volatility and experienced fluctuations in valuation during the three months ended September 30, 2013. The value of Ajax decreased to \$28,084 as of September 30, 2013, a discount of \$17,617 to its cost, compared to the \$6,057 unrealized loss recorded at June 30, 2013 due to a decline in operating results. The value of our equity position in

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

We hold three affiliate investments at September 30, 2013. One of our affiliate portfolio companies, Boxercraft, experienced a meaningful decrease in valuation during the three months ended September 30, 2013 due to declining operating results. As of September 30, 2013, Boxercraft is valued at \$5,518, a reduction of \$11,527 to its amortized cost. Overall, at September 30, 2013, affiliate investments are valued \$11,899 below their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. As of September 30, 2013, three of our Non-control/Non-affiliate investments, Gulf Coast Machine & Supply Company ("Gulf Coast"), Stryker Energy, LLC ("Stryker") and Wind River Resources Corporation ("Wind River"), are valued at a discount to amortized cost, due to a decline in the operating results of the operating companies from those originally underwritten. Overall, at September 30, 2013, other Non-control/Non-affiliate investments are valued at \$21,250 above their amortized cost, excluding our investments in Gulf Coast, Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

**Capitalization**

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012 and December 2012, Senior Unsecured Notes, and Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® amounts and outstanding borrowings at September 30, 2013 and June 30, 2013:

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

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

	Total	Payments Due by Period				After 5 Years
		Less than 1 year	1 3 Years	3 5 Years		
Revolving Credit Facility	\$ 69,000	\$	\$	\$ 69,000	\$	
Senior Convertible Notes	847,500		317,500	330,000		200,000
Senior Unsecured Notes	347,762					347,762
Prospect Capital InterNotes®	461,977			51,537		410,440
<b>Total contractual obligations</b>	<b>\$ 1,726,239</b>	<b>\$</b>	<b>\$ 317,500</b>	<b>\$ 450,537</b>	<b>\$</b>	<b>958,202</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 \$3,000,000 less issuances to date. As of September 30, 2013, we can issue up to \$1,406,927 of additional debt and equity securities in the public market under this shelf registration. On October 15, 2013, we were declared effective on a new shelf and at that time could issue an additional \$5,000,000 of debt and equity securities. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

*Revolving Credit Facility*

On March 27, 2012, we closed on an expanded five-year \$650,000 revolving credit facility with a syndicate of lenders through PCF (the "2012 Facility"). The lenders have extended commitments of \$567,500 under the 2012 Facility as of September 30, 2013; which was increased to \$587,500 in October 2013 (see *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At September 30, 2013, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of September 30, 2013 and June 30, 2013, we had \$498,675 and \$473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was \$69,000 and \$124,000, respectively. As additional investments that are eligible are transferred to PCF and pledged

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

In connection with the origination and amendments of the 2012 Facility, we incurred \$11,399 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$5,966 remains to be amortized.

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

*Senior Convertible Notes*

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

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds after underwriting expenses of approximately \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012. Interest on the remaining \$167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2013 of 78.3699 and 78.5395 shares of common stock, respectively, per \$1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.76 and \$12.73 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at September 30, 2013 was calculated on the last anniversary of the issuance (February 14, 2013) and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101150 per share.

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

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

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

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

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

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate increasing the conversion rate beyond what it would have been in the absence of such transaction unless we have engaged in a reverse stock split or share combination



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

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

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

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

In connection with the issuance of the Senior Convertible Notes, we incurred \$27,030 of fees which are being amortized over the terms of the notes, of which \$19,149 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2013.

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

*Senior Unsecured Notes*

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

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

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

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

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

*Prospect Capital InterNotes®*

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

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

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

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

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

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

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

Table of Contents**Net Asset Value**

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

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

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

**Results of Operations**

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

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

While we seek to maximize gains and minimize losses, our investments in portfolio companies can expose our capital to risks greater than those we may anticipate. These companies are typically not

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issuing securities rated investment grade, have limited resources, have limited operating history, have concentrated product lines or customers, are generally private companies with limited operating information available and are likely to depend on a small core of management talents. Changes in any of these factors can have a significant impact on the value of the portfolio company.

**Investment Income**

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$161,034 and \$123,636 for the three months ended September 30, 2013 and September 30, 2012, respectively. During the three months ended September 30, 2013, the increase in investment income is primarily the result of a larger income producing portfolio.

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

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

Average interest income producing assets have increased from \$2,144,554 for the three months ended September 30, 2012 to \$4,179,192 for the three months ended September 30, 2013. The average yield on interest bearing assets decreased from 14.24% for the three months ended September 30, 2012 to 12.96% for the three months ended September 30, 2013. The decrease in our current yield is primarily the result of senior secured loan refinancing activity that took place in the leveraged loan market and within our CLO portfolios during the first half of calendar year 2013, and to a lesser extent, originations at lower rates than our average portfolio yield.

Investment income is also generated from dividends and other income. Dividend income decreased from \$36,208 for the three months ended September 30, 2012 to \$7,089 for the three months ended September 30, 2013. The decrease in dividend income is primarily attributed to a decrease in the level of dividends received from our investment in Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, we received dividends from Energy Solutions of

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

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

**Operating Expenses**

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

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

During the three months ended September 30, 2013 and September 30, 2012, we incurred \$27,407 and \$13,511, respectively, of expenses related to our 2012 Facility, Prospect Capital InterNotes®, Senior Unsecured Notes and Senior Convertible Notes. These expenses are related directly to the leveraging capacity put into place for each of those years and the levels of indebtedness actually undertaken in those years. The table below describes the various expenses of our 2012 Facility, Prospect Capital

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InterNotes®, Senior Unsecured Notes and Senior Convertible Notes and the related indicators of leveraging capacity and indebtedness during these periods.

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

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

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

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

**Net Investment Income**

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

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

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

Net increase in net assets from changes in unrealized depreciation was \$6,226 and \$28,553 for the three months ended September 30, 2013 and September 30, 2012, respectively. The variability in results is primarily due to the valuation of equity positions in our portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the three months ended September 30, 2013, the \$6,226 decrease was driven by significant write-downs of our equity investments in Airmall, Ajax, Boxercraft and Valley Electric. We also recognized a decline in value for our investment in Gulf Coast due to a decrease in the company's operating results. These instances of unrealized depreciation were partially offset by unrealized appreciation in First Tower and our CLO equity investments.

**Financial Condition, Liquidity and Capital Resources**

For the three months ended September 30, 2013 and September 30, 2012, our operating activities used \$245,448 and \$491,413 of cash, respectively. There were no investing activities for the three months ended September 30, 2013 and September 30, 2012. Financing activities provided \$195,873 and \$490,975 of cash during the three months ended September 30, 2013 and September 30, 2012, respectively, which included the payments of dividends of \$80,064 and \$43,932, during the three months ended September 30, 2013 and September 30, 2012, respectively.

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

Our primary sources of funds have been issuances of debt and equity. We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the three months ended September 30, 2013, we borrowed \$96,000 and made repayments totaling \$151,000 under our revolving credit facility. As of September 30, 2013, we had \$69,000 outstanding on our revolving credit facility, \$847,500 outstanding on our Senior Convertible Notes, Senior Unsecured Notes with a carrying value of \$347,762 and \$461,977 outstanding on our Prospect Capital InterNotes®. (See *Capitalization*.)

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

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

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

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

On May 8, 2013, we entered into an ATM Program with BB&T Capital Markets, BMO Capital Markets, and KeyBanc Capital Markets through which we could sell, by means of at-the-market offerings from time to time, of up to 45,000,000 shares of our common stock. During the period from July 5, 2013 to August 21, 2013, we sold 9,818,907 shares of our common stock at an average price of \$10.97 per share, and raised \$107,725 of gross proceeds, under the ATM Program. Net proceeds were \$106,823 after commissions to BB&T Capital Markets, BMO Capital Markets, and KeyBanc Capital Markets on shares sold.

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

**Off-Balance Sheet Arrangements**

At September 30, 2013, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

**Recent Developments**

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

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

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

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

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

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

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



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On October 15, 2013, we made a secured debt investment of \$2,000 in Digital Insight, a leading provider of digital banking software to financial institutions in the U.S. which allows financial institutions to offer a comprehensive, user friendly platform of products and services through the online and mobile channels. On the same day, we fully exited the deal and realized a gain of \$20 on this investment.

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

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

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

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

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

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

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

On October 30, 2013, we made a secured debt investment of \$6,000 in The Petroleum Place, Inc. ("P2"), a provider of enterprise resource planning software focused on the oil & gas industry. On November 4, 2013, we fully exited the investment and realized a gain of \$60 on the investment.

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

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

On November 1, 2013, we made a \$9,869 follow-on investment in APH, to acquire Bexley Apartment Houses, a multi-family residential property located in Marietta, Georgia. We invested \$1,669 of equity and \$8,200 of debt in APH.

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

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

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

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

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

On November 5, 2013, we made a \$2,000 follow-on investment in APH.

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**Critical Accounting Policies and Estimates**

*Basis of Presentation*

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

*Reclassifications*

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompany notes to conform to the presentation as of and for the three months ended September 30, 2013.

*Use of Estimates*

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

*Basis of Consolidation*

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

*Investment Classification*

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

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

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*Investment Risks*

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

*Market Risk*

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

*Credit Risk*

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

*Liquidity Risk*

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

*Interest Rate Risk*

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

*Prepayment Risk*

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

*Investment Valuation*

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

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

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

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

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

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

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

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

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

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

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

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

*Valuation of Other Financial Assets and Financial Liabilities*

ASC Subtopic 825-10-25, *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 825-10-25"), permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible assets and liabilities for which the assets and liabilities are measured using another

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measurement attribute. We have elected not to value some assets and liabilities at fair value as would be permitted by ASC 825-10-25.

*Senior Convertible Notes*

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

*Revenue Recognition*

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

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

Interest income from investments in the "equity" class of security of CLO Funds (typically income notes or subordinated notes) is recorded based upon an estimation of an effective yield to expected maturity utilizing assumed cash flows in accordance with ASC 325-40-35, *Beneficial Interests in Securitized Financial Assets*. We monitor the expected cash inflows from our CLO equity investments, including the expected residual payments, and the effective yield is determined and updated periodically.

Dividend income is recorded on the ex-dividend date.

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

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of September 30, 2013, approximately 0.5% of our net assets are in non-accrual status.

*Federal and State Income Taxes*

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

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dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

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

We follow ASC 740, *Income Taxes* ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of September 30, 2013 and for the three months then ended, we did not have a liability for any unrecognized tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

*Dividends and Distributions*

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

*Financing Costs*

We record origination expenses related to our credit facility and Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® (collectively, our "Senior Notes"), as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the

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straight-line method for our revolving credit facility and the effective interest method for our Senior Notes, over the respective expected life or maturity.

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

*Guarantees and Indemnification Agreements*

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

*Per Share Information*

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

*Recent Accounting Pronouncements*

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

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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended September 30, 2013, we did not engage in hedging activities.

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**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 \$11.43 per share for our common stock on the NASDAQ Global Select Market as of November 4, 2013, we estimate that the net proceeds of this offering will be approximately \$565.5 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 November 4, 2013, we had no borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately \$532.0 million was available to us for borrowing under our credit facility. 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.

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**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 \$11.43 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on November 4, 2013) 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 \$11.43, 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 September 30, 2013:

on an actual basis;

on an as adjusted basis giving effect to the issuance of 135,212 shares in connection with our dividend reinvestment plan since September 30, 2013 and our issuance of 12,652,811 shares of common stock during the period from October 1, 2013 to November 4, 2013 under our ATM Program, the issuance of \$64.9 million aggregate principal amount of Prospect Capital InterNotes® since September 30, 2013 (including notes to be settled through November 7, 2013) and the repayment of \$69.0 million under our credit facility; 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 \$11.43 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on November 4, 2013) 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.

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	As of September 30, 2013		
	As Adjusted for Stock Issuances and Borrowings		
	Actual	After September 30, 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)	\$ 69,000	\$	\$
Senior Convertible Notes	847,500	847,500	847,500
Senior Unsecured Notes	347,762	347,762	347,762
Prospect Capital InterNotes®	461,977	526,906	526,906
Amount owed to affiliates	1,789	1,789	1,789
<b>Total long-term debt</b>	<b>1,728,028</b>	<b>1,723,957</b>	<b>1,723,957</b>
Stockholders' equity:			
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 271,404,289 shares outstanding actual, 284,192,312 shares outstanding as adjusted and 334,192,312 shares outstanding as further adjusted)	271	284	334
Paid-in capital in excess of par value	2,999,878	3,141,830	3,707,315
Net investment income in excess of distributions	72,745	72,745	72,745
Accumulated realized losses on investments	(73,987)	(73,987)	(73,987)
Net unrealized appreciation on investments	(89,152)	(89,152)	(89,152)
<b>Total stockholders' equity</b>	<b>2,909,755</b>	<b>3,051,720</b>	<b>3,617,255</b>
<b>Total capitalization</b>	<b>4,637,783</b>	<b>4,775,677</b>	<b>5,341,212</b>

(1)

As of November 5, 2013, 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 and 2012 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. We are currently seeking stockholder approval at our 2013 annual meeting, to be held on December 6, 2013, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering. 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 September 30, 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 September 30, 2013, unaudited)	\$ 69,000	\$ 67,188		
Fiscal 2013 (as of June 30, 2013)	124,000	34,996		
Fiscal 2012 (as of June 30, 2012)	96,000	22,668		
Fiscal 2011 (as of June 30, 2011)	84,200	18,065		
Fiscal 2010 (as of June 30, 2010)	100,300	8,093		
Fiscal 2009 (as of June 30, 2009)	124,800	5,268		
Fiscal 2008 (as of June 30, 2008)	91,167	5,712		
Fiscal 2007 (as of June 30, 2007)		N/A		
Fiscal 2006 (as of June 30, 2006)	28,500	4,799		
Fiscal 2005 (as of June 30, 2005)		N/A		
Fiscal 2004 (as of June 30, 2004)		N/A		

**2015 Notes**

Fiscal 2014 (as of September 30, 2013, unaudited)	\$ 150,000	\$ 30,907		
Fiscal 2013 (as of June 30, 2013)	150,000	28,930		
Fiscal 2012 (as of June 30, 2012)	150,000	14,507		
Fiscal 2011 (as of June 30, 2011)	150,000	10,140		

**2016 Notes**

Fiscal 2014 (as of September 30, 2013, unaudited)	\$ 167,500	\$ 27,678		
Fiscal 2013 (as of June 30, 2013)	167,500	25,907		
Fiscal 2012 (as of June 30, 2012)	167,500	12,992		
Fiscal 2011 (as of June 30, 2011)	172,500	8,818		

**2017 Notes**

Fiscal 2014 (as of September 30, 2013, unaudited)	\$ 130,000	\$ 35,661		
Fiscal 2013 (as of June 30, 2013)	130,000	33,381		
Fiscal 2012 (as of June 30, 2012)	130,000	16,739		

**2018 Notes**

Fiscal 2014 (as of September 30, 2013, unaudited)	\$ 200,000	\$ 23,180		
Fiscal 2013 (as of June 30, 2013)	200,000	21,697		

**2019 Notes**

Fiscal 2014 (as of September 30, 2013, unaudited)	\$ 200,000	\$ 23,180		
Fiscal 2013 (as of June 30, 2013)	200,000	21,697		

**2022 Notes**

Fiscal 2014 (as of September 30, 2013, unaudited)	\$ 100,000	\$ 46,360		
Fiscal 2013 (as of June 30, 2013)	100,000	43,395		
Fiscal 2012 (as of June 30, 2012)	100,000	21,761		

**2023 Notes**

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

**Prospect Capital InterNotes®**

Fiscal 2014 (as of September 30, 2013, unaudited)	\$	461,977	\$	10,035
Fiscal 2013 (as of June 30, 2013)		363,777		11,929
Fiscal 2012 (as of June 30, 2012)		20,638		105,442

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**All Senior Securities(5)**

Fiscal 2014 (as of September 30, 2013, unaudited)	\$	1,726,239	\$	2,686
Fiscal 2013 (as of June 30, 2013)		1,683,002		2,578
Fiscal 2012 (as of June 30, 2012)		664,138		3,277
Fiscal 2011 (as of June 30, 2011)		406,700		3,740

- (1) Total amount of each class of senior securities outstanding at the end of the period presented (in 000's).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) This column is inapplicable.
- (4) This column is inapplicable.
- (5) On February 16, 2012, we entered into the Selling Agent Agreement and began offering notes (the "Prospect Capital InterNotes® Program"). On March 4, 2013, we entered into a Second Amended and Restated Selling Agent Agreement which continued the Prospect Capital InterNotes® Program on substantially similar terms and provides for our issuance of floating rate notes in addition to fixed rate notes. On October 15, 2013, we entered into a Third Amended and Restated Selling Agent Agreement on substantially similar terms to provide for such issuances under our current shelf registration statement. Through November 4, 2013, we have sold \$518.8 million aggregate principal amount of notes. Amounts sold under the Prospect Capital InterNotes® Program after September 30, 2013 are not reflected in the table above.

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**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, \$4,500 for the undistributed ordinary income retained at December 31, 2012. Through September 30, 2013, we have accrued an additional \$3.0 million as we expect to again retain undistributed ordinary income 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.



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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, 2009</b>						
First quarter	\$ 14.63	\$ 14.24	\$ 11.12	(2.7)%	(24.0)%	\$ 0.4025
Second quarter	14.43	13.08	6.29	(9.4)%	(56.4)%	0.40375
Third quarter	14.19	12.89	6.38	(9.2)%	(55.0)%	0.405
Fourth quarter	12.40	10.48	7.95	(15.5)%	(35.9)%	0.40625
<b>Twelve Months Ending June 30, 2010</b>						
First quarter	\$ 11.11	\$ 10.99	\$ 8.82	(1.1)%	(20.6)%	\$ 0.4075
Second quarter	10.10	12.31	9.93	21.9%	(1.7)%	0.40875
Third quarter	10.12	13.20	10.45	30.4%	3.3%	0.410
Fourth quarter	10.30	12.20	9.65	18.4%	(6.3)%	0.10
<b>Twelve Months Ending June 30, 2011</b>						
First quarter	\$ 10.24	\$ 10.00	\$ 9.18	(2.3)%	(10.4)%	\$ 0.301375
Second quarter	10.25	10.86	9.69	6.0%	(5.5)%	0.302625
Third quarter	10.33	12.33	10.72	19.4%	3.8%	0.303450
Fourth quarter	10.36	12.18	9.95	17.6%	(4.0)%	0.303675
<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(5)
Second quarter (through November 4, 2013)	\$ (3)(4)	\$ 11.47	\$ 10.80	(4)	(4)	\$ 0.330825(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)

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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 September 30, 2013 in connection with our dividend reinvestment plan and our issuance of 12,652,811 shares of common stock during the period from October 1, 2013 to November 4, 2013 under our ATM Program, \$0.02 higher than the \$10.72 determined by us as of September 30, 2013. NAV per share as of December 31, 2013, 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 September 30, 2013.

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(5)

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

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

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

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

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

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

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

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

On November 4, 2013, the last reported sales price of our common stock was \$11.43 per share.

As of November 4, 2013, we had approximately 140 stockholders of record.

The below table sets forth each class of our outstanding securities as of November 4, 2013.

<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	284,192,312

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

At our 2012 annual meeting of stockholders held on December 7, 2012, 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 285.0 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



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produce dilution of 7.46%. If we subsequently determined that our NAV per share increased back to \$10.50 on the then 335.0 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 59.5 million shares of common stock at net proceeds to us of \$5.25 per share, which would produce dilution of 7.54%, 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 September 30, 2013, as adjusted to give effect to our issuances of our common stock since September 30, 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.

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The examples assume that the issuer has 285,000,000 common shares outstanding, \$4,960,900,000 in total assets and \$1,900,000,000 in total liabilities. The current NAV and NAV per share are thus \$3,060,900,000 and \$10.74. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 14,250,000 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 28,500,000 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 71,250,000 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 142,500,000 shares of common stock (50% of the outstanding shares of common stock) at \$0.00 per share after offering expenses and commissions (a 100% discount from NAV).

	Prior to Sale Below 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	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
<b>Offering Price</b>									
Price per Share to Public		\$ 10.76		\$ 10.19		\$ 8.48		\$	
Net Proceeds per Share to Issuer		\$ 10.20		\$ 9.67		\$ 8.06		\$	
<b>Decrease to NAV</b>									
Total Shares Outstanding	285,000,000	299,250,000	5.00%	313,500,000	10.00%	356,250,000	25.00%	356,250,000	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	285,000	285,000	0.00%	285,000	0.00%	285,000	0.00%	285,000	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	\$ 3,060,900	\$ 3,053,612	(0.24)%	\$ 3,033,074	(0.91)%	\$ 2,907,855	(5.00)%	\$ 2,448,720	(20.00)%
Total Investment by Stockholder A (Assumed to be \$10.74 per Share on Shares Held Prior to Sale)		\$ 3,060,900		\$ 3,060,900		\$ 3,060,900		\$ 3,060,900	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (7,288)		\$ (27,826)		\$ (153,045)		\$ (612,180)	
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

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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., 35,625 shares of common stock, which is 0.05% of an offering of 71,250,000 shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e., 106,875 shares of common stock, which is 0.15% of an offering of 71,250,000 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 Following Sale	% Change	150% Participation Following Sale	% Change
<b>Offering Price</b>					
Price per Share to Public		\$ 8.48		\$ 8.48	
Net Proceeds per Share to Issuer		\$ 8.06		\$ 8.06	
<b>Decrease to NAV</b>					
Total Shares Outstanding	285,000,000	356,250,000	25.00%	356,250,000	25.00%
NAV per Share	\$ 10.74	\$ 10.20	(5.00)%	\$ 10.20	(5.00)%
<b>Dilution to Nonparticipating Stockholder</b>					
Shares Held by Stockholder A	285,000	320,625	12.50%	391,875	37.50%
Percentage Held by Stockholder A	0.10%	0.09%	(10.00)%	0.11%	10.00%
Total NAV Held by Stockholder A	\$ 10.74	\$ 3,271,337	6.88%	\$ 3,998,301	30.63%
<b>Total Investment by Stockholder A (Assumed to be \$10.74 per Share on Shares Held Prior to Sale)</b>					
		\$ 3,363,120		\$ 3,967,581	
<b>Total Dilution to Stockholder A (Total NAV Less Total Investment)</b>					
		\$ (91,783)		\$ 30,740	
<b>NAV per Share Held by Stockholder A</b>					
		\$ 10.20		\$ 10.20	
<b>Investment per Share Held by Stockholder A (Assumed to be \$10.74 per Share on Shares Held Prior to Sale)</b>					
		\$ 10.49		\$ 10.12	
<b>Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)</b>					
		\$ (0.29)		\$ 0.08	
<b>Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)</b>					
			(2.73)%		0.77%

**Impact On New Investors**

Investors who are not currently stockholders and who participate in an offering below NAV but whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by the issuer will experience an immediate decrease, albeit small, in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share due to selling compensation and expenses paid by the issuer being significantly less than the discount per share will experience an immediate increase in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. These investors will



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experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors 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. 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 or accretion for new investors that would be experienced by a new investor in the same hypothetical 5%, 10% and 25% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (0.10%) of the shares of common stock in the offering as Stockholder A in the prior examples held immediately prior to the offering. 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.

		Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
<b>Offering Price</b>							
Price per Share to Public		\$ 10.76		\$ 10.19		\$ 8.48	
Net Proceeds per Share to Issuer		\$ 10.20		\$ 9.67		\$ 8.06	
<b>Decrease to NAV</b>							
Total Shares Outstanding	285,000,000	299,250,000	5.00%	313,500,000	10.00%	356,250,000	25.00%
NAV per Share	\$ 10.74	\$ 10.71	(0.24)%	\$ 10.64	(0.91)%	\$ 10.20	(5.00)%
<b>Dilution to Nonparticipating Stockholder</b>							
Shares Held by Stockholder A		14,250		28,500		71,250	
Percentage Held by Stockholder A	0.00%	0.00%		0.01%		0.02%	
Total NAV Held by Stockholder A	\$	\$ 152,681		\$ 303,307		\$ 726,964	
Total investment by Stockholder A		\$ 153,361		\$ 290,296		\$ 604,441	
<b>Total Dilution to Stockholder A (Total NAV Less Total investment)</b>							
NAV per Share Held by Stockholder A		\$ (680)		\$ 13,011		\$ 122,523	
NAV per Share Held by Stockholder A		\$ 10.71		\$ 10.64		\$ 10.20	
Investment per Share Held by Stockholder A		\$ 10.76		\$ 10.19		\$ 8.48	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.05)		\$ 0.45		\$ 1.72	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(0.44)%		4.48%		20.27%

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**PLAN OF DISTRIBUTION**

Upon written instructions from the Company, KeyBanc, Barclays, Goldman, Sachs & Co. and RBC, as applicable, will each use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, the common stock under the terms and subject to the conditions set forth in each Sales Manager's equity distribution agreement. We will instruct each Sales Manager as to the amount of common stock to be sold by such Sales Manager; provided, however, that, subject to the terms of the equity distribution agreements, any sales of common stock pursuant to the equity distribution agreements will only be effected by or through only one of KeyBanc, Barclays, Goldman, Sachs & Co. and RBC on any single given day, but in no event by more than one Sales Manager. We may instruct the Sales Managers not to sell common stock if the sales cannot be effected at or above the price designated by the Company in any instruction. We or the Sales Managers may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

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.

Each Sales Manager will provide written confirmation of a sale to us no later than the opening of the trading day on the NASDAQ Global Select Market following each trading day in which shares of our common stock are sold under the applicable equity distribution agreement. Each confirmation will include the number of shares of common stock sold on the preceding day, the net proceeds to us and the compensation payable by us to the applicable Sales Manager in connection with the sales.

Each Sales Manager 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 it as Sales Manager under the applicable equity distribution agreement. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Managers under the terms of the equity distribution agreements, will be approximately \$250,000. This estimate includes the reimbursement by the Company of the reasonable fees and expenses of each Sales Manager and its counsel in connection with the transactions contemplated by the equity distribution agreements, provided that such fees and expenses will not exceed an aggregate amount of \$15,000 on a quarterly basis.

Settlement for sales of shares of common stock will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by the Company and the applicable Sales Manager in connection with a particular transaction, in return for payment of the net proceeds to the Company. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

In connection with the sale of the common stock on our behalf, each Sales Manager may be deemed to be an "underwriter" within the meaning of the 1933 Act, and the compensation of such Sales Manager may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to each Sales Manager against certain civil liabilities, including liabilities under the 1933 Act.

The offering of our shares of common stock pursuant to the equity distribution agreements will terminate upon the earlier of (i) the sale of all common stock subject to the equity distribution agreements or (ii) the termination of the equity distribution agreements. Each equity distribution agreement may be terminated by the Company in our sole discretion under the circumstances specified in such equity distribution agreement by giving notice to the applicable Sales Manager. In addition,

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each Sales Manager may terminate such equity distribution agreement to which it is a party under the circumstances specified in such equity distribution agreement by giving notice to the Company.

The Sales Managers and their respective affiliates may perform commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The Sales Managers and their respective affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business.

The principal business address of KeyBanc Capital Markets Inc. is 127 Public Square, 4th Floor, Cleveland, OH 44114; the principal business address of Barclays Capital Inc. is 745 Seventh Avenue, New York, New York 10019; the principal business address of Goldman, Sachs & Co. is 200 West Street, New York, New York 10282; the principal business address of RBC Capital Markets, LLC is Three World Financial Center, 200 Vesey Street, 8th Floor, New York, New York 10281.

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**LEGAL MATTERS**

Certain legal matters regarding the common stock offered hereby will be passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden, Arps"), New York, New York, and Venable LLP, as special Maryland counsel, Baltimore, Maryland. Troutman Sanders LLP will pass on certain matters for the Sales Managers. Skadden, Arps and Venable LLP each have from time to time acted as counsel for us and our subsidiaries and may do so in the future.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**AVAILABLE INFORMATION**

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

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

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

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

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

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

<b>Net Assets</b>	\$	2,909,755	\$	2,656,494
<b>Net Asset Value Per Share (Note 14)</b>	\$	10.72	\$	10.72

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****For The Three Months Ended September 30, 2013 and 2012****(in thousands, except share and per share data)****(Unaudited)**

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



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

See notes to consolidated financial statements.

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

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

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

**(Unaudited)**

**For The Three Months  
Ended September 30,**

**2013                      2012**

**Increase in Net Assets from Operations:**

Net investment income	\$	
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