

PROSPECT CAPITAL CORP  
Form 10-Q  
May 06, 2014  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 814-00659

PROSPECT CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland 43-2048643

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

10 East 40th Street  
44th Floor  
New York, New York 10016

(Address of principal executive offices) (Zip Code)

(212) 448-0702

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
 Yes  No

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of May 5, 2014 was 342,399,896.

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PROSPECT CAPITAL CORPORATION  
 FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014  
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## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

March 31, 2014 and June 30, 2013

(in thousands, except share and per share data)

|   | March 31,<br>2014<br>(Unaudited) | June 30,<br>2013<br>(Audited) |
|---|----------------------------------|-------------------------------|
| Assets  |                                  |                               |
| Investments at fair value:  |                                  |                               |
| Control investments (amortized cost of \$1,655,363 and \$830,151, respectively)   | \$1,559,214                      | \$811,634                     |
| Affiliate investments (amortized cost of \$31,979 and \$49,189, respectively)   | 31,799                           | 42,443                        |
| Non-control/non-affiliate investments (amortized cost of \$4,424,017 and \$3,376,438, respectively)   | 4,415,190                        | 3,318,775                     |
| Total investments at fair value (amortized cost of \$6,111,359 and \$4,255,778, respectively)   | 6,006,203                        | 4,172,852                     |
| Cash and cash equivalents   | 274,968                          | 203,236                       |
| Receivables for:  |                                  |                               |
| Interest, net   | 21,092                           | 22,863                        |
| Other   | 2,964                            | 4,397                         |
| Prepaid expenses  | 693                              | 540                           |
| Deferred financing costs  | 46,942                           | 44,329                        |
| Total Assets  | 6,352,862                        | 4,448,217                     |
| Liabilities   |                                  |                               |
| Revolving Credit Facility (Notes 4 and 8)   | 729,000                          | 124,000                       |
| Senior Convertible Notes (Notes 5 and 8)  | 847,500                          | 847,500                       |
| Senior Unsecured Notes (Notes 6 and 8)  | 347,858                          | 347,725                       |
| Prospect Capital InterNotes® (Notes 7 and 8)  | 767,644                          | 363,777                       |
| Due to broker   | —                                | 43,588                        |
| Dividends payable   | 36,810                           | 27,299                        |
| Due to Prospect Administration (Note 12)  | 1,875                            | 1,366                         |
| Due to Prospect Capital Management (Note 12)  | 26,736                           | 5,324                         |
| Accrued expenses  | 3,636                            | 2,345                         |
| Interest payable  | 22,772                           | 24,384                        |
| Other liabilities   | 7,655                            | 4,415                         |
| Total Liabilities   | 2,791,486                        | 1,791,723                     |
| Net Assets  | \$3,561,376                      | \$2,656,494                   |
| Components of Net Assets  |                                  |                               |
| Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 333,499,861 and 247,836,965 issued and outstanding, respectively) (Note 9) | \$333                            | \$248                         |
| Paid-in capital in excess of par (Note 9)   | 3,687,173                        | 2,739,864                     |
| Undistributed net investment income   | 60,284                           | 77,084                        |
| Accumulated realized losses on investments  | (81,258 )                        | (77,776 )                     |
| Unrealized depreciation on investments  | (105,156 )                       | (82,926 )                     |
| Net Assets  | \$3,561,376                      | \$2,656,494                   |

|                                     |         |         |
|-------------------------------------|---------|---------|
| Net Asset Value Per Share (Note 15) | \$10.68 | \$10.72 |
|-------------------------------------|---------|---------|

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended March 31, 2014 and 2013

(in thousands, except share and per share data)

(Unaudited)

|   | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |            |
|---|---------------------------------|-----------|--------------------------------|------------|
|   | 2014                            | 2013      | 2014                           | 2013       |
| Investment Income   |                                 |           |                                |            |
| Interest income:  |                                 |           |                                |            |
| Control investments   | \$ 38,129                       | \$ 26,598 | \$ 107,848                     | \$ 77,756  |
| Affiliate investments   | 727                             | 1,599     | 3,622                          | 4,944      |
| Non-control/non-affiliate investments                         | 85,811                          | 58,187    | 243,343                        | 161,727    |
| CLO fund securities   | 31,709                          | 23,228    | 87,087                         | 60,361     |
| Total interest income   | 156,376                         | 109,612   | 441,900                        | 304,788    |
| Dividend income:  |                                 |           |                                |            |
| Control investments   | 7,575                           | 75        | 23,527                         | 65,042     |
| Non-control/non-affiliate investments                         | —                               | —         | 12                             | 3,185      |
| Money market funds  | 15                              | 8         | 32                             | 19         |
| Total dividend income   | 7,590                           | 83        | 23,571                         | 68,246     |
| Other income: (Note 10)                                       |                                 |           |                                |            |
| Control investments   | 12,431                          | 2,656     | 39,580                         | 7,753      |
| Affiliate investments   | 5                               | 5         | 12                             | 618        |
| Non-control/non-affiliate investments                         | 13,925                          | 7,839     | 24,388                         | 28,461     |
| Total other income  | 26,361                          | 10,500    | 63,980                         | 36,832     |
| Total Investment Income                                       | 190,327                         | 120,195   | 529,451                        | 409,866    |
| Operating Expenses  |                                 |           |                                |            |
| Investment advisory fees:                                     |                                 |           |                                |            |
| Base management fee (Note 12)                                 | 28,709                          | 18,966    | 76,829                         | 48,500     |
| Income incentive fee (Note 12)                                | 24,631                          | 14,896    | 68,269                         | 58,207     |
| Total investment advisory fees                                | 53,340                          | 33,862    | 145,098                        | 106,707    |
| Interest and credit facility expenses                         | 31,747                          | 20,854    | 88,410                         | 50,779     |
| Legal fees  | 306                             | 395       | 483                            | 1,652      |
| Valuation services  | 490                             | 420       | 1,378                          | 1,167      |
| Audit, compliance and tax related fees                        | 336                             | 200       | 1,704                          | 1,010      |
| Allocation of overhead from Prospect Administration (Note 12) | 3,986                           | 2,957     | 11,958                         | 7,280      |
| Insurance expense   | 90                              | 88        | 273                            | 259        |
| Directors' fees   | 81                              | 75        | 231                            | 225        |
| Excise tax  | 1,000                           | 1,000     | 3,000                          | 5,500      |
| Other general and administrative expenses                     | 428                             | 759       | 3,841                          | 2,459      |
| Total Operating Expenses                                      | 91,804                          | 60,610    | 256,376                        | 177,038    |
| Net Investment Income   | 98,523                          | 59,585    | 273,075                        | 232,828    |
| Net realized loss on investments (Note 3)                     | (1,600                          | ) (6,014  | ) (3,482                       | ) (12,362  |
| Net change in unrealized depreciation on investments (Note 3) | (14,822                         | ) (9,142  | ) (22,230                      | ) (82,299  |
| Net Increase in Net Assets Resulting from Operations          | \$ 82,101                       | \$ 44,429 | \$ 247,363                     | \$ 138,167 |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Net increase in net assets resulting from operations per share | \$0.26   | \$0.20   | \$0.86   | \$0.71   |
| Dividends declared per share                                   | \$(0.33) | \$(0.33) | \$(0.99) | \$(0.95) |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the Nine Months Ended March 31, 2014 and 2013

(in thousands, except share data)

(Unaudited)

|   | Nine Months Ended March 31, |             |
|---|-----------------------------|-------------|
|   | 2014                        | 2013        |
| Operations  |                             |             |
| Net investment income   | \$273,075                   | \$232,828   |
| Net realized loss on investments                                    | (3,482 )                    | (12,362 )   |
| Net change in unrealized depreciation on investments                | (22,230 )                   | (82,299 )   |
| Net Increase in Net Assets Resulting from Operations                | 247,363                     | 138,167     |
| Dividends to Shareholders   |                             |             |
| Distribution of net investment income                               | (289,875 )                  | (190,308 )  |
| Distribution of return of capital                                   | —                           | —           |
| Net Decrease in Net Assets Resulting from Dividends to Shareholders | (289,875 )                  | (190,308 )  |
| Common Stock Transactions   |                             |             |
| Issuance of common stock, net of underwriting costs                 | 890,331                     | 1,025,937   |
| Less: Offering costs from issuance of common stock                  | (1,187 )                    | (1,570 )    |
| Value of shares issued to acquire controlled investments            | 45,914                      | 59,251      |
| Value of shares issued through reinvestment of dividends            | 12,336                      | 12,137      |
| Net Increase in Net Assets Resulting from Common Stock Transactions | 947,394                     | 1,095,755   |
| Total Increase in Net Assets  | 904,882                     | 1,043,614   |
| Net assets at beginning of period                                   | 2,656,494                   | 1,511,974   |
| Net Assets at End of Period   | \$3,561,376                 | \$2,555,588 |
| Common Stock Activity   |                             |             |
| Shares sold   | 80,343,264                  | 92,408,899  |
| Shares issued to acquire controlled investments                     | 4,224,636                   | 5,507,381   |
| Shares issued through reinvestment of dividends                     | 1,094,996                   | 1,077,887   |
| Total shares issued due to common stock activity                    | 85,662,896                  | 98,994,167  |
| Shares issued and outstanding at beginning of period                | 247,836,965                 | 139,633,870 |
| Shares Issued and Outstanding at End of Period                      | 333,499,861                 | 238,628,037 |

See notes to consolidated financial statements.



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Nine Months Ended March 31, 2014 and 2013  
(in thousands, except share data)  
(Unaudited)

|  | Nine Months Ended March 31, |             |
|--|-----------------------------|-------------|
|  | 2014                        | 2013        |
| <b>Operating Activities</b>  |                             |             |
| Net increase in net assets resulting from operations                     | \$247,363                   | \$138,167   |
| Net realized loss on investments   | 3,482                       | 12,362      |
| Net change in unrealized depreciation on investments                     | 22,230                      | 82,299      |
| Amortization of discounts and premiums, net                              | 31,837                      | (13,624)    |
| Amortization of deferred financing costs                                 | 7,810                       | 5,878       |
| Payment-in-kind interest   | (13,043)                    | (7,025)     |
| Structuring fees   | (40,064)                    | (33,578)    |
| Change in operating assets and liabilities:                              |                             |             |
| Payments for purchases of investments                                    | (2,409,331)                 | (2,204,603) |
| Proceeds from sale of investments and collection of investment principal | 617,452                     | 609,919     |
| Decrease (increase) in interest receivable, net                          | 1,771                       | (4,216)     |
| Decrease in other receivables  | 1,433                       | 320         |
| (Increase) decrease in prepaid expenses                                  | (153)                       | 211         |
| Decrease in due to broker  | (43,588)                    | (1,572)     |
| Increase in due to Prospect Administration                               | 509                         | 674         |
| Increase (decrease) in due to Prospect Capital Management                | 21,412                      | (7,040)     |
| Increase (decrease) in accrued expenses                                  | 1,291                       | (366)       |
| (Decrease) increase in interest payable                                  | (1,612)                     | 8,545       |
| Increase in other liabilities  | 3,240                       | 5,376       |
| Net Cash Used in Operating Activities                                    | (1,547,961)                 | (1,408,273) |
| <b>Financing Activities</b>  |                             |             |
| Borrowings under Revolving Credit Facility (Note 4)                      | 986,500                     | 99,000      |
| Principal payments under Revolving Credit Facility (Note 4)              | (381,500)                   | (195,000)   |
| Issuance of Senior Convertible Notes (Note 5)                            | —                           | 400,000     |
| Issuance of Senior Unsecured Notes (Note 6)                              | —                           | 247,682     |
| Issuance of Prospect Capital InterNotes® (Note 7)                        | 407,208                     | 178,763     |
| Redemptions of Prospect Capital InterNotes® (Note 7)                     | (3,341)                     | —           |
| Amortization of discount on Senior Unsecured Notes (Note 6)              | 133                         | —           |
| Financing costs paid and deferred  | (10,423)                    | (23,591)    |
| Proceeds from issuance of common stock, net of underwriting costs        | 890,331                     | 1,025,937   |
| Offering costs from issuance of common stock                             | (1,187)                     | (1,570)     |
| Dividends paid   | (268,028)                   | (166,084)   |
| Net Cash Provided by Financing Activities                                | 1,619,693                   | 1,565,137   |
| Total Increase in Cash and Cash Equivalents                              | 71,732                      | 156,864     |
| Cash and cash equivalents at beginning of period                         | 203,236                     | 121,194     |
| Cash and Cash Equivalents at End of Period                               | \$274,968                   | \$278,058   |
| <b>Supplemental Disclosures</b>  |                             |             |
| Cash paid for interest   | \$78,344                    | \$32,757    |

Non-Cash Financing Activities

|  |          |          |
|--|----------|----------|
| Value of shares issued through reinvestment of dividends | \$12,336 | \$12,137 |
| Value of shares issued to acquire controlled investments | \$45,914 | \$59,251 |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale /<br>Industry                     | Investments(1)   | March 31, 2014 (Unaudited) |          |                  | % of Net<br>Assets |
|--|--|--|----------------------------|----------|------------------|--------------------|
|  |  |  | Principal<br>Value         | Cost     | Fair<br>Value(2) |                    |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                        |  |  |                            |          |                  |                    |
| Control Investments (greater than 25.00% voting control)(45) |  |  |                            |          |                  |                    |
| AMU Holdings,<br>Inc.(27)                                    | Pennsylvania /<br>Property<br>Management | Senior Secured Term Loan to<br>AIRMALL USA Holdings, Inc. (12.00%<br>(LIBOR + 9.00% with 3.00% LIBOR<br>floor), due 6/30/2015)(3)(4)     | \$27,734                   | \$27,734 | \$27,734         | 0.8%               |
|  |  | Senior Subordinated Term Loan to<br>AMU Holdings, Inc. (12.00% plus<br>6.00% PIK, due 12/31/2015)  | 19,993                     | 19,993   | 19,993           | 0.5%               |
|  |  | Series A Preferred Stock of AMU<br>Holdings, Inc.(9,919.684 shares)  |                            | 9,920    | 234              | —%                 |
|  |  | Common Stock of AMU Holdings, Inc.<br>(100 shares)   |                            | —        | —                | —%                 |
| APH Property<br>Holdings, LLC(32)                            | Florida /<br>Real Estate                 | Senior Term Loan to APH Property<br>Holdings, LLC (6.00% (LIBOR +<br>4.00% with 2.00% LIBOR floor) plus<br>5.50% PIK, due 10/24/2020)(4) | 167,162                    | 167,162  | 167,162          | 4.7%               |
|  |  | Membership Interest in APH Property<br>Holdings, LLC   |                            | 33,304   | 35,242           | 1.0%               |
|  |  |  |                            | 200,466  | 202,404          | 5.7%               |
|  |  | Senior Secured Note to Ajax Rolled<br>Ring & Machine, LLC (10.50% (LIBOR<br>+ 7.50% with 3.00% LIBOR floor), due<br>3/30/2018)(4)        | 19,437                     | 19,437   | 18,978           | 0.5%               |
| ARRM Holdings<br>Inc.(42)                                    | South Carolina<br>/ Manufacturing        | Series B Preferred Stock of ARRM<br>Holdings Inc. (25,000 shares)  |                            | 25,000   | —                | —%                 |
|  |  | Series A Convertible Preferred Stock of<br>ARRM Holdings Inc. (6,142.60 shares)  |                            | 6,057    | —                | —%                 |
|  |  | Common Stock of ARRM Holdings Inc.<br>(6.00 shares)  |                            | —        | —                | —%                 |
|  |  |  |                            | 50,494   | 18,978           | 0.5%               |
| AWCNC, LLC(19)   | North Carolina<br>/ Machinery            | Members Units – Class A (1,800,000<br>units)   |                            | —        | —                | —%                 |
|  |  | Members Units – Class B-1 (1 unit)   |                            | —        | —                | —%                 |
|  |  | Members Units – Class B-2 (7,999,999<br>units)   |                            | —        | —                | —%                 |
|  |  |  |                            | —        | —                | —%                 |

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|                         |  |  |       |        |       |      |
|-------------------------|--|--|-------|--------|-------|------|
|                         |  | Senior Secured Term Loan A to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015) | 1,625 | 1,621  | 1,625 | —%   |
|                         |  | Senior Secured Term Loan B to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015) | 4,930 | 4,917  | 1,712 | 0.1% |
|                         |  | Senior Secured Term Loan C to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015) | 2,389 | 2,383  | —     | —%   |
| BXC Holding Company(20) | Georgia / Textiles, Apparel & Luxury Goods | Senior Secured Term Loan to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)   | 8,389 | 8,228  | —     | —%   |
|                         |  | Series A Preferred Stock of BXC Holding Company (1,000,000 shares)   |       | —      | —     | —%   |
|                         |  | Common Stock of BXC Holding Company (10,000 shares)  |       | —      | —     | —%   |
|                         |  | Warrant (to purchase 15% of all classes of equity of BXC Holding Company, expires 8/31/2022)   |       | —      | —     | —%   |
|                         |  |  |       | 17,149 | 3,337 | 0.1% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company   | Locale / Industry               | Investments(1)   | March 31, 2014 (Unaudited) |          |               |                 |
|---|---------------------------------|--|----------------------------|----------|---------------|-----------------|
|   |                                 |  | Principal Value            | Cost     | Fair Value(2) | % of Net Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                 |  |                            |          |               |                 |
| <b>Control Investments (greater than 25.00% voting control)(45)</b> |                                 |  |                            |          |               |                 |
| CCPI Holdings Inc.(33)  | Ohio / Manufacturing            | Senior Secured Note to CCPI Inc. (10.00%, due 12/31/2017)(3)   | \$17,325                   | \$17,325 | \$17,325      | 0.5%            |
|   |                                 | Senior Secured Note to CCPI Holdings Inc. (12.00% plus 7.00% PIK, due 6/30/2018)   | 8,216                      | 8,216    | 8,216         | 0.2%            |
|   |                                 | Common Stock of CCPI Holdings Inc. (100 shares)  |                            | 8,581    | 8,098         | 0.2%            |
|   |                                 | Net Revenue Interest in CCPI Holdings Inc. (4% of Net Revenue)   |                            | —        | 194           | —%              |
|   |                                 |  |                            |          | 34,122        | 33,833          |
| CP Holdings of Delaware LLC(38)                                     | Oklahoma / Oil & Gas Production | Senior Secured Note to CP Energy Services Inc. (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 8/2/2018)(4)  | 75,773                     | 75,773   | 75,773        | 2.1%            |
|   |                                 | Senior Secured Note to CP Well Testing Holding Company LLC (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor), due 8/2/2018)(4)  | 22,500                     | 22,500   | 22,500        | 0.6%            |
|   |                                 | Membership Interest in CP Holdings of Delaware LLC   |                            | 15,228   | 21,357        | 0.6%            |
|   |                                 |  |                            |          | 113,501       | 119,630         |
| Credit Central Holdings of Delaware, LLC(22)(34)                    | Ohio / Consumer Finance         | Senior Secured Revolving Credit Facility to Credit Central Holdings of Delaware, LLC – \$60,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 12/31/2022)(4)(25) | 40,207                     | 40,207   | 40,207        | 1.1%            |
|   |                                 | Membership Interest in Credit Central Holdings of Delaware, LLC  |                            | 9,956    | 6,591         | 0.2%            |
|   |                                 | Net Revenue Interest in Credit Central Holdings of Delaware, LLC (5% of Net Revenue)   |                            | —        | 1,996         | 0.1%            |
|   |                                 |  |                            |          | 50,163        | 48,794          |
| Echelon Aviation LLC  | New York / Aerospace & Defense  | Senior Secured Revolving Credit Facility to Echelon Aviation LLC – \$150,000 Commitment (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due                         | 78,521                     | 78,521   | 78,521        | 2.2%            |

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|  |                                |  |         |         |         |      |  |
|--|--------------------------------|--|---------|---------|---------|------|--|
|  |                                | 3/31/2022)(4)  |         |         |         |      |  |
|  |                                | Membership Interest in Echelon Aviation LLC  |         | 14,107  | 14,107  | 0.4% |  |
|  |                                |  |         | 92,628  | 92,628  | 2.6% |  |
|  |                                | Senior Secured Note to Vessel Holdings, LLC (18.00%, due 12/12/2016)   | 3,500   | 3,500   | 3,500   | 0.1% |  |
|  |                                | Senior Secured Note to Vessel Holdings II, LLC (13.00%, in non-accrual status, due 11/25/2018)   | 13,000  | 12,504  | 12,504  | 0.4% |  |
| Energy Solutions Holdings Inc.(8)            | Texas / Energy                 | Senior Secured Note to Vessel Holdings III, LLC (13.00%, due 12/3/2018)  | 16,000  | 16,000  | 16,000  | 0.4% |  |
|  |                                | Senior Secured Note to Yatesville Coal Holdings, LLC (in non-accrual status effective 1/1/2009, past due)  | 1,449   | 1,449   | —       | —%   |  |
|  |                                | Common Stock of Energy Solutions Holdings Inc. (100 shares)  |         | 8,293   | 2,905   | 0.1% |  |
|  |                                |  |         | 41,746  | 34,909  | 1.0% |  |
|  |                                | Senior Secured Revolving Credit Facility to First Tower Holdings of Delaware LLC – \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(4)(25) | 273,260 | 273,260 | 273,260 | 7.7% |  |
| First Tower Holdings of Delaware LLC(22)(29) | Mississippi / Consumer Finance | Membership Interest in First Tower Holdings of Delaware LLC  |         | 44,693  | 39,703  | 1.1% |  |
|  |                                | Net Revenue Interest in First Tower Holdings of Delaware LLC (5% of Net Revenue)   |         | —       | 17,600  | 0.5% |  |
|  |                                |  |         | 317,953 | 330,563 | 9.3% |  |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale /<br>Industry                   | Investments(1)   | March 31, 2014 (Unaudited) |          |                  |                    |
|--|--|--|----------------------------|----------|------------------|--------------------|
|  |  |  | Principal<br>Value         | Cost     | Fair<br>Value(2) | % of Net<br>Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                        |  |  |                            |          |                  |                    |
| Control Investments (greater than 25.00% voting control)(45) |  |  |                            |          |                  |                    |
| Gulf Coast Machine<br>& Supply Company                       | Texas /<br>Manufacturing               | Senior Secured Term Loan to Gulf Coast<br>Machine & Supply Company (10.50%<br>(LIBOR + 8.50% with 2.00% LIBOR<br>floor), due 10/12/2017)(4)  | \$17,500                   | \$17,500 | \$11,842         | 0.3%               |
|  |  | Series A Convertible Preferred Stock of<br>Gulf Coast Machine & Supply Company<br>(99,900 shares)  |                            | 25,950   | —                | —%                 |
|  |  |  |                            | 43,450   | 11,842           | 0.3%               |
|  |  | Senior Secured Term Loan to<br>Harbortouch Payments, LLC (9.00%<br>(LIBOR + 7.00% with 2.00% LIBOR<br>floor), due 9/30/2017)(4)  | 130,796                    | 130,796  | 130,796          | 3.7%               |
| Harbortouch<br>Holdings<br>of Delaware Inc.(44)              | Pennsylvania /<br>Business<br>Services | Senior Secured Note to Harbortouch<br>Holdings of Delaware Inc. (10.00%<br>(LIBOR + 8.00% with 2.00% LIBOR<br>floor) plus 6.00% PIK, due<br>3/31/2019)(4)                              | 123,000                    | 123,000  | 123,000          | 3.4%               |
|  |  | Common Stock of Harbortouch<br>Holdings of Delaware Inc. (1 share)   |                            | 24,898   | 20,100           | 0.6%               |
|  |  | Net Revenue Interest in Harbortouch<br>Holdings of Delaware Inc. (5% of Net<br>Revenue)  |                            | —        | 4,798            | 0.1%               |
|  |  |  |                            | 278,694  | 278,694          | 7.8%               |
| The Healing Staff,<br>Inc.(9)                                | North Carolina<br>/ Contracting        | Secured Promissory Notes to The<br>Healing Staff, Inc. and Vets Securing<br>America, Inc. (joint borrowers) (15.00%,<br>1,688 in non-accrual status effective<br>12/22/2010, past due) | 1,688                      | 1,686    | —                | —%                 |
|  |  | Senior Demand Note to The Healing<br>Staff, Inc. (15.00%, in non-accrual status<br>effective 11/1/2010, past due)  | 1,170                      | 1,170    | —                | —%                 |
|  |  | Common Stock of The Healing Staff,<br>Inc.<br>(1,000 shares)   |                            | 975      | —                | —%                 |
|  |  |  |                            | 3,831    | —                | —%                 |
| Manx Energy,<br>Inc.(12)                                     | Kansas /<br>Oil & Gas<br>Production    | Senior Secured Note to Manx Energy,<br>Inc. (13.00%, in non-accrual status<br>effective 1/19/2010, past due)   | 225                        | 225      | —                | —%                 |

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|  |                                  |   |        |        |        |      |
|--|----------------------------------|---|--------|--------|--------|------|
|  |                                  | Series A-1 Preferred Stock of Manx Energy, Inc. (6,635 shares)  | —      | —      | —%     |      |
|  |                                  | Common Stock of Manx Energy, Inc. (17,082 shares)   | —      | —      | —%     |      |
|  |                                  |   | 225    | —      | —%     |      |
|  |                                  | Senior Secured Note to MITY Holdings of Delaware Inc. (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 9/19/2019)(4)                                       | 22,968 | 22,968 | 22,968 | 0.7% |
| MITY Holdings of Delaware Inc.(17)         | Utah / Durable Consumer Products | Senior Secured Note to MITY Enterprises, Inc. (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)  | 18,250 | 18,250 | 18,250 | 0.5% |
|  |                                  | Common Stock of MITY Holdings of Delaware Inc. (100 shares)   |        | 6,943  | 8,165  | 0.2% |
|  |                                  |   |        | 48,161 | 49,383 | 1.4% |
|  |                                  | Senior Secured Revolving Credit Facility to Nationwide Acceptance Holdings LLC – \$30,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 1/31/2023)(4)(25) | 24,708 | 24,708 | 24,708 | 0.7% |
| Nationwide Acceptance Holdings LLC(22)(36) | Illinois / Consumer Finance      | Membership Interest in Nationwide Acceptance Holdings LLC   |        | 4,443  | 4,443  | 0.1% |
|  |                                  | Net Revenue Interest in Nationwide Acceptance Holdings LLC (5% of Net Revenue)  |        | —      | 1,601  | 0.1% |
|  |                                  |   |        | 29,151 | 30,752 | 0.9% |
| NMMB Holdings, Inc.(24)                    | New York / Media                 | Senior Secured Note to NMMB Acquisition, Inc. (14.00%, due 5/6/2016)  | 10,714 | 10,714 | 9,715  | 0.3% |
|  |                                  | Series B Convertible Preferred Stock of NMMB Holdings, Inc. (8,086 shares)  |        | 12,486 | —      | —%   |
|  |                                  |   |        | 23,200 | 9,715  | 0.3% |

See notes to consolidated financial statements.



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry            | Investments(1)  | March 31, 2014 (Unaudited) |            |               | % of Net Assets |
|--|------------------------------|---|----------------------------|------------|---------------|-----------------|
|  |                              |   | Principal Value            | Cost       | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                        |                              |   |                            |            |               |                 |
| Control Investments (greater than 25.00% voting control)(45) |                              |   |                            |            |               |                 |
| NPH Property Holdings, LLC(40)                               | Texas / Real Estate          | Senior Term Loan to NPH Property Holdings, LLC (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4)   | \$ 104,441                 | \$ 104,441 | \$ 104,441    | 2.9%            |
|  |                              | Membership Interest in NPH Property Holdings, LLC   |                            | 21,040     | 19,772        | 0.6%            |
|  |                              |   |                            | 125,481    | 124,213       | 3.5%            |
| R-V Industries, Inc.   | Pennsylvania / Manufacturing | Senior Subordinated Note to R-V Industries, Inc. (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)   | 30,411                     | 30,411     | 30,411        | 0.9%            |
|  |                              | Common Stock of R-V Industries, Inc. (545,107 shares)   |                            | 5,087      | 19,551        | 0.5%            |
|  |                              | Warrant (to purchase 200,000 shares of Common Stock of R-V Industries, Inc., expires 6/30/2017)   |                            | 1,682      | 7,174         | 0.2%            |
|  |                              |   |                            | 37,180     | 57,136        | 1.6%            |
|  |                              | Revolving Line of Credit to Borga, Inc. – \$1,150 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 3/2/2010, past due)(4)(25) | 1,150                      | 1,095      | 503           | —%              |
| STI Holding, Inc. (f/k/a Borga, Inc.)(21)                    | California / Manufacturing   | Senior Secured Term Loan B to Borga, Inc. (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 3/2/2010, past due)(4)                        | 1,612                      | 1,501      | —             | —%              |
|  |                              | Senior Secured Term Loan C to Borga, Inc. (12.00% plus 4.00% PIK plus 3.00% default interest, in non-accrual status effective 3/2/2010, past due)                           | 10,040                     | 707        | —             | —%              |
|  |                              | Common Stock of STI Holding, Inc. (100 shares)  |                            | —          | —             | —%              |
|  |                              | Warrant (to purchase 33,750 shares of Common Stock of STI Holding, Inc., expires 5/6/2015)  |                            | —          | —             | —%              |
|  |                              |   |                            | 3,303      | 503           | —%              |
| UPH Property Holdings, LLC(41)                               | Georgia / Real Estate        | Senior Term Loan to UPH Property Holdings, LLC (6.00% (LIBOR +  | 19,027                     | 19,027     | 19,027        | 0.5%            |

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|   |   |   |        |        |        |      |
|---|---|---|--------|--------|--------|------|
|   |   | 4.00% with 2.00% LIBOR floor) plus<br>5.50% PIK, due 10/24/2020)(4)   |        |        |        |      |
|   |   | Membership Interest in UPH Property<br>Holdings, LLC  | 3,707  | 5,392  | 0.2%   |      |
|   |   |   | 22,734 | 24,419 | 0.7%   |      |
|   |   | Senior Secured Note to Valley Electric<br>Holdings I, Inc. (9.00% (LIBOR +<br>6.00% with 3.00% LIBOR floor) plus<br>9.00% PIK, due 12/31/2018)(4)           | 36,450 | 36,450 | 25,199 | 0.7% |
| Valley Electric<br>Holdings I, Inc.(35) | Washington /<br>Construction &<br>Engineering | Senior Secured Note to Valley Electric<br>Co. of Mt. Vernon, Inc. (8.00% (LIBOR<br>+ 5.00% with 3.00% LIBOR floor) plus<br>2.50% PIK, due 12/31/2017)(3)(4) | 10,067 | 10,067 | 10,067 | 0.3% |
|   |   | Common Stock of Valley Electric<br>Holdings I, Inc. (100 shares)  | 9,526  | —      | —%     |      |
|   |   | Net Revenue Interest in Valley Electric<br>Holdings I, Inc. (5% of Net Revenue)   | —      | 495    | —%     |      |
|   |   |   | 56,043 | 35,761 | 1.0%   |      |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company   | Locale /<br>Industry                | Investments(1)   | March 31, 2014 (Unaudited) |        |                  | % of Net<br>Assets |
|---|-------------------------------------|--|----------------------------|--------|------------------|--------------------|
|   |                                     |  | Principal<br>Value         | Cost   | Fair<br>Value(2) |                    |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                     |  |                            |        |                  |                    |
| <b>Control Investments (greater than 25.00% voting control)(45)</b> |                                     |  |                            |        |                  |                    |
|   |                                     | Senior Secured Promissory Note to<br>Wolf Energy, LLC secured by assets<br>formerly owned by H&M (18.00%, in \$22,000<br>non-accrual status effective<br>4/15/2013, due 4/15/2018)(37) | \$—                        |        | \$3,529          | 0.1%               |
|   |                                     | Senior Secured Note to Appalachian<br>Energy Holdings, LLC (8.00%, in<br>non-accrual status effective<br>1/19/2010, past due)  | 2,808                      | 2,000  | —                | —%                 |
| Wolf Energy<br>Holdings Inc.(12)                                    | Kansas /<br>Oil & Gas<br>Production | Senior Secured Note to Appalachian<br>Energy Holdings, LLC (8.00%, in<br>non-accrual status, past due)   | 55                         | 50     | 6                | —%                 |
|   |                                     | Senior Secured Note to Coalbed, LLC<br>(8.00%, in non-accrual status effective<br>1/19/2010, past due)(6)  | 8,424                      | 5,991  | —                |                    |
|   |                                     | Common Stock of Wolf Energy<br>Holdings Inc.<br>(100 shares)   |                            |        |                  | —%                 |
|   |                                     | Net Profits Interest in Wolf Energy,<br>LLC<br>(8% of Equity Distributions)(7)   |                            |        | 224              | —%                 |
|   |                                     |  |                            | 8,041  | 3,759            | 0.1%               |
| <b>Total Control Investments</b>                                    |                                     |  |                            |        | \$1,655,363      | \$1,559,214 43.7%  |
| <b>Affiliate Investments (5.00% to 24.99% voting control)(46)</b>   |                                     |  |                            |        |                  |                    |
| BNN Holdings<br>Corp.<br>(f/k/a Biotronic<br>NeuroNetwork)          | Michigan /<br>Healthcare            | Senior Secured Note (10.00% (LIBOR +<br>8.00% with 2.00% LIBOR floor), due<br>12/17/2017)(3)(4)  | 29,100                     | 29,100 | 29,100           | 0.8%               |
|   |                                     | Series A Preferred Stock (9,925.455<br>shares)(13)   |                            | 2,300  | 2,222            | 0.1%               |
|   |                                     | Series B Preferred Stock (1,753.636<br>shares)(13)   |                            | 579    | 477              | —%                 |
|   |                                     |  |                            | 31,979 | 31,799           | 0.9%               |
| <b>Total Affiliate Investments</b>                                  |                                     |  |                            |        | \$31,979         | \$31,799 0.9%      |

See notes to consolidated financial statements.



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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)  | March 31, 2014 (Unaudited) |         |               | % of Net Assets |
|--|---|---|----------------------------|---------|---------------|-----------------|
|  |   |   | Principal Value            | Cost    | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |   |                            |         |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |   |                            |         |               |                 |
| Aderant North America, Inc.(16)  | Georgia / Software & Computer Services          | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)         | \$7,000                    | \$6,910 | \$7,000       | 0.2%            |
|  |   |   |                            | 6,910   | 7,000         | 0.2%            |
| Aircraft Fasteners International, LLC                                  | California / Machinery                          | Class A Units (32,500 units)  |                            | 396     | 505           | —%              |
|  |   |   |                            | 396     | 505           | —%              |
| ALG USA Holdings, LLC(16)  | Pennsylvania / Hotels, Restaurants & Leisure    | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)         | 12,000                     | 11,785  | 12,000        | 0.3%            |
|  |   |   |                            | 11,785  | 12,000        | 0.3%            |
| Allied Defense Group, Inc.   | Virginia / Aerospace & Defense                  | Common Stock (10,000 shares)  |                            | 5       | —             | —%              |
|  |   |   |                            | 5       | —             | —%              |
| American Broadband Holding Company and Cameron Holdings of NC, Inc.    | North Carolina / Telecommunication Services     | Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4) | 74,654                     | 74,654  | 74,654        | 2.1%            |
|  |   |   |                            | 74,654  | 74,654        | 2.1%            |
| American Gilsonite Company   | Utah / Metal Services & Minerals                | Second Lien Term Loan (11.50%, due 9/1/2017)<br>Membership Interest(15)                         | 38,500                     | 38,500  | 38,500        | 1.1%            |
|  |   |   |                            | —       | 2,299         | 0.1%            |
|  |   |   |                            | 38,500  | 40,799        | 1.2%            |
| Apidos CLO IX(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 20,525                     | 18,781  | 19,979        | 0.6%            |
|  |   |   |                            | 18,781  | 19,979        | 0.6%            |
| Apidos CLO XI(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 38,340                     | 34,733  | 38,035        | 1.1%            |
|  |   |   |                            | 34,733  | 38,035        | 1.1%            |
| Apidos CLO XII(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 44,063                     | 42,529  | 42,505        | 1.2%            |
|  |   |   |                            | 42,529  | 42,505        | 1.2%            |
| Apidos CLO XV(22)  | Cayman Islands / Diversified                    | Subordinated Notes (Residual Interest)  | 36,515                     | 37,837  | 37,004        | 1.0%            |

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| Financial Services                             |   |  |         |         |        |      |
|--|---|--|---------|---------|--------|------|
|  |   |  | 37,837  | 37,004  | 1.0%   |      |
| Arctic Glacier U.S.A., Inc.                    | Minnesota / Food Products                 | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(4)                              | 150,000 | 150,000 | 4.2%   |      |
|  |   |  | 150,000 | 150,000 | 4.2%   |      |
| Armor Holding II LLC(16)                       | New York / Diversified Financial Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(4)                              | 6,871   | 6,871   | 0.2%   |      |
|  |   |  | 6,871   | 6,871   | 0.2%   |      |
| Atlantis Health Care Group (Puerto Rico), Inc. | Puerto Rico / Healthcare                  | Revolving Line of Credit – \$3,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2014)(4)(25)(26) | 2,350   | 2,350   | 0.1%   |      |
|  |   | Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)                                    | 39,056  | 39,056  | 34,068 | 1.0% |
|  |   |  | 41,406  | 36,418  | 1.1%   |      |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)  | March 31, 2014 (Unaudited) |          |               |                 |
|--|---|---|----------------------------|----------|---------------|-----------------|
|  |   |   | Principal Value            | Cost     | Fair Value(2) | % of Net Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |   |                            |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |   |                            |          |               |                 |
| Babson CLO Ltd. 2011-I(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | \$35,000                   | \$33,965 | \$35,326      | 1.0%            |
|  |   |   |                            | 33,965   | 35,326        | 1.0%            |
| Babson CLO Ltd. 2012-I(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 29,075                     | 23,867   | 27,435        | 0.8%            |
|  |   |   |                            | 23,867   | 27,435        | 0.8%            |
| Babson CLO Ltd. 2012-II(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 27,850                     | 27,344   | 27,879        | 0.8%            |
|  |   |   |                            | 27,344   | 27,879        | 0.8%            |
| Blue Coat Systems, Inc.(16)  | Massachusetts / Software & Computer Services    | Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3)(4) | 11,000                     | 10,899   | 11,000        | 0.3%            |
|  |   |   |                            | 10,899   | 11,000        | 0.3%            |
| Broder Bros., Co.  | Pennsylvania / Textiles, Apparel & Luxury Goods | Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)(3)(4)  | 258,875                    | 258,875  | 258,875       | 7.3%            |
|  |   |   |                            | 258,875  | 258,875       | 7.3%            |
| Brookside Mill CLO Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 26,000                     | 23,043   | 25,338        | 0.7%            |
|  |   |   |                            | 23,043   | 25,338        | 0.7%            |
| Byrider Systems Acquisition Corp.(22)                                  | Indiana / Auto Finance                          | Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)                       | 11,083                     | 11,083   | 11,083        | 0.3%            |
|  |   |   |                            | 11,083   | 11,083        | 0.3%            |
| Caleel + Hayden, LLC(14)(31)   | Colorado / Personal & Nondurable Consumer       | Membership Interest Escrow Receivable   | —                          | —        | 168           | —%              |
|  |   |   |                            | —        | 92            | —%              |

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| Products                        |   |  |         |         |         |      |
|---------------------------------|---|--|---------|---------|---------|------|
|                                 |   |  | —       | 260     | —%      |      |
| Capstone Logistics, LLC         | Georgia / Commercial Services                   | Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)(4)      | 95,466  | 95,466  | 95,466  | 2.7% |
|                                 |   | Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3)(4) | 100,000 | 100,000 | 100,000 | 2.8% |
|                                 |   |  |         | 195,466 | 195,466 | 5.5% |
| Cent CLO 17 Limited(22)         | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 24,870  | 22,548  | 24,945  | 0.7% |
|                                 |   |  |         | 22,548  | 24,945  | 0.7% |
| Cent CLO 20 Limited(22)         | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 40,275  | 41,101  | 40,592  | 1.1% |
|                                 |   |  |         | 41,101  | 40,592  | 1.1% |
| CIFC Funding 2011-I, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Class D Senior Secured Notes (5.24% (LIBOR + 5.00%, due 1/19/2023)(4)                            | 19,000  | 15,233  | 18,233  | 0.5% |
|                                 |   | Class E Subordinated Notes (7.24% (LIBOR + 7.00%, due 1/19/2023)(4)                              | 15,400  | 12,769  | 15,321  | 0.4% |
|                                 |   |  |         | 28,002  | 33,554  | 0.9% |
| CIFC Funding 2013-III, Ltd.(22) | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 44,100  | 42,898  | 43,780  | 1.2% |
|                                 |   |  |         | 42,898  | 43,780  | 1.2% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)  | March 31, 2014 (Unaudited) |          |               |                 |
|--|---|---|----------------------------|----------|---------------|-----------------|
|  |   |   | Principal Value            | Cost     | Fair Value(2) | % of Net Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |   |                            |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |   |                            |          |               |                 |
| CIFC Funding 2013-IV, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | \$45,500                   | \$41,136 | \$40,964      | 1.2%            |
|  |   |   |                            | 41,136   | 40,964        | 1.2%            |
| Cinedigm DC Holdings, LLC  | New York / Software & Computer Services         | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(4) | 68,454                     | 68,454   | 68,454        | 1.9%            |
|  |   |   |                            | 68,454   | 68,454        | 1.9%            |
| The Copernicus Group, Inc.   | North Carolina / Healthcare                     | Escrow Receivable   | —                          | —        | 137           | —%              |
|  |   |   |                            | —        | 137           | —%              |
| Correctional Healthcare Holding Company, Inc.                          | Colorado / Healthcare                           | Second Lien Term Loan (11.25%, due 1/11/2020)(3)  | 27,100                     | 27,100   | 27,100        | 0.8%            |
|  |   |   |                            | 27,100   | 27,100        | 0.8%            |
| Coverall North America, Inc.   | Florida / Commercial Services                   | Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4)            | 52,661                     | 52,661   | 52,661        | 1.5%            |
|  |   |   |                            | 52,661   | 52,661        | 1.5%            |
| Crosman Corporation  | New York / Manufacturing                        | Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/30/2019)(3)(4)               | 40,000                     | 40,000   | 40,000        | 1.1%            |
|  |   |   |                            | 40,000   | 40,000        | 1.1%            |
| CRT MIDCO, LLC   | Wisconsin / Media                               | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3)(4)             | 69,981                     | 69,981   | 69,981        | 2.0%            |
|  |   |   |                            | 69,981   | 69,981        | 2.0%            |
| Deltek, Inc.(16)   | Virginia / Software & Computer Services         | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(3)(4)               | 12,000                     | 11,847   | 12,240        | 0.3%            |
|  |   |   |                            | 11,847   | 12,240        | 0.3%            |
| Diamondback Operating, LP  | Oklahoma / Oil & Gas Production                 | Net Profits Interest (15% of Equity Distributions)(7)   | —                          | —        | —             | —%              |
|  |   |   |                            | —        | —             | —%              |

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|   |  |  |        |        |        |      |
|---|--|--|--------|--------|--------|------|
| Edmentum, Inc.<br>(f/k/a Archipelago<br>Learning, Inc.)(16)       | Minnesota /<br>Consumer<br>Services                      | Second Lien Term Loan (11.25%<br>(LIBOR + 9.75% with 1.50% LIBOR<br>floor), due 5/17/2019)(3)(4)     | 50,000 | 48,381 | 50,000 | 1.4% |
|   |  |  |        | 48,381 | 50,000 | 1.4% |
| Empire Today, LLC   | Illinois /<br>Durable<br>Consumer<br>Products            | Senior Secured Note (11.375%, due<br>2/1/2017)   | 15,700 | 15,397 | 15,700 | 0.4% |
|   |  |  |        | 15,397 | 15,700 | 0.4% |
| Fischbein, LLC  | North Carolina<br>/ Machinery                            | Escrow Receivable  | —      | —      | 237    | —%   |
|   |  |  | —      | —      | 237    | —%   |
| Focus Brands,<br>Inc.(16)   | Georgia /<br>Consumer<br>Services                        | Second Lien Term Loan (10.25%<br>(LIBOR + 9.00% with 1.25% LIBOR<br>floor), due 8/21/2018)(4)        | 18,000 | 17,765 | 18,000 | 0.5% |
|   |  |  |        | 17,765 | 18,000 | 0.5% |
| Focus Products<br>Group International,<br>LLC<br>(f/k/a FPG, LLC) | Illinois /<br>Durable<br>Consumer<br>Products            | Senior Secured Term Loan (12.00%<br>(LIBOR + 11.00% with 1.00% LIBOR<br>floor), due 1/20/2017)(3)(4) | 20,573 | 20,573 | 20,422 | 0.6% |
|   |  |  |        | 27     | 20     | —%   |
|   |  |  |        | 20,600 | 20,442 | 0.6% |
| Galaxy XII CLO,<br>Ltd.(22)                                       | Cayman Islands<br>/ Diversified<br>Financial<br>Services | Subordinated Notes (Residual Interest)   | 22,000 | 19,794 | 20,527 | 0.6% |
|   |  |  |        | 19,794 | 20,527 | 0.6% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)   | March 31, 2014 (Unaudited) |          |               |                 |
|--|---|--|----------------------------|----------|---------------|-----------------|
|  |   |  | Principal Value            | Cost     | Fair Value(2) | % of Net Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |  |                            |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |  |                            |          |               |                 |
| Galaxy XV CLO, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | \$35,025                   | \$30,320 | \$31,989      | 0.9%            |
|  |   |  |                            | 30,320   | 31,989        | 0.9%            |
| Galaxy XVI CLO, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 22,575                     | 21,413   | 20,755        | 0.6%            |
|  |   |  |                            | 21,413   | 20,755        | 0.6%            |
| Global Employment Solutions, Inc.                                      | Colorado / Business Services                    | Senior Secured Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/25/2019)(4)     | 28,500                     | 28,500   | 28,500        | 0.8%            |
|  |   |  |                            | 28,500   | 28,500        | 0.8%            |
| Grocery Outlet, Inc.(16)   | California / Retail                             | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)        | 14,456                     | 14,156   | 14,456        | 0.4%            |
|  |   |  |                            | 14,156   | 14,456        | 0.4%            |
| GTP Operations, LLC (f/k/a CI (Transplace) Holdings, LLC)(10)          | Texas / Software & Computer Services            | Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 12/11/2018)(3)(4) | 113,850                    | 113,850  | 113,850       | 3.2%            |
|  |   |  |                            | 113,850  | 113,850       | 3.2%            |
| Halcyon Loan Advisors Funding 2012-1 Ltd.(22)                          | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 23,188                     | 20,792   | 22,540        | 0.6%            |
|  |   |  |                            | 20,792   | 22,540        | 0.6%            |
| Halcyon Loan Advisors Funding 2013-1 Ltd.(22)                          | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 40,400                     | 39,703   | 40,808        | 1.1%            |
|  |   |  |                            | 39,703   | 40,808        | 1.1%            |
| Halcyon Loan Advisors Funding 2014-1 Ltd.(22)                          | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 24,500                     | 23,196   | 23,198        | 0.7%            |

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|   |   |   |        |        |        |      |
|---|---|---|--------|--------|--------|------|
|   |   |   |        | 23,196 | 23,198 | 0.7% |
| Harley Marine Services, Inc.(16)                              | Washington / Transportation                         | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(4)  | 9,000  | 8,826  | 8,832  | 0.2% |
|   |   |   |        | 8,826  | 8,832  | 0.2% |
| Hoffmaster Group, Inc.(16)                                    | Wisconsin / Personal & Nondurable Consumer Products | Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019)(3)(4) | 20,000 | 19,848 | 20,000 | 0.6% |
|   |   | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)(3)(4) | 1,000  | 992    | 1,000  | —%   |
| ICON Health & Fitness, Inc.                                   | Utah / Durable Consumer Products                    | Senior Secured Note (11.875%, due 10/15/2016)(3)  |        | 20,840 | 21,000 | 0.6% |
|   |   |   | 23,600 | 23,768 | 22,155 | 0.6% |
| ICV-CSI Holdings, LLC (f/k/a Cargo Airport Services USA, LLC) | New York / Transportation                           | Common Equity (1.6 units)   |        | 23,768 | 22,155 | 0.6% |
|   |   |   |        | 1,639  | 874    | —%   |
| IDQ Holdings, Inc.  | Texas / Automobile                                  | Senior Secured Note (11.50%, due 4/1/2017)  |        | 1,639  | 874    | —%   |
|   |   |   | 12,500 | 12,333 | 12,500 | 0.4% |
|   |   |   |        | 12,333 | 12,500 | 0.4% |
| Ikaria, Inc.(16)  | New Jersey / Healthcare                             | Second Lien Term Loan (8.75% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2022)(4)    | 25,000 | 24,417 | 25,000 | 0.7% |
|   |   |   |        | 24,417 | 25,000 | 0.7% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)  | March 31, 2014 (Unaudited) |          |               |                 |
|--|---|---|----------------------------|----------|---------------|-----------------|
|  |   |   | Principal Value            | Cost     | Fair Value(2) | % of Net Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |   |                            |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |   |                            |          |               |                 |
| ING IM CLO 2012-2, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | \$38,070                   | \$31,747 | \$36,916      | 1.0%            |
|  |   |   |                            | 31,747   | 36,916        | 1.0%            |
| ING IM CLO 2012-3, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | 46,632                     | 40,256   | 45,349        | 1.3%            |
|  |   |   |                            | 40,256   | 45,349        | 1.3%            |
| ING IM CLO 2012-4, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | 40,613                     | 35,725   | 41,108        | 1.2%            |
|  |   |   |                            | 35,725   | 41,108        | 1.2%            |
| ING IM CLO 2014-1, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 32,383                     | 32,619   | 32,594        | 0.9%            |
|  |   |   |                            | 32,619   | 32,594        | 0.9%            |
| Injured Workers Pharmacy, LLC  | Massachusetts / Healthcare                      | Second Lien Term Loan (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3)(4) | 22,620                     | 22,620   | 22,620        | 0.6%            |
|  |   |   |                            | 22,620   | 22,620        | 0.6%            |
| Instant Web, LLC   | Minnesota / Media                               | Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(4)               | 127,000                    | 127,000  | 127,000       | 3.6%            |
|  |   | Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(4)             | 128,000                    | 128,000  | 128,000       | 3.6%            |
|  |   | Senior Secured Term Loan C (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(4)             | 12,500                     | 12,500   | 12,500        | 0.3%            |
|  |   |   | 267,500                    | 267,500  | 7.5%          |                 |
| InterDent, Inc.  | California / Healthcare                         | Senior Secured Term Loan A (7.25% (LIBOR + 5.75% with 1.50% LIBOR floor), due 8/3/2017)(4)                | 54,444                     | 54,444   | 54,444        | 1.5%            |

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|                    |   |  |        |         |         |      |
|--------------------|---|--|--------|---------|---------|------|
| JHH Holdings, Inc. | Texas /<br>Healthcare                           | Senior Secured Term Loan B (12.25% (LIBOR + 9.25% with 3.00% LIBOR floor), due 8/3/2017)(3)(4)                       | 58,500 | 58,500  | 58,496  | 1.7% |
|                    |   |  |        | 112,944 | 112,940 | 3.2% |
|                    |   | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor) plus 0.50% PIK, due 3/30/2019)(3)(4)           | 35,075 | 35,075  | 35,075  | 1.0% |
|                    |   |  |        | 35,075  | 35,075  | 1.0% |
| LaserShip, Inc.    | Virginia /<br>Transportation                    | Revolving Line of Credit – \$5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(4)(25) | —      | —       | —       | —%   |
|                    |   | Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(4)                      | 36,328 | 36,328  | 36,328  | 1.0% |
|                    |   | Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(4)                         | 22,250 | 22,250  | 22,250  | 0.6% |
|                    |   | Delayed Draw Term Loan – \$6,000 Commitment (2.00%, due 12/31/2015)(4)(25)   | —      | —       | —       | —%   |
|                    |   |  |        | 58,578  | 58,578  | 1.6% |
| LCM XIV Ltd.(22)   | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)   | 26,500 | 25,544  | 25,501  | 0.7% |
|                    |   |  |        | 25,544  | 25,501  | 0.7% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)   | March 31, 2014 (Unaudited) |        |               |                 |
|--|---|--|----------------------------|--------|---------------|-----------------|
|  |   |  | Principal Value            | Cost   | Fair Value(2) | % of Net Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |  |                            |        |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |  |                            |        |               |                 |
| LHC Holdings Corp.   | Florida / Healthcare                            | Revolving Line of Credit – \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4)(25)(26) | \$—                        | \$—    | \$—           | —%              |
|  |   | Senior Subordinated Debt (10.50%, due 5/31/2015)(3)  | 1,865                      | 1,865  | 1,865         | 0.1%            |
|  |   | Common Stock (125 shares)  |                            | 216    | 253           | —%              |
|  |   |  | 2,081                      | 2,118  | 0.1%          |                 |
| Madison Park Funding IX, Ltd.(22)                                      | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 31,110                     | 25,084 | 27,937        | 0.8%            |
|  |   |  |                            | 25,084 | 27,937        | 0.8%            |
| Matrixx Initiatives, Inc.  | New Jersey / Pharmaceuticals                    | Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(4)                        | 38,815                     | 38,815 | 38,815        | 1.1%            |
|  |   | Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(4)                      | 39,750                     | 39,750 | 38,907        | 1.1%            |
| Maverick Healthcare Equity, LLC  | Arizona / Healthcare                            | Preferred Units (1,250,000 units)  |                            | 1,252  | 721           | —%              |
|  |   | Class A Common Units (1,250,000 units)   |                            | —      | —             | —%              |
|  |   |  | 1,252                      | 721    | —%            |                 |
| Mountain View CLO 2013-I Ltd.(22)                                      | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 43,650                     | 41,857 | 43,689        | 1.2%            |
|  |   |  |                            | 41,857 | 43,689        | 1.2%            |
| NCP Finance Limited Partnership(22)(23)                                | Ohio / Consumer Finance                         | Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)(16)              | 11,940                     | 11,715 | 11,940        | 0.3%            |
|  |   |  |                            | 11,715 | 11,940        | 0.3%            |
| New Century Transportation, Inc.                                       | New Jersey / Transportation                     | Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 4.00% PIK, due 2/3/2018)(4)       | 46,361                     | 46,361 | 35,913        | 1.0%            |
|  |   |  |                            | 46,361 | 35,913        | 1.0%            |

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|   |  |   |   |   |        |        |        |      |
|---|--|---|---|---|--------|--------|--------|------|
| Nixon, Inc.   | California /<br>Durable<br>Consumer<br>Products          | Senior Secured Term Loan (8.75% plus<br>2.75% PIK, due 4/16/2018)(16)   | 13,439  | 13,213  | 13,439 | 0.4%   |        |      |
|   |  |   |   | 13,213  | 13,439 | 0.4%   |        |      |
| NRG<br>Manufacturing, Inc.  | Texas /<br>Manufacturing                                 | Escrow Receivable   |   | —   | 1,087  | —%     |        |      |
|   |  |   |   | —   | 1,087  | —%     |        |      |
| Octagon Investment<br>Partners XV,<br>Ltd.(22)                            | Cayman Islands<br>/ Diversified<br>Financial<br>Services | Income Notes (Residual Interest)  | 26,901  | 24,802  | 25,998 | 0.7%   |        |      |
|   |  |   |   | 24,802  | 25,998 | 0.7%   |        |      |
| Onyx Payments,<br>Inc.<br>(f/k/a Pegasus<br>Business<br>Intelligence, LP) | Texas /<br>Diversified<br>Financial<br>Services          | Revolving Line of Credit – \$2,500<br>Commitment (9.00% (LIBOR + 7.75%<br>with 1.25% LIBOR floor), due<br>4/18/2014)(4)(25) | —   | —   | —      | —%     |        |      |
|   |  |   | Senior Secured Term Loan A (6.75%<br>(LIBOR + 5.50% with 1.25% LIBOR<br>floor), due 4/18/2018)(4) | 15,328  | 15,328 | 15,328 | 0.4%   |      |
|   |  |   |   | Senior Secured Term Loan B (13.75%<br>(LIBOR + 12.50% with 1.25% LIBOR<br>floor), due 4/18/2018)(4) | 15,938 | 15,938 | 15,938 | 0.5% |
|   |  |   |   |   |        | 31,266 | 31,266 | 0.9% |
| Pelican Products,<br>Inc.(16)   | California /<br>Durable<br>Consumer<br>Products          | Second Lien Term Loan (11.50%<br>(LIBOR + 10.00% with 1.50% LIBOR<br>floor), due 6/14/2019)(3)(4)                           | 15,000  | 14,753  | 15,000 | 0.4%   |        |      |
|   |  |   |   | 14,753  | 15,000 | 0.4%   |        |      |
| Photonis<br>Technologies<br>SAS(16)(22)                                   | France /<br>Aerospace &<br>Defense                       | First Lien Term Loan (8.50% (LIBOR +<br>7.50% with 1.00% LIBOR floor), due<br>9/18/2019)(4)                                 | 10,500  | 10,210  | 10,195 | 0.3%   |        |      |
|   |  |   |   | 10,210  | 10,195 | 0.3%   |        |      |

See notes to consolidated financial statements.



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                            | Investments(1)   | March 31, 2014 (Unaudited) |          |               |                 |
|--|--|--|----------------------------|----------|---------------|-----------------|
|  |  |  | Principal Value            | Cost     | Fair Value(2) | % of Net Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |  |  |                            |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |  |  |                            |          |               |                 |
| Pinnacle (US) Acquisition Co. Limited(16)                              | Texas / Software & Computer Services         | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)                               | \$ 10,000                  | \$ 9,828 | \$ 10,000     | 0.3%            |
|  |  |  |                            | 9,828    | 10,000        | 0.3%            |
| PrimeSport, Inc.   | Georgia / Hotels, Restaurants & Leisure      | Revolving Line of Credit – \$15,000 Commitment (10.00% (LIBOR + 9.50% with 0.50% LIBOR floor), due 6/23/2014)(4)(25) | —                          | —        | —             | —%              |
|  |  | Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 12/23/2019)(3)(4)                      | 43,482                     | 43,482   | 43,482        | 1.2%            |
|  |  | Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 1.00% PIK, due 12/23/2019)(3)(4)     | 43,700                     | 43,700   | 43,700        | 1.2%            |
|  |  |  |                            | 87,182   | 87,182        | 2.4%            |
| Prince Mineral Holding Corp.   | New York / Metal Services & Minerals         | Senior Secured Term Loan (11.50%, due 12/15/2019)  | 10,000                     | 9,898    | 10,000        | 0.3%            |
|  |  |  |                            | 9,898    | 10,000        | 0.3%            |
| Progrexion Holdings, Inc.(28)  | Utah / Consumer Services                     | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)(4)                        | 437,882                    | 437,882  | 437,882       | 12.3%           |
|  |  |  |                            | 437,882  | 437,882       | 12.3%           |
| Rocket Software, Inc.(16)  | Massachusetts / Software & Computer Services | Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)(3)(4)                            | 20,000                     | 19,748   | 20,000        | 0.6%            |
|  |  |  |                            | 19,748   | 20,000        | 0.6%            |
| Royal Adhesives & Sealants, LLC  | Indiana / Chemicals                          | Second Lien Term Loan (9.75% (LIBOR + 8.50% with 1.25% LIBOR floor), due 1/31/2019)(4)                               | 20,000                     | 19,633   | 18,765        | 0.5%            |
|  |  |  |                            | 19,633   | 18,765        | 0.5%            |
| Ryan, LLC  | Texas / Business Services                    | Subordinated Unsecured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)(4)        | 70,000                     | 70,000   | 70,000        | 2.0%            |

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|   |   |  |        |        |      |
|---|---|--|--------|--------|------|
|   |   |  | 70,000 | 70,000 | 2.0% |
| Sandow Media, LLC                       | Florida / Media                           | Senior Secured Term Loan (12.00%, due 5/8/2018)(3)   | 25,143 | 25,143 | 0.6% |
|   |   |  | 25,143 | 22,947 | 0.6% |
| SESAC Holdco II LLC(16)                 | Tennessee / Media                         | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 7/12/2019)(3)(4)     | 6,000  | 5,922  | 0.2% |
|   |   |  | 5,922  | 6,120  | 0.2% |
| Skillsoft Public Limited Company(22)    | Ireland / Software & Computer Services    | Senior Unsecured Notes (11.125%, due 6/1/2018)   | 15,000 | 14,935 | 0.4% |
|   |   |  | 14,935 | 15,000 | 0.4% |
| Small Business Whole Loan Portfolio(43) | New York / Diversified Financial Services | 97 small business loans issued by OnDeck Capital, Inc.   | 2,984  | 3,404  | 0.1% |
|   |   |  | 3,404  | 3,300  | 0.1% |
|   |   | Series A Preferred Stock (4,021.45 shares)   | 56     | 56     | —%   |
| Snacks Parent Corporation               | Minnesota / Food Products                 | Series B Preferred Stock (1,866.10 shares)   | 56     | 56     | —%   |
|   |   | Warrant (to purchase 31,196.52 shares of Common Stock, expires 11/12/2020)                     | 479    | 484    | —%   |
|   |   |  | 591    | 596    | —%   |
| Spartan Energy Services, Inc.           | Louisiana / Energy                        | Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)(3)(4) | 35,994 | 35,994 | 1.0% |
|   |   |  | 35,994 | 35,994 | 1.0% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale /<br>Industry   | Investments(1)  | March 31, 2014 (Unaudited) |           |                  |                    |
|--|--|---|----------------------------|-----------|------------------|--------------------|
|  |  |   | Principal<br>Value         | Cost      | Fair<br>Value(2) | % of Net<br>Assets |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |  |   |                            |           |                  |                    |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |  |   |                            |           |                  |                    |
| Speedy Group Holdings Corp.(22)  | Canada /<br>Consumer Finance                                   | Senior Unsecured Notes (12.00%, due 11/15/2017)   | \$ 15,000                  | \$ 15,000 | \$ 15,000        | 0.4%               |
|  |  |   |                            | 15,000    | 15,000           | 0.4%               |
| Sport Helmets Holdings, LLC(14)  | New York /<br>Personal &<br>Nondurable<br>Consumer<br>Products | Escrow Receivable   | —                          |           | 128              | —%                 |
|  |  |   | —                          |           | 128              | —%                 |
| Stauber Performance Ingredients, Inc.                                  | California /<br>Food Products                                  | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)(3)(4)   | 13,130                     | 13,130    | 13,130           | 0.4%               |
|  |  | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)(3)(4)   | 10,041                     | 10,041    | 10,041           | 0.3%               |
|  |  |   |                            | 23,171    | 23,171           | 0.7%               |
| Stryker Energy, LLC  | Ohio / Oil &<br>Gas Production                                 | Subordinated Secured Revolving Credit Facility – \$50,300 Commitment (12.25% (LIBOR + 10.75% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4)(25) | 35,742                     | 32,711    | —                | —%                 |
|  |  | Overriding Royalty Interest(18)   |                            | —         | —                | —%                 |
|  |  |   |                            | 32,711    | —                | —%                 |
| Sudbury Mill CLO Ltd.(22)  | Cayman Islands<br>/ Diversified<br>Financial<br>Services       | Subordinated Notes (Residual Interest)  | 28,200                     | 26,544    | 26,081           | 0.7%               |
|  |  |   |                            | 26,544    | 26,081           | 0.7%               |
| Symphony CLO IX Ltd.(22)   | Cayman Islands<br>/ Diversified<br>Financial<br>Services       | Preference Shares (Residual Interest)   | 45,500                     | 38,735    | 44,330           | 1.2%               |
|  |  |   |                            | 38,735    | 44,330           | 1.2%               |
| System One Holdings, LLC   | Pennsylvania /<br>Business<br>Services                         | Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)(3)(4)  | 48,000                     | 48,000    | 48,000           | 1.3%               |

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|                                      |  |   |        |        |        |      |
|--------------------------------------|--|---|--------|--------|--------|------|
|                                      |  |   |        | 48,000 | 48,000 | 1.3% |
| Targus Group International, Inc.(16) | California / Durable Consumer Products         | First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor) plus 1.0% PIK, due 5/24/2016)(3)(4) | 22,142 | 21,903 | 20,679 | 0.6% |
|                                      |  |   |        | 21,903 | 20,679 | 0.6% |
| TB Corp.                             | Texas / Hotels, Restaurants & Leisure          | Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/19/2018)(3)                                     | 23,628 | 23,628 | 23,628 | 0.7% |
|                                      |  |   |        | 23,628 | 23,628 | 0.7% |
| Tectum Holdings, Inc.(16)            | Michigan / Automobile                          | Second Lien Term Loan (10.25% (PRIME + 7.00%), due 3/12/2019)(4)  | 10,000 | 9,950  | 9,950  | 0.3% |
|                                      |  |   |        | 9,950  | 9,950  | 0.3% |
| Therakos, Inc.(16)                   | New Jersey / Healthcare                        | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4)                | 13,000 | 12,751 | 13,000 | 0.4% |
|                                      |  |   |        | 12,751 | 13,000 | 0.4% |
| Tolt Solutions, Inc.                 | South Carolina / Business Services             | Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 3/7/2019)(4)              | 39,000 | 39,000 | 39,000 | 1.1% |
|                                      |  | Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/7/2019)(4)            | 39,000 | 39,000 | 39,000 | 1.1% |
|                                      |  |   |        | 78,000 | 78,000 | 2.2% |
| Totes Isotoner Corporation(16)       | Ohio / Personal & Nondurable Consumer Products | Second Lien Term Loan (10.75% (LIBOR + 9.25% with 1.50% LIBOR floor), due 1/8/2018)(3)(4)               | 53,000 | 52,844 | 54,060 | 1.5% |
|                                      |  |   |        | 52,844 | 54,060 | 1.5% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry  | Investments(1)   | March 31, 2014 (Unaudited) |          |               | % of Net Assets |
|--|--|--|----------------------------|----------|---------------|-----------------|
|  |  |  | Principal Value            | Cost     | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |  |  |                            |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |  |  |                            |          |               |                 |
|  |  | Senior Secured Term Loan A<br>(6.50% (LIBOR + 4.50% with<br>2.00% LIBOR floor), due<br>6/18/2018)(3)(4)  | \$29,550                   | \$29,550 | \$29,550      | 0.8%            |
| Traeger Pellet Grills<br>LLC   | Oregon / Durable<br>Consumer Products                    | Senior Secured Term Loan B<br>(11.50% (LIBOR + 9.50% with<br>2.00% LIBOR floor), due<br>6/18/2018)(3)(4) | 29,850                     | 29,850   | 29,850        | 0.9%            |
|  |  |  |                            | 59,400   | 59,400        | 1.7%            |
| Transaction<br>Network Services,<br>Inc.(16)                           | Virginia /<br>Telecommunication<br>Services              | Second Lien Term Loan (9.00%<br>(LIBOR + 8.00% with 1.00%<br>LIBOR floor), due 8/14/2020)(4)             | 5,000                      | 4,975    | 5,000         | 0.1%            |
|  |  |  |                            | 4,975    | 5,000         | 0.1%            |
| TriMark USA,<br>LLC(16)  | Massachusetts /<br>Hotels, Restaurants<br>& Leisure      | Second Lien Term Loan (10.00%<br>(LIBOR + 9.00% with 1.00%<br>LIBOR floor), due 8/11/2019)(4)            | 10,000                     | 9,804    | 9,804         | 0.3%            |
|  |  |  |                            | 9,804    | 9,804         | 0.3%            |
| United Sporting<br>Companies, Inc.(5)                                  | South Carolina /<br>Durable Consumer<br>Products         | Second Lien Term Loan (12.75%<br>(LIBOR + 11.00% with 1.75%<br>LIBOR floor), due<br>5/16/2018)(3)(4)     | 160,000                    | 160,000  | 160,000       | 4.5%            |
|  |  |  |                            | 160,000  | 160,000       | 4.5%            |
| United States<br>Environmental<br>Services, LLC                        | Texas / Commercial<br>Services                           | Senior Secured Term Loan A<br>(6.50% (LIBOR + 5.50% with<br>1.00% LIBOR floor), due<br>3/31/2019)(4)     | 24,000                     | 24,000   | 24,000        | 0.7%            |
|  |  | Senior Secured Term Loan B<br>(11.50% (LIBOR + 10.50% with<br>1.00% LIBOR floor), due<br>3/31/2019)(4)   | 36,000                     | 36,000   | 36,000        | 1.0%            |
|  |  |  |                            | 60,000   | 60,000        | 1.7%            |
| Venio LLC (f/k/a<br>LM Keane<br>Acquisition Co.)                       | Pennsylvania /<br>Business Services                      | Second Lien Term Loan (12.00%<br>(LIBOR + 9.50% with 2.50%<br>LIBOR floor), due 2/19/2020)(4)            | 17,000                     | 17,000   | 17,000        | 0.5%            |
|  |  |  |                            | 17,000   | 17,000        | 0.5%            |
| Water Pik, Inc.(16)  | Colorado / Personal<br>& Nondurable<br>Consumer Products | Second Lien Term Loan (9.75%<br>(LIBOR + 8.75% with 1.00%<br>LIBOR floor), due 1/8/2021)(4)              | 11,000                     | 10,594   | 10,594        | 0.3%            |

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|  |                             |   |             |             |        |
|--|-----------------------------|---|-------------|-------------|--------|
|  |                             |   | 10,594      | 10,594      | 0.3%   |
|  |                             | Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal and 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4) | 15,000      | 14,650      | —%     |
| Wind River Resources Corporation(39)                                   | Utah / Oil & Gas Production | Net Profits Interest (5% of Equity Distributions)(7)  |             | —           | —%     |
|  |                             |   | 14,650      | —           | —%     |
| Total Non-Control/Non-Affiliate Investments (Level 3)                  |                             |   | \$4,423,954 | \$4,415,020 | 124.0% |
| Total Level 3 Portfolio Investments                                    |                             |   | \$6,111,296 | \$6,006,033 | 168.6% |
| LEVEL 1 PORTFOLIO INVESTMENTS:   |                             |   |             |             |        |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |                             |   |             |             |        |
| Dover Saddlery, Inc.   | Massachusetts / Retail      | Common Stock (30,974 shares)  | 63          | 170         | —%     |
|  |                             |   | 63          | 170         | —%     |
| Total Non-Control/Non-Affiliate Investments (Level 1)                  |                             |   | \$63        | \$170       | —%     |
| Total Non-Control/Non-Affiliate Investments                            |                             |   | \$4,424,017 | \$4,415,190 | 124.0% |
| Total Portfolio Investments  |                             |   | \$6,111,359 | \$6,006,203 | 168.6% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                  | Investments(1)   | June 30, 2013 (Audited) |          |               | % of Net Assets |
|--|------------------------------------|--|-------------------------|----------|---------------|-----------------|
|  |                                    |  | Principal Value         | Cost     | Fair Value(2) |                 |
| LEVEL 3 PORTFOLIO INVESTMENTS:                               |                                    |  |                         |          |               |                 |
| Control Investments (greater than 25.00% voting control)(47) |                                    |  |                         |          |               |                 |
| AMU Holdings Inc.(27)  | Pennsylvania / Property Management | Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3)(4)  | \$28,750                | \$28,750 | \$28,750      | 1.1%            |
|  |                                    | Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)  | 12,500                  | 12,500   | 12,500        | 0.5%            |
|  |                                    | Series A Preferred Stock (9,919.684 shares)  |                         | 9,920    | 9,920         | 0.4%            |
|  |                                    | Common Stock (100 shares)  |                         | —        | 3,478         | 0.1%            |
| APH Property Holdings, LLC(32)                               | Georgia / Real Estate              | Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4)  | 125,892                 | 125,892  | 125,892       | 4.8%            |
|  |                                    | Membership Interest  |                         | 26,648   | 26,648        | 1.0%            |
|  |                                    |  |                         | 152,540  | 152,540       | 5.8%            |
| ARRM Holdings Inc.   | South Carolina / Manufacturing     | Senior Secured Note — Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(3)(4)   | 19,737                  | 19,737   | 19,737        | 0.7%            |
|  |                                    | Subordinated Unsecured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 3/30/2018)(4)  | 19,700                  | 19,700   | 19,700        | 0.7%            |
|  |                                    | Series A Convertible Preferred Stock (6,142.60 shares)   |                         | 6,057    | —             | —%              |
|  |                                    | Common Stock (6.00 shares)   |                         | —        | —             | —%              |
| AWCNC, LLC(19)   | North Carolina / Machinery         |  | 45,494                  | 39,437   | 1.4%          |                 |
|  |                                    | Members Units — Class A (1,800,000 units)  |                         | —        | —             | —%              |
|  |                                    | Members Units — Class B-1 (1 unit)   |                         | —        | —             | —%              |
|  |                                    | Members Units — Class B-2 (7,999,999 units)  |                         | —        | —             | —%              |
|  |                                    |  |                         | —        | —             | —%              |
| Borga, Inc.(21)  | California / Manufacturing         | Revolving Line of Credit — \$1,150 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)(25) | 1,150                   | 1,095    | 586           | —%              |

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|  |                         |   |        |        |        |      |
|--|-------------------------|---|--------|--------|--------|------|
|  |                         | Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4) | 1,611  | 1,501  | —      | —%   |
|  |                         | Senior Secured Term Loan C (12.00% plus 4.00% PIK plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)    | 9,738  | 706    | —      | —%   |
|  |                         | Common Stock (100 shares)   |        | —      | —      | —%   |
|  |                         | Warrant (to purchase 33,750 shares of Common Stock, expires 5/6/2015)   |        | —      | —      | —%   |
|  |                         |   |        | 3,302  | 586    | —%   |
|  |                         | Senior Secured Note (10.00%, due 12/31/2017)(3)   | 17,663 | 17,663 | 17,663 | 0.7% |
| CCPI Holdings Inc.(33)                           | Ohio / Manufacturing    | Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018)  | 7,659  | 7,659  | 7,659  | 0.3% |
|  |                         | Common Stock (100 shares)   |        | 8,581  | 7,977  | 0.3% |
|  |                         | Net Revenue Interest (4% of Net Revenue)  |        | —      | 604    | —%   |
|  |                         |   |        | 33,903 | 33,903 | 1.3% |
| Credit Central Holdings of Delaware, LLC(22)(34) | Ohio / Consumer Finance | Senior Secured Revolving Credit Facility — \$60,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 12/31/2022)(4)(25)  | 38,082 | 38,082 | 38,082 | 1.4% |
|  |                         | Membership Interest   |        | 9,581  | 8,361  | 0.3% |
|  |                         | Net Revenue Interest (5% of Net Revenue)  |        | —      | 4,019  | 0.2% |
|  |                         |   |        | 47,663 | 50,462 | 1.9% |

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry              | Investments(1)  | June 30, 2013 (Audited) |         |               | % of Net Assets |
|--|--------------------------------|---|-------------------------|---------|---------------|-----------------|
|  |                                |   | Principal Value         | Cost    | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                        |                                |   |                         |         |               |                 |
| Control Investments (greater than 25.00% voting control)(47) |                                |   |                         |         |               |                 |
| Energy Solutions Holdings Inc.(8)                            | Texas / Energy                 | Junior Secured Note (18.00%, due 12/12/2016)  | \$8,500                 | \$8,500 | \$8,500       | 0.3%            |
|  |                                | Senior Secured Note to Vessel Holdings, LLC (18.00%, due 12/12/2016)  | 3,500                   | 3,500   | 3,500         | 0.1%            |
|  |                                | Subordinated Secured Note to Jettco Marine Services, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, past due)(4) | 13,906                  | 12,503  | 8,449         | 0.3%            |
|  |                                | Senior Secured Note to Yatesville Coal Holdings, LLC (in non-accrual status effective 1/1/2009, past due)   | 1,449                   | 1,449   | —             | —%              |
|  |                                | Escrow Receivable   | —                       | —       | —             | —%              |
|  |                                | Common Stock (100 shares)   | —                       | 8,318   | 6,247         | 0.2%            |
| First Tower Holdings of Delaware LLC(22)(29)                 | Mississippi / Consumer Finance | Senior Secured Revolving Credit Facility — \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(4)(25)  | 264,760                 | 264,760 | 264,760       | 10.0%           |
|  |                                | Membership Interest   | —                       | 43,193  | 20,447        | 0.8%            |
|  |                                | Net Revenue Interest (5% of Net Revenue)  | —                       | —       | 12,877        | 0.5%            |
|  |                                | Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, past due)   | 1,688                   | 1,686   | —             | —%              |
|  |                                | Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)  | 1,170                   | 1,170   | —             | —%              |
| The Healing Staff, Inc.(9)                                   | North Carolina / Contracting   | Common Stock (1,000 shares)   | —                       | 975     | —             | —%              |
|  |                                | Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)   | 500                     | 500     | 346           | —%              |
|  |                                | Series A-1 Preferred Stock (6,635 shares)   | —                       | —       | —             | —%              |
| Manx Energy, Inc.(12)  | Kansas / Oil & Gas Production  | Common Stock (17,082 shares)  | —                       | —       | —             | —%              |
|  |                                |   | 500                     | 500     | 346           | —%              |

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|   |                                   |  |        |        |        |      |
|---|-----------------------------------|--|--------|--------|--------|------|
| Nationwide<br>Acceptance<br>Holdings<br>LLC(22)(36) | Illinois /<br>Consumer<br>Finance | Senior Secured Revolving Credit<br>Facility — \$30,000 Commitment (20.00%<br>(LIBOR + 18.50% with 1.50% LIBOR<br>floor), due 1/31/2023)(4)(25) | 21,308 | 21,308 | 21,308 | 0.8% |
|   |                                   | Membership Interest  |        | 3,843  | 2,142  | 0.1% |
|   |                                   | Net Revenue Interest (5% of Net<br>Revenue)  |        | —      | 1,701  | 0.1% |
|   |                                   |  |        | 25,151 | 25,151 | 1.0% |
| NMMB<br>Holdings, Inc.(24)                          | New York /<br>Media               | Senior Term Loan (14.00%, due<br>5/6/2016)   | 16,000 | 16,000 | 13,149 | 0.5% |
|   |                                   | Senior Subordinated Term Loan<br>(15.00%, due 5/6/2016)  | 2,800  | 2,800  | —      | —%   |
|   |                                   | Series A Preferred Stock (4,400 shares)  |        | 4,400  | —      | —%   |
|   |                                   |  | 23,200 | 13,149 | 0.5%   |      |
| R-V Industries, Inc.                                | Pennsylvania /<br>Manufacturing   | Senior Subordinated Note (10.00%<br>(LIBOR + 9.00% with 1.00% LIBOR<br>floor), due 6/12/2018)(4)   | 32,750 | 32,750 | 32,750 | 1.2% |
|   |                                   | Common Stock (545,107 shares)  |        | 5,087  | 18,522 | 0.7% |
|   |                                   | Warrant (to purchase 200,000 shares of<br>Common Stock, expires 6/30/2017)   |        | 1,682  | 6,796  | 0.3% |
|   |                                   |  |        | 39,519 | 58,068 | 2.2% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company   | Locale /<br>Industry                          | Investments(1)  | June 30, 2013 (Audited) |                  |                  | % of Net<br>Assets |
|---|---|---|-------------------------|------------------|------------------|--------------------|
|   |   |   | Principal<br>Value      | Cost             | Fair<br>Value(2) |                    |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |   |   |                         |                  |                  |                    |
| <b>Control Investments (greater than 25.00% voting control)(47)</b> |   |   |                         |                  |                  |                    |
|   |   | Senior Secured Note (9.00% (LIBOR + 6.00%, with 3.00% LIBOR floor) plus 9.00% PIK, due 12/31/2018)(4)   | \$34,063                | \$34,063         | \$34,063         | 1.3%               |
| Valley Electric Holdings I, Inc.(35)                                | Washington /<br>Construction &<br>Engineering | Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)                                       | 10,026                  | 10,026           | 10,026           | 0.4%               |
|   |   | Common Stock (100 shares)   |                         | 9,526            | 8,288            | 0.3%               |
|   |   | Net Revenue Interest (5% of Net Revenue)  |                         | —                | 1,238            | 0.1%               |
|   |   |   |                         | 53,615           | 53,615           | 2.1%               |
|   |   | Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)(37) | 22,000                  | —                | 3,832            | 0.1%               |
| Wolf Energy Holdings Inc.(12)                                       | Kansas /<br>Oil & Gas<br>Production           | Senior Secured Note to Appalachian Energy Holdings, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)                          | 2,642                   | 2,000            | 546              | —%                 |
|   |   | Senior Secured Note to Appalachian Energy Holdings, LLC (8.00%, in non-accrual status, past due)  | 51                      | 50               | 51               | —%                 |
|   |   | Senior Secured Note to Coalbed, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)(6)   | 7,930                   | 5,990            | —                | —%                 |
|   |   | Common Stock (100 shares)   |                         | —                | —                | —%                 |
|   |   | Net Profits Interest (8% of Equity Distributions)(7)  |                         | —                | 520              | —%                 |
| <b>Total Control Investments</b>                                    |   |   | <b>8,040</b>            | <b>4,949</b>     | <b>4,949</b>     | <b>0.1%</b>        |
|   |   |   | <b>\$830,151</b>        | <b>\$811,634</b> | <b>\$811,634</b> | <b>30.6%</b>       |
| <b>Affiliate Investments (5.00% to 24.99% voting control)(48)</b>   |   |   |                         |                  |                  |                    |
| BNN Holdings Corp.<br>(f/k/a Biotronic NeuroNetwork)                | Michigan /<br>Healthcare                      | Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(3)(4)   | 29,550                  | 29,550           | 29,550           | 1.1%               |
|   |   | Series A Preferred Stock (9,925.455 shares)(13)   |                         | 2,300            | 2,832            | 0.1%               |
|   |   |   |                         | 579              | 533              | —%                 |

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|                             |   |   |       |          |          |      |
|-----------------------------|---|---|-------|----------|----------|------|
|                             |   | Series B Preferred Stock (1,753.636 shares)(13)                       |       | 32,429   | 32,915   | 1.2% |
|                             |   | Senior Secured Term Loan A (10.00% plus 1.00% PIK, due 9/15/2015)     | 1,712 | 1,702    | 1,712    | 0.1% |
|                             |   | Senior Secured Term Loan B (10.00% plus 1.00% PIK, due 9/15/2015)     | 4,892 | 4,809    | 4,892    | 0.2% |
|                             |   | Senior Secured Term Loan C (10.00% plus 1.00% PIK, due 9/15/2015)     | 2,371 | 2,371    | 2,371    | 0.1% |
| BXC Holding Company(20)     | Georgia / Textiles, Apparel & Luxury Goods    | Senior Secured Term Loan (10.00% plus 1.00% PIK, due 9/15/2015)       | 8,325 | 7,878    | 410      | —%   |
|                             |   | Series A Preferred Stock (1,000,000 shares)                           | —     | —        | —        | —%   |
|                             |   | Common Stock (10,000 shares)  | —     | —        | —        | —%   |
|                             |   | Warrant (to purchase 15% of all classes of equity, expires 8/31/2022) | —     | —        | —        | —%   |
|                             |   |   |       | 16,760   | 9,385    | 0.4% |
| Smart, LLC(14)              | New York / Diversified / Conglomerate Service | Membership Interest   | —     | —        | 143      | —%   |
|                             |   |   |       | —        | 143      | —%   |
| Total Affiliate Investments |   |   |       | \$49,189 | \$42,443 | 1.6% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale /<br>Industry                                     | Investments(1)  | June 30, 2013 (Audited) |        |                  | % of Net<br>Assets |
|--|--|---|-------------------------|--------|------------------|--------------------|
|  |  |   | Principal<br>Value      | Cost   | Fair<br>Value(2) |                    |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |  |   |                         |        |                  |                    |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |  |   |                         |        |                  |                    |
| ADAPCO, Inc.   | Florida /<br>Ecological                                  | Common Stock (5,000 shares)   |                         | \$ 141 | \$ 335           | —%                 |
|  |  |   |                         | 141    | 335              | —%                 |
| Aderant North<br>America, Inc.   | Georgia /<br>Software &<br>Computer<br>Services          | Second Lien Term Loan (10.00%<br>(LIBOR + 8.75% with 1.25% LIBOR<br>floor), due 6/20/2019)(4) | \$ 7,000                | 6,900  | 7,000            | 0.3%               |
|  |  |   |                         | 6,900  | 7,000            | 0.3%               |
| Aircraft Fasteners<br>International, LLC                               | California /<br>Machinery                                | Class A Units (32,500 units)  |                         | 396    | 565              | —%                 |
|  |  |   |                         | 396    | 565              | —%                 |
| ALG USA<br>Holdings, LLC   | Pennsylvania /<br>Hotels,<br>Restaurants &<br>Leisure    | Second Lien Term Loan (10.25%<br>(LIBOR + 9.00% with 1.25% LIBOR<br>floor), due 2/28/2020)(4) | 12,000                  | 11,764 | 12,000           | 0.4%               |
|  |  |   |                         | 11,764 | 12,000           | 0.4%               |
| Allied Defense<br>Group, Inc.  | Virginia /<br>Aerospace &<br>Defense                     | Common Stock (10,000 shares)  |                         | 56     | —                | —%                 |
|  |  |   |                         | 56     | —                | —%                 |
| American Gilsonite<br>Company  | Utah /<br>Metal Services<br>& Minerals                   | Second Lien Term Loan (11.50%, due<br>9/1/2017)<br>Membership Interest(15)                    | 38,500                  | 38,500 | 38,500           | 1.4%               |
|  |  |   |                         | —      | 4,058            | 0.2%               |
|  |  |   |                         | 38,500 | 42,558           | 1.6%               |
| Apidos CLO<br>VIII(22)   | Cayman Islands<br>/ Diversified<br>Financial<br>Services | Subordinated Notes (Residual Interest)  | 19,730                  | 19,931 | 19,718           | 0.7%               |
|  |  |   |                         | 19,931 | 19,718           | 0.7%               |
| Apidos CLO IX(22)  | Cayman Islands<br>/ Diversified<br>Financial<br>Services | Subordinated Notes (Residual Interest)  | 20,525                  | 19,609 | 19,294           | 0.7%               |
|  |  |   |                         | 19,609 | 19,294           | 0.7%               |
| Apidos CLO XI(22)  | Cayman Islands<br>/ Diversified<br>Financial<br>Services | Subordinated Notes (Residual Interest)  | 38,340                  | 39,239 | 37,972           | 1.4%               |

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|  |   |   |         |         |         |      |
|--|---|---|---------|---------|---------|------|
|  |   |   |         | 39,239  | 37,972  | 1.4% |
| Apidos CLO XII(22)                             | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 44,063  | 43,480  | 40,294  | 1.5% |
|  |   |   |         | 43,480  | 40,294  | 1.5% |
| Arctic Glacier U.S.A., Inc.                    | Canada / Food Products                          | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 11/10/2019)(4)                               | 150,000 | 150,000 | 150,000 | 5.6% |
|  |   |   |         | 150,000 | 150,000 | 5.6% |
| Armor Holding II LLC(16)                       | New York / Diversified Financial Services       | Second Lien Term Loan (9.25% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/26/2020)(4)                                 | 7,000   | 6,860   | 7,000   | 0.3% |
|  |   |   |         | 6,860   | 7,000   | 0.3% |
| Atlantis Health Care Group (Puerto Rico), Inc. | Puerto Rico / Healthcare                        | Revolving Line of Credit — \$7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014)(4)(25)(26) | 2,000   | 2,000   | 2,000   | 0.1% |
|  |   | Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)                                   | 39,352  | 39,352  | 39,352  | 1.5% |
|  |   |   |         | 41,352  | 41,352  | 1.6% |
| Babson CLO Ltd. 2011-I(22)                     | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 35,000  | 34,499  | 34,450  | 1.3% |
|  |   |   |         | 34,499  | 34,450  | 1.3% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale /<br>Industry   | Investments(1)  | June 30, 2013 (Audited) |          |                  | % of Net<br>Assets |
|--|--|---|-------------------------|----------|------------------|--------------------|
|  |  |   | Principal<br>Value      | Cost     | Fair<br>Value(2) |                    |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |  |   |                         |          |                  |                    |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |  |   |                         |          |                  |                    |
| Babson CLO Ltd.<br>2012-I(22)  | Cayman Islands<br>/ Diversified<br>Financial<br>Services       | Subordinated Notes (Residual Interest)  | \$29,075                | \$25,917 | \$27,269         | 1.0%               |
|  |  |   |                         | 25,917   | 27,269           | 1.0%               |
| Babson CLO Ltd.<br>2012-II(22)   | Cayman Islands<br>/ Diversified<br>Financial<br>Services       | Subordinated Notes (Residual Interest)  | 27,850                  | 28,863   | 27,510           | 1.0%               |
|  |  |   |                         | 28,863   | 27,510           | 1.0%               |
| Blue Coat<br>Systems, Inc.(16)   | Massachusetts /<br>Software &<br>Computer<br>Services          | Second Lien Term Loan (9.50%<br>(LIBOR + 8.50% with 1.00% LIBOR<br>floor), due 6/28/2020)(4)      | 11,000                  | 10,890   | 11,000           | 0.4%               |
|  |  |   |                         | 10,890   | 11,000           | 0.4%               |
| Broder Bros., Co.  | Pennsylvania /<br>Textiles,<br>Apparel &<br>Luxury Goods       | Senior Secured Notes (10.75% (LIBOR<br>+ 9.00% with 1.75% LIBOR floor), due<br>6/27/2018)(3)(4)   | 99,500                  | 99,500   | 99,323           | 3.7%               |
|  |  |   |                         | 99,500   | 99,323           | 3.7%               |
| Brookside Mill<br>CLO Ltd.(22)   | Cayman Islands<br>/ Diversified<br>Financial<br>Services       | Subordinated Notes (Residual Interest)  | 26,000                  | 23,896   | 23,743           | 0.9%               |
|  |  |   |                         | 23,896   | 23,743           | 0.9%               |
| Byrider Systems<br>Acquisition<br>Corp.(22)                            | Indiana /<br>Auto Finance                                      | Senior Subordinated Notes (12.00% plus<br>2.00% PIK, due 11/3/2016)(3)                            | 10,914                  | 10,914   | 10,417           | 0.4%               |
|  |  |   |                         | 10,914   | 10,417           | 0.4%               |
| Caleel + Hayden,<br>LLC(14)(31)  | Colorado /<br>Personal &<br>Nondurable<br>Consumer<br>Products | Membership Interest   |                         |          | 104              | —%                 |
|  |  |   | Escrow Receivable       |          |                  | 137                |
|  |  |   |                         |          | 241              | —%                 |
| Capstone<br>Logistics, LLC   | Georgia /<br>Commercial<br>Services                            | Senior Secured Term Loan A (6.50%<br>(LIBOR + 5.00% with 1.50% LIBOR<br>floor), due 9/16/2016)(4) | 97,291                  | 97,291   | 97,291           | 3.7%               |

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|                                  |   |  |         |         |         |      |
|----------------------------------|---|--|---------|---------|---------|------|
|                                  |   | Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3)(4)       | 100,000 | 100,000 | 100,000 | 3.8% |
|                                  |   |  |         | 197,291 | 197,291 | 7.5% |
| Cargo Airport Services USA, LLC  | New York / Transportation                       | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/31/2016)(3)(4)          | 43,977  | 43,977  | 44,417  | 1.7% |
|                                  |   | Common Equity (1.6 units)  |         | 1,639   | 1,860   | 0.1% |
|                                  |   |  |         | 45,616  | 46,277  | 1.8% |
| Cent CLO 17 Limited(22)          | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 24,870  | 24,615  | 25,454  | 1.0% |
|                                  |   |  |         | 24,615  | 25,454  | 1.0% |
| CI Holdings(4)                   | Texas / Software & Computer Services            | Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 6/11/2019)                | 114,713 | 114,713 | 114,713 | 4.3% |
|                                  |   |  |         | 114,713 | 114,713 | 4.3% |
| CIFC Funding 2011-I, Ltd.(4)(22) | Cayman Islands / Diversified Financial Services | Class D Senior Secured Notes (5.32% (LIBOR + 5.00%), due 1/19/2023)                                    | 19,000  | 15,029  | 15,844  | 0.6% |
|                                  |   | Class E Subordinated Notes (7.32% (LIBOR + 7.00%), due 1/19/2023)                                      | 15,400  | 12,638  | 12,745  | 0.5% |
|                                  |   |  |         | 27,667  | 28,589  | 1.1% |
| Cinedigm DC Holdings, LLC(4)     | New York / Software & Computer Services         | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021) | 70,595  | 70,595  | 70,595  | 2.7% |
|                                  |   |  |         | 70,595  | 70,595  | 2.7% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                            | Investments(1)   | June 30, 2013 (Audited) |        |               | % of Net Assets |
|--|--|--|-------------------------|--------|---------------|-----------------|
|  |  |  | Principal Value         | Cost   | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |  |  |                         |        |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |  |  |                         |        |               |                 |
| The Copernicus Group, Inc.   | North Carolina / Healthcare                  | Escrow Receivable  | \$—                     |        | \$ 130        | —%              |
|  |  |  | —                       |        | 130           | —%              |
| Correctional Healthcare Holding Company, Inc.                          | Colorado / Healthcare                        | Second Lien Term Loan (11.25%, due 1/11/2020)(3)   | \$27,100                | 27,100 | 27,100        | 1.0%            |
|  |  |  |                         | 27,100 | 27,100        | 1.0%            |
| Coverall North America, Inc.   | Florida / Commercial Services                | Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4) | 39,303                  | 39,303 | 39,303        | 1.5%            |
|  |  |  |                         | 39,303 | 39,303        | 1.5%            |
| CP Well Testing, LLC   | Oklahoma / Oil & Gas Production              | Senior Secured Term Loan (13.50% (LIBOR + 11.00% with 2.50% LIBOR floor), due 10/03/2017)(4)   | 19,125                  | 19,125 | 19,125        | 0.7%            |
|  |  |  |                         | 19,125 | 19,125        | 0.7%            |
| CRT MIDCO, LLC   | Wisconsin / Media                            | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3)(4)  | 71,106                  | 71,106 | 71,106        | 2.7%            |
|  |  |  |                         | 71,106 | 71,106        | 2.7%            |
| Deltek, Inc.   | Virginia / Software & Computer Services      | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(4)       | 12,000                  | 11,833 | 12,000        | 0.5%            |
|  |  |  |                         | 11,833 | 12,000        | 0.5%            |
| Diamondback Operating, LP  | Oklahoma / Oil & Gas Production              | Net Profits Interest (15% of Equity Distributions)(7)  | —                       |        | —             | —%              |
|  |  |  |                         |        | —             | —%              |
| Edmentum, Inc. (f/k/a Archipelago Learning, Inc.)(4)                   | Minnesota / Consumer Services                | Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)           | 50,000                  | 48,218 | 50,000        | 1.9%            |
|  |  |  |                         | 48,218 | 50,000        | 1.9%            |
| EIG Investors Corp.  | Massachusetts / Software & Computer Services | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 5/09/2020)(4)(16)    | 22,000                  | 21,792 | 22,000        | 0.8%            |
|  |  |  |                         | 21,792 | 22,000        | 0.8%            |
| Empire Today, LLC  |  |  | 15,700                  | 15,332 | 14,650        | 0.6%            |

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|                                       |   |  |        |        |        |      |
|---------------------------------------|---|--|--------|--------|--------|------|
|                                       | Illinois /<br>Durable<br>Consumer<br>Products | Senior Secured Note (11.375%, due<br>2/1/2017)   |        | 15,332 | 14,650 | 0.6% |
| EXL Acquisition<br>Corp.              | South Carolina<br>/ Biotechnology             | Escrow Receivable  |        | —      | 14     | —%   |
|                                       |   |  |        | —      | 14     | —%   |
| Evanta Ventures,<br>Inc.(11)          | Oregon /<br>Commercial<br>Services            | Subordinated Unsecured (12.00% plus<br>1.00% PIK, due 9/28/2018)                           | 10,479 | 10,479 | 10,479 | 0.4% |
|                                       |   |  |        | 10,479 | 10,479 | 0.4% |
| Fairchild Industrial<br>Products, Co. | North Carolina<br>/ Electronics               | Escrow Receivable  |        | —      | 149    | —%   |
|                                       |   |  |        | —      | 149    | —%   |
| Fischbein, LLC                        | North Carolina<br>/ Machinery                 | Escrow Receivable  |        | —      | 225    | —%   |
|                                       |   |  |        | —      | 225    | —%   |
| Focus Brands,<br>Inc.(4)              | Georgia /<br>Consumer<br>Services             | Second Lien Term Loan (10.25%<br>(LIBOR + 9.00% with 1.25% LIBOR<br>floor), due 8/21/2018) | 18,000 | 17,731 | 18,000 | 0.7% |
|                                       |   |  |        | 17,731 | 18,000 | 0.7% |

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                                   | Investments(1)   | June 30, 2013 (Audited) |          |               | % of Net Assets |
|--|---|--|-------------------------|----------|---------------|-----------------|
|  |   |  | Principal Value         | Cost     | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |  |                         |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |  |                         |          |               |                 |
| FPG, LLC   | Illinois / Durable Consumer Products                | Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(4)    | \$21,401                | \$21,401 | \$21,401      | 0.8%            |
|  |   | Common Stock (5,638 shares)  |                         | 27       | 19            | —%              |
|  |   |  |                         | 21,428   | 21,420        | 0.8%            |
| Galaxy XII CLO, Ltd.(22)   | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)   | 22,000                  | 20,792   | 21,657        | 0.8%            |
|  |   |  |                         | 20,792   | 21,657        | 0.8%            |
| Galaxy XV CLO, Ltd.(22)  | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)   | 35,025                  | 32,119   | 30,227        | 1.1%            |
|  |   |  |                         | 32,119   | 30,227        | 1.1%            |
| Grocery Outlet, Inc.   | California / Retail                                 | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)        | 14,457                  | 14,127   | 14,457        | 0.5%            |
|  |   |  |                         | 14,127   | 14,457        | 0.5%            |
| Gulf Coast Machine & Supply Company                                    | Texas / Manufacturing                               | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(3)(4) | 41,213                  | 41,213   | 31,972        | 1.2%            |
|  |   |  |                         | 41,213   | 31,972        | 1.2%            |
| Halcyon Loan Advisors Funding 2012-1 Ltd.(22)                          | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)   | 23,188                  | 22,279   | 22,724        | 0.9%            |
|  |   |  |                         | 22,279   | 22,724        | 0.9%            |
| Halcyon Loan Advisors Funding 2013-1 Ltd.(22)                          | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)   | 40,400                  | 41,085   | 38,291        | 1.4%            |
|  |   |  |                         | 41,085   | 38,291        | 1.4%            |
| Hoffmaster Group, Inc.(4)  | Wisconsin / Personal & Nondurable Consumer Products | Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019)            | 20,000                  | 19,831   | 19,598        | 0.7%            |
|  |   | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)            | 1,000                   | 991      | 955           | —%              |

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|                               |   |   |        |        |        |      |
|-------------------------------|---|---|--------|--------|--------|------|
|                               |   | floor), due 1/3/2019)   |        | 20,822 | 20,553 | 0.7% |
| ICON Health & Fitness, Inc.   | Utah / Durable Consumer Products                | Senior Secured Note (11.875%, due 10/15/2016)(3)  | 43,100 | 43,310 | 33,929 | 1.3% |
|                               |   |   |        | 43,310 | 33,929 | 1.3% |
| IDQ Holdings, Inc.            | Texas / Automobile                              | Senior Secured Note (11.50%, due 4/1/2017)  | 12,500 | 12,300 | 12,500 | 0.5% |
|                               |   |   |        | 12,300 | 12,500 | 0.5% |
| ING IM CLO 2012-2, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | 38,070 | 34,904 | 36,848 | 1.4% |
|                               |   |   |        | 34,904 | 36,848 | 1.4% |
| ING IM CLO 2012-3, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | 46,632 | 44,454 | 46,361 | 1.7% |
|                               |   |   |        | 44,454 | 46,361 | 1.7% |
| ING IM CLO 2012-4, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | 40,613 | 39,255 | 41,153 | 1.5% |
|                               |   |   |        | 39,255 | 41,153 | 1.5% |
| Injured Workers Pharmacy, LLC | Massachusetts Healthcare                        | Second Lien Term Loan (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3)(4) | 22,430 | 22,430 | 22,430 | 0.8% |
|                               |   |   |        | 22,430 | 22,430 | 0.8% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)   | June 30, 2013 (Audited) |          |               | % of Net Assets |
|--|---|--|-------------------------|----------|---------------|-----------------|
|  |   |  | Principal Value         | Cost     | Fair Value(2) |                 |
| LEVEL 3 PORTFOLIO INVESTMENTS:   |   |  |                         |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |  |                         |          |               |                 |
| InterDent, Inc.(4)   | California / Healthcare                         | Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017)                              | \$53,475                | \$53,475 | \$53,475      | 2.0%            |
|  |   | Senior Secured Term Loan B (13.00% (LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3)                         | 55,000                  | 55,000   | 55,000        | 2.1%            |
|  |   |  |                         | 108,475  | 108,475       | 4.1%            |
| JHH Holdings, Inc.   | Texas / Healthcare                              | Second Lien Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 1.50% PIK, due 6/23/2018)(3)(4)           | 16,119                  | 16,119   | 16,119        | 0.6%            |
|  |   |  |                         | 16,119   | 16,119        | 0.6%            |
| LaserShip, Inc.(4)   | Virginia / Transportation                       | Revolving Line of Credit — \$5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(25)    | —                       | —        | —             | —%              |
|  |   | Senior Secured Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2017)(3)                          | 37,031                  | 37,031   | 37,031        | 1.4%            |
|  |   |  |                         | 37,031   | 37,031        | 1.4%            |
| LCM XIV Ltd.(22)   | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)   | 26,500                  | 25,838   | 25,838        | 1.0%            |
|  |   |  |                         | 25,838   | 25,838        | 1.0%            |
| LHC Holdings Corp.   | Florida / Healthcare                            | Revolving Line of Credit — \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4)(25)(26) | —                       | —        | —             | —%              |
|  |   | Senior Subordinated Debt (10.50%, due 5/31/2015)(3)  | 2,865                   | 2,865    | 2,865         | 0.1%            |
|  |   | Common Stock (125 shares)  |                         | 216      | 245           | —%              |
|  |   |  |                         | 3,081    | 3,110         | 0.1%            |
| Madison Park Funding IX, Ltd.(22)                                      | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 31,110                  | 26,401   | 26,596        | 1.0%            |
|  |   |  |                         | 26,401   | 26,596        | 1.0%            |

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|   |   |  |        |        |        |      |
|---|---|--|--------|--------|--------|------|
| Material Handling Services, LLC(4)      | Ohio / Business Services                        | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 7/5/2017)(3)                      | 27,580 | 27,580 | 27,199 | 1.0% |
|   |   | Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017)                       | 37,959 | 37,959 | 37,035 | 1.4% |
| Maverick Healthcare Equity, LLC         | Arizona / Healthcare                            | Preferred Units (1,250,000 units)  |        | 65,539 | 64,234 | 2.4% |
|   |   | Class A Common Units (1,250,000 units)   |        | 1,252  | 780    | —%   |
|   |   |  |        | —      | —      | —%   |
| Medical Security Card Company, LLC(4)   | Arizona / Healthcare                            | Revolving Line of Credit — \$1,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 2/1/2016)(25) | —      | —      | —      | —%   |
|   |   | First Lien Term Loan (11.25% (LIBOR + 8.75% with 2.50% LIBOR floor), due 2/1/2016)(3)                          | 13,427 | 13,427 | 13,427 | 0.5% |
|   |   |  |        | 13,427 | 13,427 | 0.5% |
| Mountain View CLO 2013-I Ltd.(22)       | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 43,650 | 44,235 | 43,192 | 1.6% |
|   |   |  |        | 44,235 | 43,192 | 1.6% |
| National Bankruptcy Services, LLC(3)(4) | Texas / Diversified Financial Services          | Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 1.50% PIK, due 7/17/2017)    | 18,683 | 18,683 | 16,883 | 0.6% |
|   |   |  |        | 18,683 | 16,883 | 0.6% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)  | June 30, 2013 (Audited) |        |               | % of Net Assets |
|--|---|---|-------------------------|--------|---------------|-----------------|
|  |   |   | Principal Value         | Cost   | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |   |                         |        |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |   |                         |        |               |                 |
| Naylor, LLC(4)   | Florida / Media                                 | Revolving Line of Credit — \$2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25)   | \$—                     | \$—    | \$—           | —%              |
|  |   | Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(3)                         | 46,170                  | 46,170 | 46,170        | 1.7%            |
| New Century Transportation, Inc.                                       | New Jersey / Transportation                     | Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 3.00% PIK, due 2/3/2018)(3)(4) | 45,120                  | 45,120 | 44,166        | 1.7%            |
|  |   |   |                         | 45,120 | 44,166        | 1.7%            |
| New Star Metals, Inc.  | Indiana / Metal Services & Minerals             | Senior Subordinated Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 1.00% PIK, due 2/2/2018)(4)     | 50,274                  | 50,274 | 50,274        | 1.9%            |
|  |   |   |                         | 50,274 | 50,274        | 1.9%            |
| Nixon, Inc.  | California / Durable Consumer Products          | Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)  | 15,509                  | 15,252 | 14,992        | 0.6%            |
|  |   |   |                         | 15,252 | 14,992        | 0.6%            |
| NRG Manufacturing, Inc.  | Texas / Manufacturing                           | Escrow Receivable   |                         |        | 3,618         | 0.1%            |
|  |   |   |                         |        | 3,618         | 0.1%            |
| Octagon Investment Partners XV, Ltd.(22)                               | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | 26,901                  | 26,919 | 25,515        | 1.0%            |
|  |   |   |                         | 26,919 | 25,515        | 1.0%            |
| Pegasus Business Intelligence, LP(4)                                   | Texas / Diversified Financial Services          | Revolving Line of Credit — \$2,500 Commitment (9.00% (LIBOR + 7.75% with 1.25% LIBOR floor), due 4/18/2014)(25)   | —                       | —      | —             | —%              |
|  |   | Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)                          | 15,938                  | 15,938 | 15,938        | 0.6%            |

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|   |   |   |         |         |         |      |
|---|---|---|---------|---------|---------|------|
|   |   | Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018)  | 15,938  | 15,938  | 15,938  | 0.6% |
|   |   |   |         | 31,876  | 31,876  | 1.2% |
| Pelican Products, Inc.(16)                | California / Durable Consumer Products  | Second Lien Term Loan (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019)(3)(4) | 15,000  | 14,729  | 15,000  | 0.6% |
|   |   |   |         | 14,729  | 15,000  | 0.6% |
| The Petroleum Place, Inc.                 | Colorado / Software & Computer Services | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 5/20/2019)(4)     | 22,000  | 21,690  | 22,000  | 0.8% |
|   |   |   |         | 21,690  | 22,000  | 0.8% |
| Pinnacle (US) Acquisition Co. Limited(16) | Texas / Software & Computer Services    | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)      | 10,000  | 9,815   | 10,000  | 0.4% |
|   |   |   |         | 9,815   | 10,000  | 0.4% |
| Pre-Paid Legal Services, Inc.(16)         | Oklahoma / Consumer Services            | Senior Subordinated Term Loan (11.50% (PRIME + 8.25%), due 12/31/2016)(3)(4)                | 5,000   | 5,000   | 5,000   | 0.2% |
|   |   |   |         | 5,000   | 5,000   | 0.2% |
| Prince Mineral Holding Corp.              | New York / Metal Services & Minerals    | Senior Secured Term Loan (11.50%, due 12/15/2019)   | 10,000  | 9,888   | 10,000  | 0.4% |
|   |   |   |         | 9,888   | 10,000  | 0.4% |
| Progrexion Holdings, Inc.(4)(28)          | Utah / Consumer Services                | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)  | 241,033 | 241,033 | 241,033 | 9.1% |
|   |   |   |         | 241,033 | 241,033 | 9.1% |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale /<br>Industry                                  | Investments(1)   | June 30, 2013 (Audited) |          |                  | % of Net<br>Assets |
|--|---|--|-------------------------|----------|------------------|--------------------|
|  |   |  | Principal<br>Value      | Cost     | Fair<br>Value(2) |                    |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                                  |   |  |                         |          |                  |                    |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |  |                         |          |                  |                    |
| Rocket<br>Software, Inc.(3)(4)   | Massachusetts /<br>Software &<br>Computer<br>Services | Second Lien Term Loan (10.25%<br>(LIBOR + 8.75% with 1.50% LIBOR<br>floor), due 2/8/2019)  | \$20,000                | \$19,719 | \$20,000         | 0.8%               |
|  |   |  |                         | 19,719   | 20,000           | 0.8%               |
| Royal Adhesives &<br>Sealants, LLC                                     | Indiana /<br>Chemicals                                | Senior Subordinated Unsecured Term<br>Loan (12.00% plus 2.00% PIK, due<br>11/29/2016)  | 28,364                  | 28,364   | 28,648           | 1.1%               |
|  |   |  |                         | 28,364   | 28,648           | 1.1%               |
| Ryan, LLC(4)   | Texas /<br>Business<br>Services                       | Subordinated Secured Notes (12.00%<br>(LIBOR + 9.00% with 3.00% LIBOR<br>floor) plus 3.00% PIK, due 6/30/2018)   | 70,000                  | 70,000   | 70,000           | 2.6%               |
|  |   |  |                         | 70,000   | 70,000           | 2.6%               |
| Sadow Media, LLC   | Florida / Media                                       | Senior Secured Term Loan (10.50%<br>(LIBOR + 8.50% with 2.00% LIBOR<br>floor) plus 1.50% PIK, due<br>5/8/2018)(4)  | 24,900                  | 24,900   | 24,900           | 0.9%               |
|  |   |  |                         | 24,900   | 24,900           | 0.9%               |
| Seaton Corp.(3)(4)   | Illinois /<br>Business<br>Services                    | Subordinated Secured (12.50%<br>(LIBOR + 9.00% with 3.50% LIBOR<br>floor) plus 2.00% PIK, due 3/14/2014)<br>Subordinated Secured (12.50%<br>(LIBOR + 9.00% with 3.50% LIBOR<br>floor) plus 2.00% PIK, due 3/14/2015) | 3,305                   | 3,249    | 3,305            | 0.1%               |
|  |   |  |                         | 10,005   | 10,005           | 0.4%               |
|  |   |  |                         | 13,254   | 13,310           | 0.5%               |
| SESAC<br>Holdco II LLC(16)   | Tennessee /<br>Media                                  | Second Lien Term Loan (10.00%<br>(LIBOR + 8.75% with 1.25% LIBOR<br>floor), due 7/12/2019)(4)  | 6,000                   | 5,914    | 6,000            | 0.2%               |
|  |   |  |                         | 5,914    | 6,000            | 0.2%               |
| Skillsoft Public<br>Limited Company(22)                                | Ireland /<br>Software &<br>Computer<br>Services       | Senior Unsecured Notes (11.125%,<br>due 6/1/2018)  | 15,000                  | 14,927   | 15,000           | 0.6%               |
|  |   |  |                         | 14,927   | 15,000           | 0.6%               |
| Snacks Parent<br>Corporation   | Minnesota /<br>Food Products                          | Series A Preferred Stock (4,021.45<br>shares)<br>Series B Preferred Stock (1,866.10<br>shares)   |                         | 56       | 56               | —%                 |
|  |   |  |                         | 56       | 56               | —%                 |

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|   |  |  |        |        |        |      |
|---|--|--|--------|--------|--------|------|
|   |  | Warrant (to purchase 31,196.52 shares of Common Stock, expires 11/12/2020)               | 479    | 484    | —%     |      |
|   |  |  | 591    | 596    | —%     |      |
| Southern Management Corporation(22)(30)     | South Carolina / Consumer Finance                  | Second Lien Term Loan (12.00% plus 5.00% PIK, due 5/31/2017)                             | 17,565 | 17,565 | 18,267 | 0.7% |
|   |  |  | 17,565 | 18,267 | 0.7%   |      |
| Spartan Energy Services, Inc.(3)(4)         | Louisiana / Energy                                 | Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017) | 29,625 | 29,625 | 29,625 | 1.1% |
|   |  |  | 29,625 | 29,625 | 1.1%   |      |
| Speedy Group Holdings Corp.                 | Canada / Consumer Finance                          | Senior Unsecured Notes (12.00%, due 11/15/2017)(22)                                      | 15,000 | 15,000 | 15,000 | 0.6% |
|   |  |  | 15,000 | 15,000 | 0.6%   |      |
| Sport Helmets Holdings, LLC(14)             | New York / Personal & Nondurable Consumer Products | Escrow Receivable  | —      | 389    | —%     |      |
|   |  |  | —      | 389    | —%     |      |
| Stauber Performance Ingredients, Inc.(3)(4) | California / Food Products                         | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)  | 16,594 | 16,594 | 16,594 | 0.6% |
|   |  | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)  | 10,238 | 10,238 | 10,238 | 0.4% |
|   |  |  | 26,832 | 26,832 | 1.0%   |      |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company  | Locale / Industry                               | Investments(1)   | June 30, 2013 (Audited) |          |               | % of Net Assets |
|--|---|--|-------------------------|----------|---------------|-----------------|
|  |   |  | Principal Value         | Cost     | Fair Value(2) |                 |
| LEVEL 3 PORTFOLIO INVESTMENTS:   |   |  |                         |          |               |                 |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |   |  |                         |          |               |                 |
| Stryker Energy, LLC  | Ohio / Oil & Gas Production                     | Subordinated Secured Revolving Credit Facility — \$50,300 Commitment (8.50% (LIBOR + 7.00% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4)(25)<br>Overriding Royalty Interest(18) | \$34,738                | \$32,711 | \$—           | —%              |
|  |   |  |                         | —        | —             | —%              |
|  |   |  |                         | 32,711   | —             | —%              |
| Symphony CLO IX Ltd.(22)   | Cayman Islands / Diversified Financial Services | Preference Shares (Residual Interest)  | 45,500                  | 42,289   | 43,980        | 1.7%            |
|  |   |  |                         | 42,289   | 43,980        | 1.7%            |
| System One Holdings, LLC(3)(4)   | Pennsylvania / Business Services                | Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)   | 32,000                  | 32,000   | 32,000        | 1.2%            |
|  |   |  |                         | 32,000   | 32,000        | 1.2%            |
| Targus Group International, Inc.(16)                                   | California / Durable Consumer Products          | First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 5/25/2016)(3)(4)  | 23,520                  | 23,209   | 23,520        | 0.9%            |
|  |   |  |                         | 23,209   | 23,520        | 0.9%            |
| TB Corp.(3)  | Texas / Hotels, Restaurants & Leisure           | Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018)   | 23,361                  | 23,361   | 23,361        | 0.9%            |
|  |   |  |                         | 23,361   | 23,361        | 0.9%            |
| Therakos, Inc.   | New Jersey / Healthcare                         | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4)(16)   | 8,000                   | 7,773    | 8,000         | 0.3%            |
|  |   |  |                         | 7,773    | 8,000         | 0.3%            |
| Totes Isotoner Corporation   | Ohio / Personal & Nondurable Consumer Products  | Second Lien Term Loan (10.75% (LIBOR + 9.25% with 1.50% LIBOR floor), due 1/8/2018)(3)(4)  | 39,000                  | 39,000   | 39,000        | 1.5%            |
|  |   |  |                         | 39,000   | 39,000        | 1.5%            |

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|   |   |   |         |             |             |        |
|---|---|---|---------|-------------|-------------|--------|
|   |   | Revolving Line of Credit — \$10,000<br>Commitment (9.00% (LIBOR +<br>7.00% with 2.00% LIBOR floor),<br>due 6/18/2014)(25)   | 6,143   | 6,143       | 6,143       | 0.3%   |
| Traeger Pellet<br>Grills LLC(4)                       | Oregon /<br>Durable<br>Consumer<br>Products         | Senior Secured Term Loan A<br>(6.50% (LIBOR + 4.50% with<br>2.00% LIBOR floor), due<br>6/18/2018)   | 30,000  | 30,000      | 30,000      | 1.1%   |
|   |   | Senior Secured Term Loan B<br>(11.50% (LIBOR + 9.50% with<br>2.00% LIBOR floor), due<br>6/18/2018)  | 30,000  | 30,000      | 30,000      | 1.1%   |
|   |   |   |         | 66,143      | 66,143      | 2.5%   |
| TransFirst<br>Holdings, Inc.(4)                       | New York /<br>Software &<br>Computer<br>Services    | Second Lien Term Loan (11.00%,<br>(LIBOR + 9.75% with 1.25%<br>LIBOR floor), due 6/27/2018)   | 5,000   | 4,860       | 5,000       | 0.2%   |
|   |   |   |         | 4,860       | 5,000       | 0.2%   |
| United Sporting<br>Companies, Inc.(5)                 | South Carolina<br>/ Durable<br>Consumer<br>Products | Second Lien Term Loan (12.75%<br>(LIBOR + 11.00% with 1.75%<br>LIBOR floor), due 5/16/2018)(4)  | 160,000 | 160,000     | 160,000     | 6.0%   |
|   |   |   |         | 160,000     | 160,000     | 6.0%   |
| Wind River Resources<br>Corporation                   | Utah /<br>Oil & Gas<br>Production                   | Senior Secured Note (13.00%<br>(LIBOR + 7.50% with 5.50%<br>LIBOR floor) plus 3.00% default<br>interest on principal, 16.00% default<br>interest on past due interest, in<br>non-accrual status effective<br>12/1/2008, past due)(4)<br>Net Profits Interest (5% of Equity<br>Distributions)(7) | 15,000  | 14,750      | —           | —%     |
|   |   |   |         | —           | —           | —%     |
|   |   |   |         | 14,750      | —           | —%     |
| Total Non-Control/Non-Affiliate Investments (Level 3) |   |   |         | \$3,376,375 | \$3,318,663 | 124.9% |
| Total Level 3 Portfolio Investments                   |   |   |         | \$4,255,715 | \$4,172,740 | 157.1% |

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)

March 31, 2014 (Unaudited) and June 30, 2013 (Audited)

(in thousands, except share data)

| Portfolio Company  | Locale /<br>Industry      | Investments(1)               | June 30, 2013 (Audited) |                          | % of Net<br>Assets |
|--|---------------------------|------------------------------|-------------------------|--------------------------|--------------------|
|  |                           |                              | Principal<br>Value      | Cost<br>Fair<br>Value(2) |                    |
| LEVEL 1 PORTFOLIO INVESTMENTS:   |                           |                              |                         |                          |                    |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) |                           |                              |                         |                          |                    |
| Dover<br>Saddlery, Inc.  | Massachusetts /<br>Retail | Common Stock (30,974 shares) | \$63                    | \$112                    | —%                 |
|  |                           |                              | 63                      | 112                      | —%                 |
| Total Non-Control/Non-Affiliate Investments (Level 1)                  |                           |                              | \$63                    | \$112                    | —%                 |
| Total Non-Control/Non-Affiliate Investments                            |                           |                              | \$3,376,438             | \$3,318,775              | 124.9%             |
| Total Portfolio Investments  |                           |                              | \$4,255,778             | \$4,172,852              | 157.1%             |

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
 March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
 (in thousands, except share data)

Endnote Explanations for the Consolidated Schedules of Investments as of March 31, 2014 and June 30, 2013

The securities in which Prospect Capital Corporation (“we”, “us” or “our”) has invested were acquired in transactions that (1) were exempt from registration under the Securities Act of 1933, as amended, or the “Securities Act.” These securities may be resold only in transactions that are exempt from registration under the Securities Act.

Fair value is determined by or under the direction of our Board of Directors. As of March 31, 2014 and June 30, 2013, one of our portfolio investments, Dover Saddlery, Inc. was publicly traded and classified as Level 1 within the valuation hierarchy established by ASC 820, Fair Value Measurements (“ASC 820”). As of March 31, 2014 and (2) June 30, 2013, the fair value of our remaining portfolio investments was determined using significant unobservable inputs. ASC 820 classifies such inputs used to measure fair value as Level 3 within the valuation hierarchy. See Notes 2 and 3 within the accompanying notes to consolidated financial statements for further discussion.

Security, or a portion thereof, is held by Prospect Capital Funding LLC (“PCF”), our wholly-owned subsidiary and a bankruptcy remote special purpose entity, and is pledged as collateral for the Revolving Credit Facility and such (3) security is not available as collateral to our general creditors (see Note 4). The fair values of these investments held by PCF at March 31, 2014 and June 30, 2013 were \$1,410,447 and \$833,310, respectively; they represent 23.5% and 20.0% of our total investments, respectively.

Security, or portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. Stated (4) interest rate was in effect at March 31, 2014 and June 30, 2013.

Ellett Brothers, LLC, Evans Sports, Inc., Jerry’s Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc., (5) and Outdoor Sports Headquarters, Inc. are joint borrowers on our second lien loan. United Sporting Companies, Inc. is a parent guarantor of this debt investment.

During the quarter ended December 31, 2009, we created two new entities, Coalbed, Inc. and Coalbed, LLC, to foreclose on the outstanding senior secured loan and assigned rights and interests of Conquest Cherokee, LLC (“Conquest”) as a result of the deterioration of Conquest’s financial performance and inability to service debt payments. We own 1,000 shares of common stock in Coalbed, Inc., representing 100% of the issued and outstanding common stock. Coalbed, Inc., in turn, owns 100% of the membership interest in Coalbed, LLC. On (6) October 21, 2009, Coalbed, LLC foreclosed on the loan formerly made to Conquest. On January 19, 2010, as part of the Manx Energy, Inc. (“Manx”) rollup, the Coalbed, LLC assets and loan were assigned to Manx, the holding company. On June 30, 2012, Manx reassigned our investment in Coalbed, LLC to Wolf Energy Holdings Inc. (“Wolf”), a newly-formed, separately owned holding company. Our Board of Directors set the fair value at zero for the loan position in Coalbed, LLC investment as of March 31, 2014 and June 30, 2013.

In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of (7) the interests.

During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, LLC, Change Clean Energy, LLC, Freedom Marine Services Holdings, LLC (“Freedom Marine”), and Yatesville Coal Holdings, LLC was transferred to Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.) (“Energy Solutions”) to consolidate all of our energy holdings under one management team. We own 100% of Energy Solutions. On December 28, 2011, we made a \$3,500 debt investment in Vessel Holdings, LLC, a subsidiary of (8) Freedom Marine. On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Jettco Marine Services, LLC (“Jettco”), a subsidiary of Freedom Marine. The subordinated secured loan to Jettco was replaced with a senior secured note to Vessel Holdings II, LLC, a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine.

We own 1,000 shares of common stock in The Healing Staff, Inc. (f/k/a Lisamarie Fallon, Inc.), representing 100% (9) ownership.

(10)

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

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

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)

March 31, 2014 (Unaudited) and June 30, 2013 (Audited)

(in thousands, except share data)

Endnote Explanations for the Consolidated Schedules of Investments as of March 31, 2014 and June 30, 2013  
(Continued)

On January 19, 2010, we modified the terms of our senior secured debt in Appalachian Energy Holdings, LLC ("AEH") and Coalbed, LLC ("Coalbed") in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were brought under new common management. We funded \$2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was (12) converted into Manx common stock. There was no change to fair value at the time of restructuring. On June 30, 2012, Manx reassigned our investments in Coalbed and AEH to Wolf, a newly-formed, separately owned holding company. We continue to fully reserve any income accrued for Manx. During the quarter ended June 30, 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair value. The Board of Directors set the fair value of our investment in Manx at zero and \$346 as of March 31, 2014 and June 30, 2013, respectively.

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

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

We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares (15) (including 5,111 vested and unvested management options) of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.

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

MITY Holdings of Delaware Inc., an entity in which we own 100% of the common stock, owns 97.7% (42,053 (17) common shares) of MITY Enterprises, Inc., the operating company. MITY Enterprises, Inc., MITY-Lite, Inc., and Broda Enterprises USA, Inc., are joint borrowers. on our senior secured investment in MITY Enterprises, Inc.

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

On December 31, 2009, we sold our investment in Aylward Enterprises, LLC. AWCNC, LLC is the remaining (19) holding company with zero assets. Our remaining outstanding debt after the sale was written off on December 31, 2009 and no value has been assigned to the equity position as of March 31, 2014 and June 30, 2013.

Boxercraft Incorporated and BXC Holding Company are joint borrowers on our senior secured (20) investments. We own a warrant to purchase 15% of all classes of equity, which currently consists of 3,755,000 shares of Series A Preferred Stock, 625,000 shares of Series B Preferred Stock, and 43,800 shares of Voting Common Stock in BXC Holding Company.

We own warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation ("Metal Buildings"), the former holding company of Borga, Inc. Metal Buildings owned 100% of Borga, Inc. On March 8, (21) 2010, we foreclosed on the stock in Borga, Inc. that was held by Metal Buildings, obtaining 100% ownership of Borga, Inc. On January 24, 2014, we contributed our holdings in Borga, Inc. to STI Holdings, Inc., a wholly-owned holding company.

Certain investments that we have determined are not "qualifying" assets under Section 55(a) of the Investment (22) Company Act of 1940 (the "1940 Act"). Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. We monitor the status of these assets on an ongoing basis.

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

(24) On May 6, 2011, we made a secured first lien \$24,250 debt investment to NMMB Acquisition, Inc., a \$2,800 secured debt and \$4,400 equity investment to NMMB Holdings, Inc. We owned 100% of the Series A Preferred Stock in NMMB Holdings, Inc. NMMB Holdings, Inc. owned 100% of the Convertible Preferred Stock in



NMMB Acquisition, Inc. On December 13, 2013, we provided \$8,086 in preferred equity for the recapitalization of NMMB Holdings, Inc. After the restructuring, we received repayment of \$2,800 secured debt outstanding. NMMB Holdings, Inc. now owns 7,200 shares (or 53.6%) of Series A Convertible Preferred Stock of NMMB Acquisition, Inc. and 5,286 shares (or 39.3%) of Series B Convertible Preferred Stock of NMMB Acquisition, Inc. Our fully diluted ownership in NMMB Holdings, Inc. is 100% as of March 31, 2014 and June 30, 2013. Our fully diluted ownership in NMMB Acquisition, Inc. is 89.8% and 83.5% as of March 31, 2014 and June 30, 2013, respectively.

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)  
March 31, 2014 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

Endnote Explanations for the Consolidated Schedules of Investments as of March 31, 2014 and June 30, 2013  
(Continued)

Undrawn committed revolvers to our portfolio companies incur commitment and unused fees ranging from 0.00% (25) to 2.00%. As of March 31, 2014 and June 30, 2013, we had \$267,761 and \$202,518 of undrawn revolver commitments to our portfolio companies, respectively.

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)

March 31, 2014 (Unaudited) and June 30, 2013 (Audited)

(in thousands, except share data)

Endnote Explanations for the Consolidated Schedules of Investments as of March 31, 2014 and June 30, 2013  
(Continued)

Stated interest rates are based on March 31, 2014 and June 30, 2013 one month or three month Libor rates plus  
(26) applicable spreads based on the respective credit agreements. Interest rates are subject to change based on actual elections by the borrower for a Libor rate contract or Base Rate contract when drawing on the revolver.

On July 30, 2010, we made a \$30,000 senior secured debt investment in AIRMALL USA Holdings, Inc., a \$12,500 secured second lien in AMU Holdings Inc., and acquired 100% of the Series A Preferred Stock and Common Stock of AMU Holdings Inc. Our Preferred Stock in AMU Holdings Inc. has a 12.0% dividend rate  
(27) which is paid from the dividends received from its operating subsidiary, AIRMALL USA Holdings, Inc. AMU Holdings Inc. owns 100% of the common stock in AIRMALL USA Holdings, Inc. On December 4, 2013, we sold a \$972 participation in both debt investments, equal to 2% of the outstanding principal amount of loans on that date. As of March 31, 2014, we own 98% of the preferred and common equity securities.

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

First Tower Holdings of Delaware, LLC, an entity that we own 100% of the membership interests, owns 80.1% of  
(29) First Tower Holdings LLC, which owns 100% of First Tower, LLC, the operating company.

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

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

APH Property Holdings, LLC (“APH”), an entity that we own 100% of the membership interests, owns 100% of the  
(32) common equity of American Property Holdings Corp., a property REIT which holds investments in several real estate properties. See Note 3 for further discussion of the properties.

CCPI Holdings Inc., an entity that we own 100% of the common stock, owns 95.13% of CCPI Inc., the operating  
(33) company.

Credit Central Holdings of Delaware, LLC, an entity that we own 100% of the membership interests, owns 74.8%  
(34) of Credit Central Holdings, LLC, which owns 100% of each of Credit Central, LLC, Credit Central South, LLC, Credit Central of Texas, LLC, and Credit Central of Tennessee, LLC, the operating companies.

Valley Electric Holdings I, Inc., an entity that we own 100% of the common stock, owns 100% of Valley  
(35) Electric Holdings II, Inc. (“Valley II”). Valley II owns 96.3% of Valley Electric Co. of Mt. Vernon, Inc., the operating company. Our debt investments are with both Valley Electric Holdings I, Inc. and Valley Electric Co. of Mt. Vernon, Inc..

Nationwide Acceptance Holdings LLC, an entity that we own 100% of the membership interests, owns 93.8% of  
(36) Nationwide Acceptance LLC, the operating company.

On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan  
(37) secured by the assets. The cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors, and was equal to the fair value of assets at the time of transfer resulting in a capital loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf sold the assets located in Martin County, which were previously held by H&M, for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us resulting in a realized capital gain of \$11,826. We received \$3,960 of structuring and advisory fees from Wolf during the year ended June 30,

2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

CP Holdings of Delaware LLC, an entity that we own 100% of the membership interests, owns 82.9% of CP

(38)Energy Services Inc., which owns 100% of several other subsidiaries including CP Well Testing Holding Company, LLC and Fluid Management Holdings, Inc.

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

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)

March 31, 2014 (Unaudited) and June 30, 2013 (Audited)

(in thousands, except share data)

Endnote Explanations for the Consolidated Schedules of Investments as of March 31, 2014 and June 30, 2013  
(Continued)

(40) NPH Property Holdings, LLC (“NPH”), an entity that we own 100% of the membership interests, owns 100% of the common equity of National Property Holdings Corp., a property REIT which holds investments in several real estate properties, and 100% of the membership interests of NPH Property Holdings II, LLC, a peer-to-peer lending company. See Note 3 for further discussion of the properties.

(41) UPH Property Holdings, LLC (“UPH”), an entity that we own 100% of the membership interests, owns 100% of the common equity of United Property Holdings Corp., a property REIT which holds investments in several real estate properties. See Note 3 for further discussion of the properties.

(42) On April 4, 2008, we acquired a controlling equity interest in ARRM Holdings Inc., which owns 100% of Ajax Rolled Ring & Machine, Inc., the operating company. As of March 31, 2014, we control 79.53% of the fully-diluted common and preferred equity of ARRM Holdings Inc. and the fair value of our senior secured debt issued to Ajax Rolled Ring & Machine, Inc. was \$18,978.

(43) Our wholly-owned subsidiary, Prospect Small Business Lending LLC, purchases a series of small business whole loans on recurring basis, originated by OnDeck Capital, Inc., an online small business lender.

(44) Harbortouch Holdings of Delaware Inc., an entity that we own 100% of the common stock, owns 53.5% of Harbortouch Payments, LLC, the operating company.

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)

March 31, 2014 (Unaudited) and June 30, 2013 (Audited)

(in thousands, except share data)

Endnote Explanations for the Consolidated Schedules of Investments as of March 31, 2014 and June 30, 2013  
(Continued)

As defined in the 1940 Act, we are deemed to "Control" these portfolio companies because we own more than (45)25% of the portfolio company's outstanding voting securities. Transactions during the nine months ended March 31, 2014 with these controlled investments are as follows:

| Portfolio Company                        | Purchases* | Redemptions  | Sales   | Interest income | Dividend income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|--|------------|--------------|---------|-----------------|-----------------|--------------|-----------------------------|-------------------------------|
| AMU Holdings, Inc.                       | \$7,600    | \$(446 )     | \$(972) | \$4,821         | \$12,000        | \$—          | \$—                         | \$(13,165 )                   |
| APH Property Holdings, LLC               | 162,029    | (118,186 )** | —       | 13,928          | —               | 5,527        | —                           | 1,937                         |
| ARRM Holdings, LLC                       | 25,000     | (20,308 )    | —       | 2,595           | —               | 148          | —                           | (25,459 )                     |
| AWCNC, LLC                               | —          | —            | —       | —               | —               | —            | —                           | —                             |
| BXC Holding Company                      | —          | —            | —       | —               | —               | —            | —                           | (2,274 )                      |
| CCPI Holdings Inc.                       | —          | (337 )       | —       | 2,479           | 500             | 71           | —                           | (289 )                        |
| CP Holdings of Delaware LLC              | 113,601    | (100 )       | —       | 9,785           | —               | 1,864        | —                           | 6,129                         |
| Credit Central Holdings of Delaware, LLC | 2,500      | —            | —       | 5,819           | 5,000           | 380          | —                           | (4,168 )                      |
| Echelon Aviation LLC                     | 92,628     | —            | —       | 31              | —               | 2,771        | —                           | —                             |
| Energy Solutions Holdings Inc.           | 16,000     | (8,525 )     | —       | 7,133           | —               | 2,480        | —                           | 737                           |
| First Tower Holdings of Delaware LLC     | 10,000     | —            | —       | 40,737          | —               | 10,045       | —                           | 22,479                        |
| Gulf Coast Machine & Supply Company      | 28,450     | (26,213 )    | —       | 896             | —               | —            | —                           | (3,393 )                      |
| Harbortouch Holdings of Delaware Inc.    | 278,694    | —            | —       | 87              | —               | 7,536        | —                           | —                             |
| The Healing Staff, Inc.                  | —          | —            | —       | —               | —               | 5,000        | —                           | —                             |
| Manx Energy, Inc.                        | —          | (275 )       | —       | —               | —               | —            | —                           | (71 )                         |
| MITY Holdings of Delaware Inc.           | 47,985     | —            | —       | 3,208           | —               | 1,049        | —                           | 1,222                         |
| Nationwide Acceptance Holdings LLC       | 4,000      | —            | —       | 3,245           | 5,000           | 1,784        | —                           | 1,601                         |
| NMMB Holdings, Inc.                      | 8,086      | (8,086 )     | —       | 1,672           | —               | —            | —                           | (3,434 )                      |
| NPH Property Holdings, LLC               | 29,425     | 95,624       | **      | 2,838           | —               | 741          | —                           | (1,268 )                      |
| R-V Industries, Inc.                     | —          | (2,339 )     | —       | 2,428           | 1,027           | —            | —                           | 1,406                         |
| STI Holding, Inc. (f/k/a Barga, Inc.)    | —          | —            | —       | —               | —               | —            | —                           | (83 )                         |
| UPH Property Holdings, LLC               | —          | 22,562       | **      | 548             | —               | 69           | —                           | 1,684                         |
|  | —          | (150 )       | —       | 5,598           | —               | 115          | —                           | (20,282 )                     |

Valley Electric Holdings I,  
Inc.

|                           |           |           |   |         |           |          |          |        |           |   |
|---------------------------|-----------|-----------|---|---------|-----------|----------|----------|--------|-----------|---|
| Wolf Energy Holdings Inc. | —         | —         | — | —       | —         | —        | —        | (1,190 | )         |   |
| Total                     | \$825,998 | \$(66,779 | ) | \$(972) | \$107,848 | \$23,527 | \$39,580 | \$—    | \$(37,881 | ) |

\*Purchase amounts do not include payment-in-kind interest.

\*\*These amounts represent the investments transferred from APH to NPH and UPH, respectively.

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (46) own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the nine months ended March 31, 2014 with these affiliated investments are as follows:

| Portfolio Company                                    | Purchases | Redemptions | Sales | Interest income | Dividend income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |   |
|--|-----------|-------------|-------|-----------------|-----------------|--------------|-----------------------------|-------------------------------|---|
| BNN Holdings Corp.<br>(f/k/a Biotronic NeuroNetwork) | \$—       | \$(450      | )     | \$—             | \$2,238         | \$—          | \$—                         | \$(666                        | ) |
| BXC Holding Company                                  | —         | (100        | )     | —               | 1,384           | —            | 12                          | (4,163                        | ) |
| Smart, LLC   | —         | —           | —     | —               | —               | —            | —                           | (143                          | ) |
| Total  | \$—       | \$(550      | )     | \$—             | \$3,622         | \$—          | \$12                        | \$(4,972                      | ) |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)

March 31, 2014 (Unaudited) and June 30, 2013 (Audited)

(in thousands, except share data)

Endnote Explanations for the Consolidated Schedules of Investments as of March 31, 2014 and June 30, 2013  
 (Continued)

As defined in the 1940 Act, we are deemed to "Control" these portfolio companies because we own more than (47)25% of the portfolio company's outstanding voting securities. Transactions during the year ended June 30, 2013 with these controlled investments are as follows:

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

As defined in the 1940 Act, we are deemed to be an "Affiliated company" of these portfolio companies because we (48)own more than 5% of the portfolio company's outstanding voting securities. Transactions during the year ended June 30, 2013 with these affiliated investments are as follows:

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



See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(Unaudited)

(in thousands, except share and per share data)

Note 1. Organization

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

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

On May 15, 2007, we formed a wholly-owned subsidiary, Prospect Capital Funding LLC (“PCF”), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the Revolving Credit Facility at PCF. Our wholly-owned subsidiary, Prospect Small Business Lending LLC (“PSBL”), was formed on January 27, 2014 and purchases a series of small business whole loans on recurring basis, which are originated by OnDeck Capital, Inc. (“OnDeck”), an online small business lender.

Note 2. Significant Accounting Policies

Basis of Presentation

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

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the three and nine months ended March 31, 2014.

Use of Estimates

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

Basis of Consolidation

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

Cash and Cash Equivalents

Cash and cash equivalents include funds deposited with financial institutions and short-term, highly-liquid investments in money market funds. Cash and cash equivalents are carried at cost which approximates fair value.

#### Investment Classification

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, 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 25% or more of the voting securities of an investee company. Under the 1940 Act, "Affiliate Investments" 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. "Non-Control/Non-Affiliate Investments" are those that are neither Control Investments nor Affiliate Investments.

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

#### Investment Risks

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

##### Market Risk

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

##### Credit Risk

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

##### Liquidity Risk

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

##### Interest Rate Risk

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

##### Prepayment Risk

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

##### Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

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

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

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

Our investments in CLOs are classified as ASC 820 Level 3 securities, and are valued using a discounted cash flow model. 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 collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

#### Valuation of Other Financial Assets and Financial Liabilities

The Fair Value Option within ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible assets and liabilities for which the assets and liabilities are measured using another measurement attribute. For our non-investment assets and liabilities, we have

elected not to value them at fair value as would be permitted by ASC 825-10-25.

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#### Senior Convertible Notes

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

#### Revenue Recognition

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis.

Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or amortization of premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. ("Patriot") was determined based on the difference between par value and fair value as of December 2, 2009, and continues to accrete until maturity or repayment of the respective loans (see Note 3).

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 March 31, 2014, approximately 0.3% of our total assets are in non-accrual status.

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

#### Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income. As of March 31, 2014, we have \$5,000 accrued as an estimate of the excise tax due for continuing to retain a portion of our annual taxable income for the calendar years ending December 31, 2013 and December 31, 2014.



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 March 31, 2014 and for the three and nine months then ended, we did not have a liability for any unrecognized tax benefits. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2009 remain subject to examination by the Internal Revenue Service.

#### Dividends and Distributions

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

#### Financing Costs

We record origination expenses related to our Revolving Credit Facility and Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® (collectively, our “Senior Notes”), as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Senior Notes, over the respective expected life or maturity. We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of Securities and Exchange Commission (“SEC”) registration fees, legal fees and accounting fees incurred. These prepaid assets are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed.

#### Guarantees and Indemnification Agreements

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

#### Per Share Information

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

#### 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. We are currently evaluating the effect the adoption of ASU 2013-08 may have on our consolidated financial statements and disclosures.

## Note 3. Portfolio Investments

At March 31, 2014, we had investments in 138 long-term portfolio investments, which had an amortized cost of \$6,111,359 and a fair value of \$6,006,203. At June 30, 2013, we had investments in 124 long-term portfolio investments, which had an amortized cost of \$4,255,778 and a fair value of \$4,172,852.

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled \$2,507,856 and \$2,304,457 during the nine months ended March 31, 2014 and March 31, 2013, respectively. Debt repayments and proceeds from sales of equity securities of approximately \$617,452 and \$609,919 were received during the nine months ended March 31, 2014 and March 31, 2013, respectively.

As of March 31, 2014, we own controlling interests in AMU Holdings Inc. ("AIRMALL"); APH Property Holdings, LLC ("APH"); ARRM Holdings Inc.; AWCNC, LLC; BXC Holding Company ("Boxercraft"); CCPI Holdings Inc. ("CCPI"); CP Holdings of Delaware LLC ("CP Holdings"); Credit Central Holdings of Delaware, LLC ("Credit Central"); Echelon Aviation LLC; Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"); First Tower Holdings of Delaware, LLC ("First Tower"); Gulf Coast Machine & Supply Company ("Gulf Coast"); Harbortouch Holdings of Delaware Inc. ("Harbortouch"); The Healing Staff, Inc. ("THS"); Manx Energy, Inc. ("Manx"); MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC ("NPH"); R-V Industries, Inc. ("R-V"); STI Holdings, Inc. (f/k/a Borga, Inc.) ("Borga"); UPH Property Holdings, LLC ("UPH"); Valley Electric Holdings I, Inc. ("Valley Electric"); and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork).

The following table shows the composition of our investment portfolio as of March 31, 2014 and June 30, 2013:

|                               | March 31, 2014 |             | June 30, 2013 |             |
|-------------------------------|----------------|-------------|---------------|-------------|
|                               | Cost           | Fair Value  | Cost          | Fair Value  |
| Revolving Line of Credit      | \$3,445        | \$2,853     | \$9,238       | \$8,729     |
| Senior Secured Debt           | 3,788,155      | 3,719,846   | 2,262,327     | 2,207,091   |
| Subordinated Secured Debt     | 1,021,561      | 983,820     | 1,062,386     | 1,024,901   |
| Subordinated Unsecured Debt   | 99,935         | 100,000     | 88,470        | 88,827      |
| CLO Debt                      | 28,002         | 33,554      | 27,667        | 28,589      |
| CLO Residual Interest         | 867,913        | 913,102     | 660,619       | 658,086     |
| Equity(1)                     | 298,944        | 249,728     | 145,071       | 156,629     |
| Small Business Whole Loans(2) | 3,404          | 3,300       | —             | —           |
| Total Investments             | \$6,111,359    | \$6,006,203 | \$4,255,778   | \$4,172,852 |

(1) Includes our investments in preferred stock, common stock, membership interests, net profits interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants, unless specifically stated otherwise.

(2) Our wholly-owned subsidiary, PSBL, purchases a series of small business whole loans on recurring basis, which are originated by OnDeck.

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of March 31, 2014:

|                             | Level 1 | Level 2 | Level 3     | Total       |
|-----------------------------|---------|---------|-------------|-------------|
| Revolving Line of Credit    | \$—     | \$—     | \$2,853     | \$2,853     |
| Senior Secured Debt         | —       | —       | 3,719,846   | 3,719,846   |
| Subordinated Secured Debt   | —       | —       | 983,820     | 983,820     |
| Subordinated Unsecured Debt | —       | —       | 100,000     | 100,000     |
| CLO Debt                    | —       | —       | 33,554      | 33,554      |
| CLO Residual Interest       | —       | —       | 913,102     | 913,102     |
| Equity                      | 170     | —       | 249,558     | 249,728     |
| Small Business Whole Loans  | —       | —       | 3,300       | 3,300       |
| Total Investments           | \$170   | \$—     | \$6,006,033 | \$6,006,203 |

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The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2013:

|                             | Level 1 | Level 2 | Level 3     | Total       |
|-----------------------------|---------|---------|-------------|-------------|
| Revolving Line of Credit    | \$—     | \$—     | \$8,729     | \$8,729     |
| Senior Secured Debt         | —       | —       | 2,207,091   | 2,207,091   |
| Subordinated Secured Debt   | —       | —       | 1,024,901   | 1,024,901   |
| Subordinated Unsecured Debt | —       | —       | 88,827      | 88,827      |
| CLO Debt                    | —       | —       | 28,589      | 28,589      |
| CLO Residual Interest       | —       | —       | 658,086     | 658,086     |
| Equity                      | 112     | —       | 156,517     | 156,629     |
| Total Investments           | \$112   | \$—     | \$4,172,740 | \$4,172,852 |

The following tables show the aggregate changes in the fair value of our Level 3 investments during the nine months ended March 31, 2014:

|  | Fair Value Measurements Using Unobservable Inputs (Level 3) |                       |                                       |                             |          |                       |           |                      |             |
|--|---|-----------------------|---------------------------------------|-----------------------------|----------|-----------------------|-----------|----------------------|-------------|
|  | Control Investments   | Affiliate Investments | Non-Control/Non-Affiliate Investments | Total                       |          |                       |           |                      |             |
| Fair value as of June 30, 2013                     | \$ 811,634  | \$ 42,443             | \$ 3,318,663                          | \$ 4,172,740                |          |                       |           |                      |             |
| Total realized gain (loss), net                    | —   | —                     | (3,482 )                              | (3,482 )                    |          |                       |           |                      |             |
| Change in unrealized (depreciation) appreciation   | (37,881 )   | (4,972 )              | 20,565                                | (22,288 )                   |          |                       |           |                      |             |
| Net realized and unrealized (loss) gain            | (37,881 )   | (4,972 )              | 17,083                                | (25,770 )                   |          |                       |           |                      |             |
| Purchases of portfolio investments                 | 825,998   | —                     | 1,669,311                             | 2,495,309                   |          |                       |           |                      |             |
| Payment-in-kind interest                           | 8,605   | 90                    | 4,348                                 | 13,043                      |          |                       |           |                      |             |
| Accretion (amortization) of discounts and premiums | —   | 399                   | (32,236 )                             | (31,837 )                   |          |                       |           |                      |             |
| Repayments and sales of portfolio investments      | (67,751 )   | (550 )                | (549,151 )                            | (617,452 )                  |          |                       |           |                      |             |
| Transfers within Level 3(1)                        | 18,609  | (5,611 )              | (12,998 )                             | —                           |          |                       |           |                      |             |
| Transfers in (out) of Level 3(1)                   | —   | —                     | —                                     | —                           |          |                       |           |                      |             |
| Fair value as of March 31, 2014                    | \$ 1,559,214  | \$ 31,799             | \$ 4,415,020                          | \$ 6,006,033                |          |                       |           |                      |             |
|  | Revolving Line of Credit                                    | Senior Secured Debt   | Subordinated Secured Debt             | Subordinated Unsecured Debt | CLO Debt | CLO Residual Interest | Equity    | Small Business Loans | Total       |
| Fair value as of June 30, 2013                     | \$8,729   | \$2,207,091           | \$1,024,901                           | \$88,827                    | \$28,589 | \$658,086             | \$156,517 | \$—                  | \$4,172,740 |
| Total realized (loss) gain, net                    | —   | (1,494 )              | (7,558 )                              | —                           | —        | 1,184                 | 4,386     | —                    | (3,482 )    |
| Change in unrealized (depreciation) appreciation   | (83 )   | (13,072 )             | (255 )                                | (292 )                      | 4,630    | 47,721                | (60,833 ) | (104 )               | (22,288 )   |
| Net realized and unrealized (loss) gain            | (83 )   | (14,566 )             | (7,813 )                              | (292 )                      | 4,630    | 48,905                | (56,447 ) | (104 )               | (25,770 )   |
| Purchases of portfolio investments                 | 14,850  | 1,853,644             | 207,857                               | —                           | —        | 261,212               | 154,092   | 3,654                | 2,495,309   |
| Payment-in-kind interest                           | —   | 10,077                | 2,630                                 | 336                         | —        | —                     | —         | —                    | 13,043      |
| Accretion (amortization) of discounts and          | —   | 613                   | 1,237                                 | 8                           | 335      | (34,030 )             | —         | —                    | (31,837 )   |

|                  |          |             |            |           |          |           |           |         |             |
|------------------|----------|-------------|------------|-----------|----------|-----------|-----------|---------|-------------|
| premiums         |          |             |            |           |          |           |           |         |             |
| Repayments and   |          |             |            |           |          |           |           |         |             |
| sales of         | (20,643) | (337,013 )  | (174,992 ) | (58,879 ) | —        | (21,071 ) | (4,604 )  | (250 )  | (617,452 )  |
| portfolio        |          |             |            |           |          |           |           |         |             |
| investments      |          |             |            |           |          |           |           |         |             |
| Transfers within | —        | —           | (70,000 )  | 70,000    | —        | —         | —         | —       | —           |
| Level 3(1)       |          |             |            |           |          |           |           |         |             |
| Transfers in     |          |             |            |           |          |           |           |         |             |
| (out) of Level   | —        | —           | —          | —         | —        | —         | —         | —       | —           |
| 3(1)             |          |             |            |           |          |           |           |         |             |
| Fair value as of |          |             |            |           |          |           |           |         |             |
| March 31, 2014   | \$2,853  | \$3,719,846 | \$983,820  | \$100,000 | \$33,554 | \$913,102 | \$249,558 | \$3,300 | \$6,006,033 |

(1) Transfers are assumed to have occurred at the beginning of the quarter during which the asset was transferred.

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The following tables show the aggregate changes in the fair value of our Level 3 investments during the nine months ended March 31, 2013:

|  | Fair Value Measurements Using Unobservable Inputs (Level 3) |                       |                                       |                             |           |                       |            |                      |              |
|--|---|-----------------------|---------------------------------------|-----------------------------|-----------|-----------------------|------------|----------------------|--------------|
|  | Control Investments   | Affiliate Investments | Non-Control/Non-Affiliate Investments | Total                       |           |                       |            |                      |              |
| Fair value as of June 30, 2012                     | \$ 564,489  | \$ 46,116             | \$ 1,483,487                          | \$ 2,094,092                |           |                       |            |                      |              |
| Total realized loss, net                           | (12,117)  | ) —                   | (371)                                 | ) (12,488)                  |           |                       |            |                      |              |
| Change in unrealized (depreciation) appreciation   | (86,469)  | ) (9,090)             | ) 13,275                              | (82,284)                    |           |                       |            |                      |              |
| Net realized and unrealized (loss) gain            | (98,586)  | ) (9,090)             | ) 12,904                              | (94,772)                    |           |                       |            |                      |              |
| Purchases of portfolio investments                 | 241,018   | 30,000                | 2,026,413                             | 2,297,431                   |           |                       |            |                      |              |
| Payment-in-kind interest                           | 839   | 569                   | 5,617                                 | 7,025                       |           |                       |            |                      |              |
| Accretion (amortization) of discounts and premiums | —   | 677                   | 12,947                                | 13,624                      |           |                       |            |                      |              |
| Repayments and sales of portfolio investments      | (32,455)  | ) (26,527)            | ) (550,811)                           | ) (609,793)                 |           |                       |            |                      |              |
| Transfers within Level 3(1)                        | —   | —                     | —                                     | —                           |           |                       |            |                      |              |
| Transfers in (out) of Level 3(1)                   | —   | —                     | —                                     | —                           |           |                       |            |                      |              |
| Fair value as of March 31, 2013                    | \$ 675,305  | \$ 41,745             | \$ 2,990,557                          | \$ 3,707,607                |           |                       |            |                      |              |
|  | Revolving Line of Credit                                    | Senior Secured Debt   | Subordinated Secured Debt             | Subordinated Unsecured Debt | CLO Debt  | CLO Residual Interest | Equity     | Small Business Loans | Total        |
| Fair value as of June 30, 2012                     | \$ 868  | \$ 1,093,019          | \$ 475,147                            | \$ 73,195                   | \$ 27,717 | \$ 218,009            | \$ 206,137 | \$—                  | \$ 2,094,092 |
| Total realized gain (loss), net                    | —   | 20                    | (22,118)                              | ) —                         | —         | —                     | 9,610      | —                    | (12,488)     |
| Change in unrealized (depreciation) appreciation   | (338)   | ) (7,722)             | ) 16,626                              | (58)                        | ) 1,825   | 7,824                 | (100,441)  | —                    | (82,284)     |
| Net realized and unrealized (loss) gain            | (338)   | ) (7,702)             | ) (5,492)                             | (58)                        | ) 1,825   | 7,824                 | (90,831)   | —                    | (94,772)     |
| Purchases of portfolio investments                 | 12,200  | 1,191,796             | 591,875                               | 114,000                     | —         | 347,278               | 40,282     | —                    | 2,297,431    |
| Payment-in-kind interest                           | —   | 1,874                 | 2,693                                 | 2,458                       | —         | —                     | —          | —                    | 7,025        |
| Accretion (amortization) of discounts and premiums | —   | 1,451                 | 1,985                                 | 58                          | 302       | 9,828                 | —          | —                    | 13,624       |
| Repayments and sales of portfolio investments      | (2,800)   | ) (401,896)           | ) (189,349)                           | —                           | —         | —                     | (15,748)   | —                    | (609,793)    |
| Transfers within Level 3(1)                        | —   | —                     | —                                     | —                           | —         | —                     | —          | —                    | —            |
| Transfers in (out) of Level 3(1)                   | —   | —                     | —                                     | —                           | —         | —                     | —          | —                    | —            |
| Fair value as of March 31, 2013                    | \$ 9,930  | \$ 1,878,542          | \$ 876,859                            | \$ 189,653                  | \$ 29,844 | \$ 582,939            | \$ 139,840 | \$—                  | \$ 3,707,607 |

(1) Transfers are assumed to have occurred at the beginning of the quarter during which the asset was transferred.

For the nine months ended March 31, 2014 and 2013, the net increase in unrealized depreciation on the investments that use Level 3 inputs was \$44,969 and \$84,296 for assets still held as of March 31, 2014 and 2013, respectively.

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The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of March 31, 2014 were as follows:

| Asset Category              | Fair Value  | Primary Valuation Technique | Unobservable Input  |             | Weighted Average |
|-----------------------------|-------------|-----------------------------|---------------------|-------------|------------------|
|                             |             |                             | Input               | Range       |                  |
| Senior Secured Debt         | \$2,453,631 | Yield Analysis              | Market Yield        | 5.5%-20.3%  | 10.8%            |
| Senior Secured Debt         | 863,875     | EV Analysis                 | EBITDA Multiple     | 3.0x-8.6x   | 7.1x             |
| Senior Secured Debt         | 78,521      | EV Analysis                 | Book Value Multiple | 1.0x-1.0x   | 1.0x             |
| Senior Secured Debt         | 32,004      | EV Analysis                 | N/A                 | N/A         | N/A              |
| Senior Secured Debt         | 4,038       | Liquidation Analysis        | N/A                 | N/A         | N/A              |
| Senior Secured Debt         | 290,630     | Net Asset Value Analysis    | Capitalization Rate | 4.9%-14.8%  | 8.8%             |
| Small Business Whole Loans  | 3,300       | EV Analysis                 | Book Value Multiple | 1.0x-1.0x   | 1.0x             |
| Subordinated Secured Debt   | 933,416     | Yield Analysis              | Market Yield        | 8.7%-25.3%  | 11.4%            |
| Subordinated Secured Debt   | 50,404      | EV Analysis                 | EBITDA Multiple     | 5.0x-7.0x   | 6.0x             |
| Subordinated Unsecured Debt | 100,000     | Yield Analysis              | Market Yield        | 7.4%-14.4%  | 11.5%            |
| CLO Debt                    | 33,554      | Discounted Cash Flow        | Discount Rate       | 4.1%-5.8%   | 4.9%             |
| CLO Residual Interest       | 913,102     | Discounted Cash Flow        | Discount Rate       | 8.8%-23.5%  | 16.5%            |
| Equity                      | 154,959     | EV Analysis                 | EBITDA Multiple     | 1.0x-8.6x   | 6.3x             |
| Equity                      | 2,699       | Yield Analysis              | Market Yield        | 17.0%-20.4% | 18.7%            |
| Equity                      | 60,406      | Net Asset Value Analysis    | Capitalization Rate | 4.9%-14.8%  | 8.8%             |
| Equity                      | 2,905       | Current Value Method        | N/A                 | N/A         | N/A              |
| Net Revenue Interest        | 26,684      | Discounted Cash Flow        | Discount Rate       | 14.0%-22.0% | 16.1%            |
| Net Profits Interest        | 224         | Liquidation Analysis        | N/A                 | N/A         | N/A              |
| Escrow Receivable           | 1,681       | Discounted Cash Flow        | Discount Rate       | 6.8%-8.0%   | 7.4%             |
| Total Level 3 Investments   | \$6,006,033 |                             |                     |             |                  |

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

| Asset Category              | Fair Value  | Primary Valuation Technique | Unobservable Input  |             | Weighted Average |
|-----------------------------|-------------|-----------------------------|---------------------|-------------|------------------|
|                             |             |                             | Input               | Range       |                  |
| Senior Secured Debt         | \$1,616,485 | Yield Analysis              | Market Yield        | 5.7%-20.8%  | 10.8%            |
| Senior Secured Debt         | 468,082     | EV Analysis                 | EBITDA Multiple     | 3.3x-8.8x   | 6.7x             |
| Senior Secured Debt         | 5,361       | Liquidation Analysis        | N/A                 | N/A         | N/A              |
| Senior Secured Debt         | 125,892     | Net Asset Value Analysis    | Capitalization Rate | 5.0%-10.0%  | 7.5%             |
| Subordinated Secured Debt   | 962,702     | Yield Analysis              | Market Yield        | 7.7%-19.8%  | 11.6%            |
| Subordinated Secured Debt   | 62,199      | EV Analysis                 | EBITDA Multiple     | 3.3x-7.0x   | 4.4x             |
| Subordinated Unsecured Debt | 69,127      | Yield Analysis              | Market Yield        | 6.1%-14.6%  | 10.7%            |
| Subordinated Unsecured Debt | 19,700      | EV Analysis                 | EBITDA Multiple     | 5.5x-6.5x   | 6.0x             |
| CLO Debt                    | 28,589      | Discounted Cash Flow        | Discount Rate       | 12.1%-20.1% | 15.7%            |
|                             | 658,086     | Discounted Cash Flow        | Discount Rate       | 11.3%-19.8% | 15.3%            |

CLO Residual  
Interest

|                              |             |                      |                 |           |      |
|------------------------------|-------------|----------------------|-----------------|-----------|------|
| Equity                       | 151,855     | EV Analysis          | EBITDA Multiple | 0.1x-8.8x | 3.9x |
| Escrow Receivable            | 4,662       | Discounted Cash Flow | Discount Rate   | 6.5%-7.0% | 6.8% |
| Total Level 3<br>Investments | \$4,172,740 |                      |                 |           |      |

In determining the range of value for debt instruments except CLOs, management and the independent valuation firm generally estimate corporate and security credit ratings and identify corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine range of value. For non-traded equity investments, the enterprise value was determined by applying earnings before income tax, depreciation and amortization (“EBITDA”) multiples for similar guideline public companies and/or similar recent investment transactions. 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 firm used discounted cash flow model. 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 waterfall engine is used to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates.

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

The significant unobservable inputs used to value our investments based on the EV analysis may include market multiples of specified financial measures such as EBITDA of identified guideline public companies, implied valuation multiples from precedent M&A transactions, and/or discount rates applied in a discounted cash flow analysis. The independent valuation firm identifies a population of publicly traded companies with similar operations and key attributes to that of the portfolio company. Using valuation and operating metrics of these guideline public companies and/or as implied by relevant precedent transactions, a range of multiples of to the latest twelve months EBITDA, or other measure, is typically calculated. The independent valuation firm utilizes the determined multiples to estimate the portfolio company's based on, generally, the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Significant increases or decreases in the multiple may result in an increase or decrease, respectively, in enterprise value, which may increase or decrease the fair value estimate of the debt and/or equity investment, as applicable. In certain instances, a discounted cash flow analysis may be considered in estimating enterprise value, in which case, discount rates based on a weighted average cost of capital and application of the Capital Asset Pricing Model may be utilized.

The significant unobservable input used to value our investments based on the net asset value analysis is the capitalization rate applied to earnings measure of the underlying property. Significant increases or decreases in the discount rate would result in a decrease or increase, respectively, in the fair value measurement.

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

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

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

During the nine months ended March 31, 2014, the valuation methodology for Gulf Coast changed to incorporate an EV analysis in place of the yield analysis used in previous periods. Management adopted the EV analysis due to a deterioration in operating results and resulting foreclosure culminating in our obtaining majority voting control of the company. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Gulf Coast to \$11,842 as of March 31, 2014, a discount of \$31,608 from its amortized cost, compared to the \$9,241 unrealized depreciation recorded at June 30, 2013.

During the nine months ended March 31, 2014, the valuation methodology for ICON Health & Fitness, Inc. ("ICON") changed to incorporate limited secondary trade data in lieu of weighted broker quotes used previously, in addition to

the yield analysis and EV analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in ICON to \$22,155 as of March 31, 2014, a discount of \$1,613 from its amortized cost, compared to the \$9,381 unrealized depreciation recorded at June 30, 2013.

During the nine months ended March 31, 2014, the valuation methodology for New Century Transportation, Inc. ("NCT") changed to incorporate an EV analysis in addition to the yield analysis used in previous periods. Management adopted the EV analysis due to a deterioration in operating results and resulting credit impairment. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in NCT to \$35,913 as of March 31, 2014, a discount of \$10,448 from its amortized cost, compared to the \$954 unrealized depreciation recorded at June 30, 2013.

During the nine months ended March 31, 2014, the valuation methodology for Sandow Media, LLC ("Sandow") changed to incorporate an EV analysis in addition to the yield analysis used in previous periods. Management adopted the EV analysis due to a deterioration in operating results and resulting credit impairment. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Sandow to \$22,947 as of March 31, 2014, a discount of \$2,196 from its amortized cost, compared to being valued at an amount which was the same as cost as of June 30, 2013.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various real estate properties. During the nine months ended March 31, 2014, we provided \$135,350 and \$26,679 of debt and equity financing, respectively, to APH for the acquisition of certain properties. In December 2013, American Property Holdings Corp. ("APHC"), a wholly-owned subsidiary of APH, distributed its investments in fourteen properties: eight to National Property Holdings Corp. ("NPHC"), a wholly-owned subsidiary of NPH; and six to United Property Holdings Corp. ("UPHC"), a wholly-owned subsidiary of UPH, two newly formed REIT holding companies which are discussed below. The investments transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. There was no gain or loss realized on these transactions. As of March 31, 2014, APHC's real estate portfolio was comprised of 14 multi-family properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

| No. | Property Name               | City               | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|-----------------------------|--------------------|------------------|----------------|----------------------|
| 1   | Abbingtion Pointe           | Marietta, GA       | 12/28/2012       | \$23,500       | \$15,275             |
| 2   | Amberly Place               | Tampa, FL          | 1/17/2013        | 63,400         | 39,600               |
| 3   | Lofton Place                | Tampa, FL          | 4/30/2013        | 26,000         | 16,965               |
| 4   | Vista at Palma Sola         | Bradenton, FL      | 4/30/2013        | 27,000         | 17,550               |
| 5   | Arlington Park              | Marietta, GA       | 5/8/2013         | 14,850         | 9,650                |
| 6   | The Resort                  | Pembroke Pines, FL | 6/24/2013        | 225,000        | 157,500              |
| 7   | Inverness Lakes(1)          | Mobile, AL         | 11/15/2013       | 29,600         | 19,400               |
| 8   | Kings Mill Apartments(1)    | Pensacola, FL      | 11/15/2013       | 20,750         | 13,622               |
| 9   | Crestview at Oakleigh(1)    | Pensacola, FL      | 11/15/2013       | 17,500         | 11,488               |
| 10  | Plantations at Pine Lake(1) | Tallahassee, FL    | 11/15/2013       | 18,000         | 11,817               |
| 11  | Cordova Regency(1)          | Pensacola, FL      | 11/15/2013       | 13,750         | 9,026                |
| 12  | Verandas at Rocky Ridge(1)  | Birmingham, AL     | 11/15/2013       | 15,600         | 10,205               |
| 13  | Plantations at Hillcrest(2) | Mobile, AL         | 1/17/2014        | 6,930          | 5,094                |
| 14  | Crestview at Cordova(2)     | Pensacola, FL      | 1/17/2014        | 8,500          | 5,072                |
|     |                             |                    |                  | \$510,380      | \$342,264            |

(1) These properties comprise the Gulf Coast Portfolio.

(2) These properties comprise the Gulf Coast II Portfolio.

During the nine months ended March 31, 2014, we provided \$24,700 and \$4,725 of debt and equity financing, respectively, to NPH for the acquisition of certain properties. The eight investments transferred to NPHC from APHC consisted of \$79,309 and \$16,315 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

As of March 31, 2014, NPHC's real estate portfolio was comprised of nine multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

| No. | Property Name       | City                  | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|---------------------|-----------------------|------------------|----------------|----------------------|
| 1   | 146 Forest Parkway  | Forest Park, GA       | 10/24/2012       | \$7,400        | \$—                  |
| 2   | Bexley              | Marietta, GA          | 11/1/2013        | 30,600         | 22,497               |
| 3   | St. Marin(1)        | Coppell, TX           | 11/19/2013       | 73,078         | 53,863               |
| 4   | Mission Gate(1)     | Plano, TX             | 11/19/2013       | 47,621         | 36,148               |
| 5   | Vinings Corner(1)   | Smyrna, GA            | 11/19/2013       | 35,691         | 26,640               |
| 6   | Central Park(1)     | Altamonte Springs, FL | 11/19/2013       | 36,590         | 27,471               |
| 7   | City West(1)        | Orlando, FL           | 11/19/2013       | 23,562         | 18,533               |
| 8   | Matthews Reserve(1) | Matthews, NC          | 11/19/2013       | 22,063         | 17,571               |
| 9   | Indigo              | Jacksonville, FL      | 12/31/2013       | 38,000         | 28,500               |
| 10  | Island Club         | Atlantic Beach, FL    | 1/31/2014        | 13,025         | 9,118                |
|     |                     |                       |                  | \$327,630      | \$240,341            |

(1)These properties comprise the Oxford Portfolio.

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

As of March 31, 2014, UPHC's real estate portfolio was comprised of six multi-families properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

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

(1)These properties comprise the Stonemark Portfolio.

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 March 31, 2014, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a 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 nine months ended March 31, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. No such dividends were received during the nine months ended March 31, 2014.

During the nine months ended March 31, 2014, Energy Solutions repaid the remaining \$8,500 of our subordinated secured debt to us. In addition to the repayment of principal, we received \$4,812 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as additional interest income during the nine

months ended March 31, 2014.

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On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Freedom Marine Services Holdings, LLC (“Freedom Marine”), a subsidiary of Energy Solutions. The subordinated secured loan to Jettco Marine Services, LLC (“Jettco”), a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel Holdings II, LLC (“Vessel II”), a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine. Overall the restructuring of our investment in Freedom Marine provided approximately \$16,000 net senior secured debt financing to support the acquisition of two new vessels. We received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income during the nine months ended March 31, 2014.

During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Solutions, Inc. (“ICS”) was other-than-temporary and recorded a realized loss of \$12,198 for the amount that the amortized cost exceeded the fair market value. Our remaining investment in THS, an affiliate of ICS, was valued at zero as of March 31, 2014 and continues to provide staffing solutions for health care facilities and security staffing. On November 30, 2012, we made a secured second lien investment of \$9,500 to support the recapitalization of R-V. As part of the recapitalization, we received a dividend of \$11,073 for our investment in R-V’s common stock. On March 28, 2013, we sold our investment in New Meatco Provisions, LLC for net proceeds of approximately \$1,965 and realized a loss of \$10,814 on the sale.

On August 6, 2013, we received a distribution of \$3,252 related to our investment in NRG Manufacturing, Inc. (“NRG”), for which we realized a gain of the same amount. This was a partial release of the amount held in escrow. On October 31, 2013, we sold \$18,755 of the National Bankruptcy Services, LLC loan receivable. The loan receivable was sold at a discount and we realized a loss of \$7,853.

During the nine months ended March 31, 2014, we provided an additional \$7,600 of subordinated secured financing to AIRMALL. During the nine months ended March 31, 2014, we received distributions of \$12,000 from AIRMALL which were recorded as dividend income. No dividends were received from AIRMALL during the three and nine months ended March 31, 2013.

During the nine months ended March 31, 2014, we received an \$8,000 fee from First Tower Delaware related to the renegotiation and expansion of First Tower’s revolver in December 2013 which was recorded as other income and we provided an additional \$8,500 and \$1,500 of senior secured first-lien and common equity financing, respectively, to First Tower Delaware.

On March 31, 2014, we invested \$246,250 in cash and 2,306,294 unregistered shares of our common stock to support the recapitalization of Harbortouch Payments, LLC (f/k/a United Bank Card, Inc. (d/b/a Harbortouch)), a provider of transaction processing services and point-of-sale equipment used by merchants across the United States. We invested \$24,898 of equity and \$123,000 of debt in Harbortouch Holdings of Delaware Inc., the newly-formed holding company, and \$130,796 of debt in Harbortouch Payments, LLC, the operating company (collectively, “Harbortouch”). Through the recapitalization, we acquired a controlling interest in Harbortouch Holdings of Delaware Inc. After the recapitalization, we received repayment of the \$23,894 loan previously outstanding. We received structuring fees of \$7,536 and \$8,544 related to our investment in Harbortouch which were recognized as other income during the three and nine months ended March 31, 2014, respectively.

On March 31, 2014, we provided \$78,521 of debt and \$14,107 of equity financing to Echelon Aviation LLC (“Echelon”), a newly established portfolio company which provides liquidity alternatives on aviation assets. In connection with our investment, we received a structuring fee of \$2,771 from Echelon which was recognized as other income during the three and nine months ended March 31, 2014.

During the three and nine months ended March 31, 2014, we recognized zero and \$400, respectively, of interest income due to purchase discount accretion from the assets acquired from Patriot. No accelerated accretion was recorded during the three or nine months ended March 31, 2014.

During the three and nine months ended March 31, 2013, we recognized \$271 and \$1,210 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$1,210 recorded during the nine months ended March 31, 2013 is \$840 of normal accretion and \$370 of accelerated accretion resulting from the repayment of Hudson Products Holdings, Inc.

As of March 31, 2014, \$4,517,031 of our loans, at fair value, bear interest at floating rates and \$4,483,477 of those loans have Libor floors ranging from 1.25% to 6.00%.

At March 31, 2014, nine loan investments were on non-accrual status: Boxercraft, Borga, Vessel II (formerly Jettco), THS, Manx, Stryker, Wind River, Wolf and Yatesville. At June 30, 2013, eight loan investments were on non-accrual status: Borga, Jettco, THS, Manx, Stryker, Wind River, Wolf and Yatesville. Principal balances of these loans amounted to \$131,696 and \$106,395 as of March 31, 2014 and June 30, 2013, respectively. The fair value of these loans amounted to \$20,103 and \$13,810 as of March 31, 2014 and June 30, 2013, respectively. The fair values of these investments represent approximately 0.3% of our total assets as of March 31, 2014 and June 30, 2013. For the three months ended March 31, 2014 and March 31, 2013, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$5,262 and \$6,390, respectively. For the nine months ended March 31, 2014 and March 31, 2013, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$15,918 and \$20,146, respectively.

Undrawn committed revolvers to our portfolio companies incur commitment fees ranging from 0.00% to 2.00%. As of March 31, 2014 and June 30, 2013, we have \$267,761 and \$202,518 of undrawn revolver commitments to our portfolio companies, respectively.

#### Note 4. 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 \$792,500 under the 2012 Facility as of March 31, 2014. The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$1,000,000 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 March 31, 2014, 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 March 31, 2014 and June 30, 2013, we had \$792,500 and \$473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was \$729,000 and \$124,000, respectively. As additional eligible investments are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the current commitment amount of \$792,500. At March 31, 2014, the investments used as collateral for the 2012 Facility had an aggregate fair value of \$1,488,222, which represents 23.7% of our total investments, including cash and cash equivalents. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the 2012 Facility, we incurred \$13,616 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 \$5,876 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of March 31, 2014.

During the three months ended March 31, 2014 and March 31, 2013, we recorded \$3,243 and \$2,305, respectively, of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense. During the nine months ended March 31, 2014 and March 31, 2013, we recorded \$8,319 and \$6,700, respectively, of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense.

#### Note 5. Senior Convertible Notes



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

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

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

On August 14, 2012, we issued \$200,000 aggregate principal amount of senior convertible notes that mature on March 15, 2018 (the “2018 Notes”), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600.

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

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

|  | 2015 Notes | 2016 Notes | 2017 Notes | 2018 Notes | 2019 Notes |
|--|------------|------------|------------|------------|------------|
| Initial conversion rate(1)               | 88.0902    | 78.3699    | 85.8442    | 82.3451    | 79.7766    |
| Initial conversion price                 | \$11.35    | \$12.76    | \$11.65    | \$12.14    | \$12.54    |
| Conversion rate at March 31, 2014(1)(2)  | 89.0157    | 79.3176    | 86.1162    | 82.8631    | 79.7863    |
| Conversion price at March 31, 2014(2)(3) | \$11.23    | \$12.61    | \$11.61    | \$12.07    | \$12.53    |
| Last conversion price calculation date   | 12/21/2013 | 2/18/2014  | 4/16/2013  | 8/14/2013  | 12/21/2013 |
| Dividend threshold amount (per share)(4) | \$0.101125 | \$0.101150 | \$0.101500 | \$0.101600 | \$0.110025 |

(1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Senior Convertible Notes converted.

(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

The conversion price in effect at March 31, 2014 was calculated on the last anniversary of the issuance and will be (3) adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

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

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

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

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

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

In connection with the issuance of the Senior Convertible Notes, we incurred \$27,030 of fees which are being amortized over the terms of the notes, of which \$16,862 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of March 31, 2014.

During the three months ended March 31, 2014 and March 31, 2013, we recorded \$13,378 and \$13,299, respectively, of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense. During the nine months ended March 31, 2014 and March 31, 2013, we recorded \$40,048 and \$32,529, respectively, of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense.

#### Note 6. Senior Unsecured Notes

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

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

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

In connection with the issuance of the Senior Unsecured Notes, we incurred \$7,364 of fees which are being amortized over the term of the notes, of which \$6,595 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of March 31, 2014.

During the three months ended March 31, 2014 and March 31, 2013, we recorded \$5,591 and \$2,466, respectively, of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense. During the nine months ended March 31, 2014 and March 31, 2013, we recorded \$16,764 and \$6,087, respectively, of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense.

#### Note 7. Prospect Capital InterNotes®

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



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

During the nine months ended March 31, 2014, we issued \$407,208 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$400,062. These notes were issued with stated interest rates ranging from 3.75% to 6.75% with a weighted average interest rate of 5.14%. These notes mature between October 15, 2016 and October 15, 2043. Below is a summary of the Prospect Capital InterNotes® issued during the nine months ended March 31, 2014:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                     |
|---------------------------------|------------------|---------------------|--------------------------------|---|
| 3                               | \$5,710          | 4.00%               | 4.00                           | % October 15, 2016 – October 15, 2016   |
| 3.5                             | 3,149            | 4.00%               | 4.00                           | % April 15, 2017 – April 15, 2017       |
| 4                               | 36,992           | 3.75%–4.00%         | 3.96                           | % November 15, 2017 – March 15, 2018    |
| 5                               | 195,965          | 4.75%–5.00%         | 4.96                           | % July 15, 2018 – August 15, 2019       |
| 5.5                             | 43,820           | 4.75%–5.00%         | 4.77                           | % February 15, 2019 – August 15, 2019   |
| 6.5                             | 1,800            | 5.50%               | 5.50                           | % February 15, 2020 – February 15, 2020 |
| 7                               | 47,227           | 5.25%–5.75%         | 5.50                           | % July 15, 2020 – March 15, 2021        |
| 7.5                             | 1,996            | 5.75%               | 5.75                           | % February 15, 2021 – February 15, 2021 |
| 10                              | 13,691           | 5.75%–6.50%         | 6.02                           | % January 15, 2024 – March 15, 2024     |
| 12                              | 2,978            | 6.00%               | 6.00                           | % November 15, 2025 – December 15, 2025 |
| 15                              | 2,495            | 6.00%               | 6.00                           | % August 15, 2028 – November 15, 2028   |
| 18                              | 4,062            | 6.00%–6.25%         | 6.21                           | % July 15, 2031 – August 15, 2031       |
| 20                              | 2,791            | 6.00%               | 6.00                           | % September 15, 2033 – October 15, 2033 |
| 25                              | 24,382           | 6.25%–6.50%         | 6.45                           | % August 15, 2038 – March 15, 2039      |
| 30                              | 20,150           | 6.50%–6.75%         | 6.60                           | % July 15, 2043 – October 15, 2043      |
|                                 | \$407,208        |                     |                                |   |

During the nine months ended March 31, 2014, we repaid \$3,341 aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. Below are the Prospect Capital InterNotes® outstanding as of March 31, 2014:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                     |
|---------------------------------|------------------|---------------------|--------------------------------|---|
| 3                               | \$5,710          | 4.00%               | 4.00                           | % October 15, 2016 – October 15, 2016   |
| 3.5                             | 3,149            | 4.00%               | 4.00                           | % April 15, 2017 – April 15, 2017       |
| 4                               | 36,992           | 3.75%–4.00%         | 3.96                           | % November 15, 2017 – March 15, 2018    |
| 5                               | 195,965          | 4.75%–5.00%         | 4.96                           | % July 15, 2018 – August 15, 2019       |
| 5.5                             | 43,820           | 4.75%–5.00%         | 4.77                           | % February 15, 2019 – August 15, 2019   |
| 6.5                             | 1,800            | 5.50%               | 5.50                           | % February 15, 2020 – February 15, 2020 |
| 7                               | 241,961          | 4.00%–6.55%         | 5.40                           | % June 15, 2019 – March 15, 2021        |
| 7.5                             | 1,996            | 5.75%               | 5.75                           | % February 15, 2021 – February 15, 2021 |
| 10                              | 31,793           | 3.23%–7.00%         | 6.32                           | % March 15, 2022 – March 15, 2024       |
| 12                              | 2,978            | 6.00%               | 6.00                           | % November 15, 2025 – December 15, 2025 |
| 15                              | 17,495           | 5.00%–6.00%         | 5.14                           | % May 15, 2028 – November 15, 2028      |
| 18                              | 25,625           | 4.125%–6.25%        | 5.49                           | % December 15, 2030 – August 15, 2031   |
| 20                              | 5,897            | 5.625%–6.00%        | 5.84                           | % November 15, 2032 – October 15, 2033  |
| 25                              | 24,382           | 6.25%–6.50%         | 6.45                           | % August 15, 2038 – March 15, 2039      |
| 30                              | 128,081          | 5.50%–6.75%         | 6.23                           | % November 15, 2042 – October 15, 2043  |
|                                 | \$767,644        |                     |                                |   |



In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$18,662 of fees which are being amortized over the term of the notes, of which \$17,609 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of March 31, 2014.

During the three months ended March 31, 2014 and March 31, 2013, we recorded \$9,535 and \$2,784, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the nine months ended March 31, 2014 and March 31, 2013, we recorded \$23,279 and \$5,463, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

#### Note 8. Fair Value and Maturity of Debt Outstanding

The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® maximum draw amounts and outstanding borrowings as of March 31, 2014 and June 30, 2013:

|                              | March 31, 2014      |                    | June 30, 2013       |                    |
|------------------------------|---------------------|--------------------|---------------------|--------------------|
|                              | Maximum Draw Amount | Amount Outstanding | Maximum Draw Amount | Amount Outstanding |
| Revolving Credit Facility    | \$792,500           | \$729,000          | \$552,500           | \$124,000          |
| Senior Convertible Notes     | 847,500             | 847,500            | 847,500             | 847,500            |
| Senior Unsecured Notes       | 347,858             | 347,858            | 347,725             | 347,725            |
| Prospect Capital InterNotes® | 767,644             | 767,644            | 363,777             | 363,777            |
| Total                        | \$2,755,502         | \$2,692,002        | \$2,111,502         | \$1,683,002        |

The following table shows the contractual maturities of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® as of March 31, 2014:

|                               | Payments Due by Period |                  |             |             |               |
|-------------------------------|------------------------|------------------|-------------|-------------|---------------|
|                               | Total                  | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility     | \$729,000              | \$—              | \$729,000   | \$—         | \$—           |
| Senior Convertible Notes      | 847,500                | —                | 317,500     | 330,000     | 200,000       |
| Senior Unsecured Notes        | 347,858                | —                | —           | —           | 347,858       |
| Prospect Capital InterNotes®  | 767,644                | —                | 5,710       | 381,895     | 380,039       |
| Total Contractual Obligations | \$2,692,002            | \$—              | \$1,052,210 | \$711,895   | \$927,897     |

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

|                               | Payments Due by Period |                  |             |             |               |
|-------------------------------|------------------------|------------------|-------------|-------------|---------------|
|                               | Total                  | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility     | \$124,000              | \$—              | \$—         | \$124,000   | \$—           |
| Senior Convertible Notes      | 847,500                | —                | 150,000     | 297,500     | 400,000       |
| Senior Unsecured Notes        | 347,725                | —                | —           | —           | 347,725       |
| Prospect Capital InterNotes®  | 363,777                | —                | —           | —           | 363,777       |
| Total Contractual Obligations | \$1,683,002            | \$—              | \$150,000   | \$421,500   | \$1,111,502   |



The fair values of our financial liabilities disclosed, but not carried, at fair value as of March 31, 2014 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

|                                 | Fair Value Hierarchy |             |         | Total       |
|---------------------------------|----------------------|-------------|---------|-------------|
|                                 | Level 1              | Level 2     | Level 3 |             |
| Revolving Credit Facility(1)    | \$—                  | \$729,000   | \$—     | \$729,000   |
| Senior Convertible Notes(2)     | —                    | 902,172     | —       | 902,172     |
| Senior Unsecured Notes(2)       | 105,480              | 256,155     | —       | 361,635     |
| Prospect Capital InterNotes®(3) | —                    | 772,212     | —       | 772,212     |
| Total                           | \$105,480            | \$2,659,539 | \$—     | \$2,765,019 |

(1) The carrying value of our Revolving Credit Facility approximates the fair value.

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

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

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

|                                 | Fair Value Hierarchy |             |         | Total       |
|---------------------------------|----------------------|-------------|---------|-------------|
|                                 | Level 1              | Level 2     | Level 3 |             |
| Revolving Credit Facility(1)    | \$—                  | \$124,000   | \$—     | \$124,000   |
| Senior Convertible Notes(2)     | —                    | 886,210     | —       | 886,210     |
| Senior Unsecured Notes(2)       | 101,800              | 242,013     | —       | 343,813     |
| Prospect Capital InterNotes®(3) | —                    | 336,055     | —       | 336,055     |
| Total                           | \$101,800            | \$1,588,278 | \$—     | \$1,690,078 |

(1) The carrying value of our Revolving Credit Facility approximates the fair value.

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

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

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

Excluding dividend reinvestments, we issued 84,567,900 and 97,916,280 shares of our common stock during the nine months ended March 31, 2014 and March 31, 2013, respectively. The proceeds raised, the related underwriting fees, the offering expenses and the prices at which these shares were issued are as follows:

| Issuances of Common Stock                    | Number of Shares Issued | Gross Proceeds | Underwriting Fees | Offering Expenses | Average Offering Price |
|--|-------------------------|----------------|-------------------|-------------------|------------------------|
| During the nine months ended March 31, 2014: |                         |                |                   |                   |                        |
| July 5, 2013 – August 21, 2013(1)            | 9,818,907               | \$ 107,725     | \$ 902            | \$ 169            | \$ 10.97               |
| August 2, 2013(2)                            | 1,918,342               | 21,006         | —                 | —                 | \$ 10.95               |
| August 29, 2013 – November 4, 2013(3)        | 24,127,242              | 272,114        | 2,703             | 414               | \$ 11.28               |
| November 12, 2013 – February 5, 2014(4)      | 27,301,889              | 307,045        | 3,069             | 436               | \$ 11.25               |
| February 10, 2014 – March 31, 2014(5)        | 19,095,226              | 212,155        | 2,034             | 168               | \$ 11.11               |
| March 31, 2014(2)                            | 2,306,294               | 24,908         | —                 | —                 | \$ 10.80               |
| During the nine months ended March 31, 2013: |                         |                |                   |                   |                        |
| July 2, 2012 – July 12, 2012(6)              | 2,247,275               | 26,040         | 260               | —                 | \$ 11.59               |
| July 16, 2012                                | 21,000,000              | 234,150        | 2,100             | 62                | \$ 11.15               |
| July 27, 2012                                | 3,150,000               | 35,123         | 315               | —                 | \$ 11.15               |
| September 13, 2012 – October 9, 2012(7)      | 8,010,357               | 94,610         | 946               | 638               | \$ 11.81               |
| November 7, 2012                             | 35,000,000              | 388,500        | 4,550             | 814               | \$ 11.10               |
| December 13, 2012(2)                         | 467,928                 | 5,021          | —                 | —                 | \$ 10.73               |
| December 28, 2012(2)                         | 897,906                 | 9,581          | —                 | —                 | \$ 10.67               |
| December 31, 2012(2)                         | 4,141,547               | 44,649         | —                 | —                 | \$ 10.78               |
| January 7, 2013 – February 5, 2013(8)        | 10,248,051              | 115,315        | 1,153             | —                 | \$ 11.25               |
| February 14, 2013 – March 28, 2013(9)        | 12,753,216              | 142,953        | 1,430             | 56                | \$ 11.21               |

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

(2) On December 13, 2012, December 28, 2012, December 31, 2012, August 2, 2013, and March 31, 2014, we issued 467,928, 897,906, 4,141,547, 1,918,342, and 2,306,294 shares of our common stock, respectively, in conjunction with investments in CCPI, Credit Central, Valley Electric, CP Holdings, and Harbortouch, which are controlled portfolio companies.

(3) On August 22, 2013, we established an at-the-market program through which we may sell, from time to time and at our sole discretion, 45,000,000 shares of our common stock. Through this program, we issued 24,127,242 shares of our common stock at an average price of \$11.28 per share, raising \$272,114 of gross proceeds, from August 29, 2013 through November 4, 2013.

(4) On November 5, 2013, we established an at-the-market program through which we may sell, from time to time and at our sole discretion, 50,000,000 shares of our common stock. Through this program, we issued 27,301,889 shares of our common stock at an average price of \$11.25 per share, raising \$307,045 of gross proceeds, from November 12, 2013 through February 5, 2014.

(5) On February 4, 2014, we established an at-the-market program through which we may sell, from time to time and at our sole discretion, 50,000,000 shares of our common stock. Through this program, we issued 19,095,226 shares of our common stock at an average price of \$11.11 per share, raising \$212,155 of gross proceeds, from February 10, 2014 through March 31, 2014.

(6) On June 1, 2012, we established an at-the-market program through which we may sell, from time to time and at our sole discretion, 9,500,000 shares of our common stock. Through this program, we issued 2,247,275 shares of our common stock at an average price of \$11.59 per share, raising \$26,040 of gross proceeds, from July 2, 2012 through July 12, 2012.

(7) On September 10, 2012, we established an at-the-market program through which we may sell, from time to time and at our sole discretion, 9,750,000 shares of our common stock. Through this program, we issued 8,010,357

shares of our common stock at an average price of \$11.81 per share, raising \$94,610 of gross proceeds, from September 13, 2012 through October 9, 2012.

(8) On December 21, 2012, we established an at-the-market program through which we may sell, from time to time and at our sole discretion, 17,50,000 shares of our common stock. Through this program, we issued 10,248,051 shares of our common stock at an average price of \$11.25 per share, raising \$115,315 of gross proceeds, from January 7, 2013 through February 5, 2013.

On February 11, 2013, we established an at-the-market program through which we may sell, from time to time and at our sole discretion, 45,000,000 shares of our common stock. Through this program, we issued 12,753,216 shares (9) of our common stock at an average price of \$11.21 per share, raising \$142,953 of gross proceeds, from February 14, 2013 through March 28, 2013.

Our shareholders' equity accounts at March 31, 2014 and June 30, 2013 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters and our dividend reinvestment plan. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value. We have not made any purchases of our common stock during the period from August 24, 2011 to March 31, 2014 pursuant to this plan. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. This notice lasts for six months after notice is given. Our last notice was delivered with our annual proxy mailing on September 10, 2013.

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,097,491 of additional debt and equity securities in the public market as of March 31, 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, 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 February 3, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

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

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

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

During the nine months ended March 31, 2014 and March 31, 2013, we issued 1,094,996 and 1,077,887 shares of our common stock, respectively, in connection with the dividend reinvestment plan.

At March 31, 2014, we have reserved 70,643,300 shares of our common stock for issuance upon conversion of the Senior Convertible Notes (see Note 5).

#### Note 10. Other Income

Other income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests/net revenue interests, deal deposits, administrative agent fees, and other miscellaneous and sundry cash receipts. Income from such sources for the three and nine months ended March 31, 2014 and March 31, 2013 were as follows:

| Income Source  | Three Months Ended<br>March 31, |           | Nine Months Ended March<br>31, |           |
|--|---------------------------------|-----------|--------------------------------|-----------|
|  | 2014                            | 2013      | 2014                           | 2013      |
| Structuring, advisory and amendment fees (Note 3)                | \$ 24,522                       | \$ 9,630  | \$ 54,321                      | \$ 34,470 |
| Recovery of legal costs from prior periods from legal settlement | —                               | —         | 5,000                          | —         |
| Royalty interests  | 1,704                           | 781       | 4,316                          | 2,121     |
| Administrative agent fees  | 135                             | 89        | 343                            | 241       |
| Total Other Income   | \$ 26,361                       | \$ 10,500 | \$ 63,980                      | \$ 36,832 |

#### Note 11. Net Increase in Net Assets per Share

The following information sets forth the computation of net increase in net assets resulting from operations per share for the three and nine months ended March 31, 2014 and March 31, 2013.

|  | Three Months Ended March<br>31, |             | Nine Months Ended March<br>31, |             |
|--|---------------------------------|-------------|--------------------------------|-------------|
|  | 2014                            | 2013        | 2014                           | 2013        |
| Net increase in net assets resulting from operations           | \$ 82,101                       | \$ 44,429   | \$ 247,363                     | \$ 138,167  |
| Weighted average common shares outstanding                     | 316,388,733                     | 226,587,578 | 286,949,781                    | 194,657,279 |
| Net increase in net assets resulting from operations per share | \$ 0.26                         | \$ 0.20     | \$ 0.86                        | \$ 0.71     |

#### Note 12. Related Party Agreements and Transactions

##### Investment Advisory Agreement

We have entered into an investment advisory and management agreement with Prospect Capital Management (the “Investment Advisory Agreement”) under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, the Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and (iii) closes and monitors investments we make.

Prospect Capital Management’s services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% on our gross assets (including amounts borrowed). For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

The total base management fees incurred to the favor of the Investment Adviser for the three months ended March 31, 2014 and March 31, 2013 were \$28,709 and \$18,966, respectively. The fees incurred for the nine months ended March 31, 2014 and March 31, 2013 were \$76,829 and \$48,500, respectively.

The incentive fee has two parts. The first part, the income incentive fee, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a “hurdle rate” of 1.75% per quarter (7.00% annualized).

The net investment income used to calculate this part of the incentive fee is also included in the amount of the gross assets used to calculate the 2.00% base management fee. We pay the Investment Adviser an income incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate); and

20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).

These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in its portfolio. For the purpose of this calculation, an “investment” is defined as the total of all rights and claims which maybe asserted against a portfolio company arising from our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equal the sum of the differences between the aggregate net sales price of each investment and the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate realized capital losses equal the sum of the amounts by which the aggregate net sales price of each investment is less than the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the aggregate valuation of each investment and the aggregate cost basis of such investment as of the applicable calendar year-end. At the end of the applicable calendar year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis and then reducing this amount by the aggregate unrealized capital depreciation. If this number is positive, then the capital gains incentive fee payable is equal to 20.00% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception.

For the three months ended March 31, 2014 and March 31, 2013, \$24,631 and \$14,896, respectively, of income incentive fees were incurred. For the nine months ended March 31, 2014 and March 31, 2013, \$68,269 and \$58,207, respectively, were incurred. No capital gains incentive fees were incurred for the three or nine months ended March 31, 2014 and March 31, 2013, respectively.



#### Administration Agreement

We have also entered into an Administration Agreement with Prospect Administration, LLC (“Prospect Administration”) under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our chief financial officer and chief compliance officer and his staff. For the three months ended March 31, 2014 and March 31, 2013, the reimbursement was approximately \$3,986 and \$2,957, respectively. For the nine months ended March 31, 2014 and March 31, 2013, the reimbursement was approximately \$11,958 and \$7,280, respectively. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. The Administration Agreement may be terminated by either party without penalty upon 60 days’ written notice to the other party. Prospect Administration is a wholly-owned subsidiary of the Investment Adviser.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Administration and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Administration’s services under the Administration Agreement or otherwise as administrator for us.

#### Managerial Assistance

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. As of March 31, 2014 and June 30, 2013, \$1,665 and \$1,291 of managerial assistance fees remain on the Consolidated Statements of Assets and Liabilities as a payable to Prospect Administration for reimbursement of its cost in providing such assistance.

#### Note 13. Litigation

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. During the nine months ended March 31, 2014, we received \$5,000 of legal cost reimbursement from a litigation settlement, which had been expensed in prior quarters, and is recognized as other income on our consolidated financial statements. We are not aware of any other material litigation as of the date of this report.



Note 14. Proposed Investment

On December 17, 2013, we entered into a definitive agreement to acquire 100% of the common stock of Nicholas Financial, Inc. ("Nicholas") for \$16.00 per share. Nicholas is a specialty finance company headquartered in Clearwater, Florida. Nicholas is engaged primarily as an indirect lender in the consumer automobile lending business, where Nicholas purchases loans originated by more than 1,600 car dealerships.

If the arrangement is completed, each outstanding Common Share of Nicholas Financial-Canada will be converted into the right to receive the number of shares of common stock of Prospect determined by dividing \$16.00 by the volume-weighted average price of Prospect common stock for the 20 trading days prior to and ending on the trading day immediately preceding the effective time of the arrangement. Each option to acquire shares of Nicholas Financial-Canada common stock outstanding immediately prior to the effective time of the arrangement will be cancelled or transferred by the holder thereof in exchange for a cash amount equal to the amount by which (i) the product obtained by multiplying (x) the number of Common Shares of Nicholas Financial-Canada underlying such option by (y) \$16.00 exceeds (ii) the aggregate exercise price payable under such option. As of May 5, 2014, the last reported sales price for Prospect common stock was \$10.81.

Including the \$199,466 equity valuation for Nicholas and after taking into consideration its outstanding net debt, which is currently \$122,911, the overall value placed on Nicholas in the transaction is approximately \$322,377 before estimated transaction fees and expenses. Upon closing the transaction, Prospect currently intends to refinance the business using proceeds from a newly committed \$250,000 revolving credit facility from bank lenders and an operating company term loan that Prospect will provide. The aggregate net proceeds from this recapitalization will be used to repay the existing debt of Nicholas and return a portion of capital issued by Prospect to complete the transaction on the closing date. After receipt of the recapitalization cash distribution, Prospect will have a net investment in the transaction of approximately \$135,906.

As disclosed elsewhere in this document, the staff of the SEC has asserted that certain unconsolidated holding company subsidiaries through which we hold our investment in operating subsidiaries should be consolidated and consequently is delaying the effectiveness of our registration statement on Form N-14 related to this transaction. The purchase agreement provides for this transaction to close by June 12, 2014, subject to certain terms, or on such other date as the parties to the arrangement may agree in writing. We are currently in discussions to extend the closing deadline to allow us time to appeal the staff's position. Based on the foregoing, we do not currently anticipate that the transaction will close by June 12, 2014.

## Note 15. Financial Highlights (Unaudited)

|   | For the Three Months Ended |             | For the Nine Months Ended |             |            |
|---|----------------------------|-------------|---------------------------|-------------|------------|
|   | March 31,<br>2014          | 2013        | March 31,<br>2014         | 2013        |            |
| Per Share Data <sup>(1)</sup> :   |                            |             |                           |             |            |
| Net asset value at beginning of period  | \$10.73                    | \$10.81     | \$10.72                   | \$10.83     |            |
| Net investment income   | 0.31                       | 0.26        | 0.95                      | 1.20        |            |
| Net realized loss   | (0.01 )                    | (0.03 )     | (0.01 )                   | (0.06 )     |            |
| Net unrealized depreciation   | (0.05 )                    | (0.04 )     | (0.08 )                   | (0.42 )     |            |
| Net increase in net assets as a result of public offerings                      | 0.03                       | 0.04        | 0.09                      | 0.11        |            |
| Dividends declared and paid   | (0.33 )                    | (0.33 )     | (0.99 )                   | (0.95 )     |            |
| Net asset value at end of period  | \$10.68                    | \$10.71     | \$10.68                   | \$10.71     |            |
| Per share market value at end of period   | \$10.80                    | \$10.91     | \$10.80                   | \$10.91     |            |
| Total return based on market value <sup>(2)</sup>                               | (0.79 )%                   | 3.38 %      | 9.31 %                    | 4.24 %      |            |
| Total return based on net asset value <sup>(2)</sup>                            | 2.59 %                     | 2.05 %      | 8.90 %                    | 7.62 %      |            |
| Shares outstanding at end of period   | 333,499,861                | 238,628,037 | 333,499,861               | 238,628,037 |            |
| Average weighted shares outstanding for period                                  | 316,388,733                | 226,587,578 | 286,949,781               | 194,657,279 |            |
| Ratio / Supplemental Data:  |                            |             |                           |             |            |
| Net assets at end of period   | \$3,561,376                | \$2,555,588 | \$3,561,376               | \$2,555,588 |            |
| Portfolio turnover rate   | 11.34 %                    | 17.43 %     | 12.59 %                   | 20.75 %     |            |
| Annualized ratio of operating expenses to average net assets                    | 10.86 %                    | 9.93 %      | 10.58 %                   | 10.47 %     |            |
| Annualized ratio of net investment income to average net assets                 | 11.56 %                    | 9.76 %      | 11.25 %                   | 13.77 %     |            |
|   | Year Ended June 30,        |             |                           |             |            |
|   | 2013                       | 2012        | 2011                      | 2010        | 2009       |
| Per Share Data <sup>(1)</sup> :   |                            |             |                           |             |            |
| Net asset value at beginning of period  | \$10.83                    | \$10.36     | \$10.30                   | \$12.40     | \$14.55    |
| Net investment income   | 1.57                       | 1.63        | 1.10                      | 1.13        | 1.87       |
| Net realized (loss) gain  | (0.13 )                    | 0.32        | 0.19                      | (0.87 )     | (1.24 )    |
| Net unrealized (depreciation) appreciation                                      | (0.37 )                    | (0.28 )     | 0.09                      | 0.07        | 0.48       |
| Net increase (decrease) in net assets as a result of public offering            | 0.13                       | 0.04        | (0.08 )                   | (0.85 )     | (2.11 )    |
| Net increase in net assets as a result of shares issued for Patriot acquisition | —                          | —           | —                         | 0.12        | —          |
| Dividends to shareholders   | (1.31 )                    | (1.24 )     | (1.24 )                   | (1.70 )     | (1.15 )    |
| Net asset value at end of period  | \$10.72                    | \$10.83     | \$10.36                   | \$10.30     | \$12.40    |
| Per share market value at end of period   | \$10.80                    | \$11.39     | \$10.11                   | \$9.65      | \$9.20     |
| Total return based on market value <sup>(2)</sup>                               | 6.24 %                     | 27.21 %     | 17.22 %                   | 17.66 %     | (18.60 %)  |
| Total return based on net asset value <sup>(2)</sup>                            | 10.91 %                    | 18.03 %     | 12.54 %                   | (6.82 %)    | (0.61 %)   |
| Shares outstanding at end of period   | 247,836,965                | 139,633,870 | 107,606,690               | 69,086,862  | 42,943,084 |
| Average weighted shares outstanding for period                                  | 207,069,971                | 114,394,554 | 85,978,757                | 59,429,222  | 31,559,905 |
| Ratio / Supplemental Data:  |                            |             |                           |             |            |
| Net assets at end of period   | \$2,656,494                | \$1,511,974 | \$1,114,357               | \$711,424   | \$532,596  |
| Portfolio turnover rate   | 29.24 %                    | 29.06 %     | 27.63 %                   | 21.61 %     | 4.99 %     |

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|   |       |         |         |         |         |   |
|---|-------|---------|---------|---------|---------|---|
| Annualized ratio of operating expenses to average net assets    | 11.50 | % 10.73 | % 8.47  | % 7.54  | % 9.03  | % |
| Annualized ratio of net investment income to average net assets | 14.86 | % 14.92 | % 10.60 | % 10.69 | % 13.14 | % |

(1) Financial highlights are based on weighted average shares (except for dividends declared and paid which is based on actual rate per share).

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 (2)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.

## Note 16. Selected Quarterly Financial Data (Unaudited)

| Quarter Ended      | Investment Income |              | Net Investment Income |              | Net Realized and Unrealized Gains (Losses) |              | Net Increase in Net Assets from Operations |              |
|--------------------|-------------------|--------------|-----------------------|--------------|--|--------------|--|--------------|
|                    | Total             | Per Share(1) | Total                 | Per Share(1) | Total                                      | Per Share(1) | Total                                      | Per Share(1) |
| September 30, 2011 | \$55,342          | \$ 0.51      | \$27,877              | \$ 0.26      | \$ 12,023                                  | \$ 0.11      | \$ 39,900                                  | \$ 0.37      |
| December 31, 2011  | 67,263            | 0.61         | 36,508                | 0.33         | 27,984                                     | 0.26         | 64,492                                     | 0.59         |
| March 31, 2012     | 95,623            | 0.84         | 58,072                | 0.51         | (7,863 )                                   | (0.07 )      | 50,209                                     | 0.44         |
| June 30, 2012      | 102,682           | 0.82         | 64,227                | 0.52         | (27,924 )                                  | (0.22 )      | 36,303                                     | 0.29         |
| September 30, 2012 | 123,636           | 0.76         | 74,027                | 0.46         | (26,778 )                                  | (0.17 )      | 47,249                                     | 0.29         |
| December 31, 2012  | 166,035           | 0.85         | 99,216                | 0.51         | (52,727 )                                  | (0.27 )      | 46,489                                     | 0.24         |
| March 31, 2013     | 120,195           | 0.53         | 59,585                | 0.26         | (15,156 )                                  | (0.07 )      | 44,429                                     | 0.20         |
| June 30, 2013      | 166,470           | 0.68         | 92,096                | 0.38         | (9,407 )                                   | (0.04 )      | 82,689                                     | 0.34         |
| September 30, 2013 | 161,034           | 0.62         | 82,337                | 0.32         | (2,437 )                                   | (0.01 )      | 79,900                                     | 0.31         |
| December 31, 2013  | 178,090           | 0.62         | 92,215                | 0.32         | (6,853 )                                   | (0.02 )      | 85,362                                     | 0.30         |
| March 31, 2014     | 190,327           | 0.60         | 98,523                | 0.31         | (16,422 )                                  | (0.06 )      | 82,101                                     | 0.26         |

(1) Per share amounts are calculated using weighted average shares during period.

## Note 17. Subsequent Events

During the period from April 1, 2014 to May 5, 2014, we issued \$50,784 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$49,797. In addition, we sold \$15,770 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$15,454 with expected closing on May 8, 2014. In conjunction with the debt issuance on April 7, 2014 (see below), \$45,000 of Prospect Capital InterNotes® were converted into 5.00% 2019 Notes. On April 15, 2014, we repaid \$258 aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus.

During the period from April 1, 2014 to May 2, 2014, we sold 7,711,389 shares of our common stock at an average price of \$10.91 per share, and raised \$84,145 of gross proceeds, under the ATM Program. Net proceeds were \$83,501 after commissions to the broker-dealer on shares sold and offering costs.

On April 7, 2014, we issued \$300,000 aggregate principal amount of senior unsecured notes that mature on July 15, 2019 (the "5.00% 2019 Notes"). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that was converted into the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$250,775.

On April 8, 2014, we provided \$59,000 of senior secured financing, of which \$54,000 was funded at closing, to support the recapitalization of Ark-La-Tex Wireline Services, LLC and affiliates ("AWS"), a provider of cased hole wireline and related completion-stage services in connection with oil and gas production.

On April 8, 2014, we refinanced our existing \$15,000 subordinated loan to Pelican Products, Inc., making a new debt investment. Concurrent with the refinancing, we received repayment of the \$15,000 loan previously outstanding.

On April 11, 2014, we made an investment of \$21,685 to purchase 52.87% of the subordinated notes in Washington Mill CLO Ltd.

On April 11, 2014, we issued \$400,000 aggregate principal amount of senior convertible notes that mature on April 15, 2020 (the "2020 Notes"), unless previously converted or repurchased in accordance with their terms. The 2020 Notes bear interest at a rate of 4.75% per year, payable semi-annually on April 15 and October 15 each year, beginning October 15, 2014. Total proceeds from the issuance of the 2020 Notes, net of underwriting discounts and offering costs, were \$387,500.

On April 14, 2014, we made an investment of \$38,220 to purchase 78.37% of the subordinated notes in Halcyon Loan Advisors Funding 2014-2 Ltd.

On April 16, 2014, we announced the then current conversion rate on the 2017 Notes as 86.9430 shares of common stock per \$1 principal amount of the 2017 Notes converted, which is equivalent to a conversion price of approximately \$11.50.

On April 17, 2014, we issued 86,333 shares of our common stock in connection with the dividend reinvestment plan.

On April 21, 2014, we made an \$18,250 follow-on investment in InterDent, Inc. to fund an acquisition.

On April 30, 2014, we made a \$65,000 senior secured investment, of which \$50,000 was funded at closing, in Fleetwash, Inc., a national provider of vehicle and facility washing services.

On May 1, 2014, Totes Isotoner Corporation repaid the \$53,000 loan receivable to us.

On May 5, 2014, we invested \$48,960 in cash and 1,102,313 unregistered shares of our common stock to support the recapitalization of Arctic Energy Services, LLC, an oil and gas service company based in Glenrock, Wyoming and doing business as Arctic Oilfield Services.

On May 6, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014;

\$0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and

\$0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.

## Item 2. 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 subsidiaries 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 quarterly report on Form 10-Q. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

### Note on Forward Looking Statements

Some of the statements in this report constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

We generally use words such as "anticipates," "believes," "expects," "intends" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this report.

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the Securities and Exchange Commission ("SEC"), including any annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

### Overview

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

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

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

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

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

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

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

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

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

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

We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies. These holding companies serve various business purposes including concentration of



management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. Many of these holding companies incur indebtedness to us as part of the overall structure of these control investments. In these cases our investment in the holding company consists of debt and equity which along with any debt incurred by the operating company structure represents our total exposure for the investment. As of March 31, 2014, as shown in our schedule of investments, the cost basis and fair value of our investment in controlled companies is \$1,655,363 and \$1,559,214, respectively. As of March 31, 2014, we held \$839,432 at cost and \$828,181 at fair value of debt from holding companies whose operations were in subsidiaries of the holding company. In addition, we held \$524,055 at cost and \$491,291 at fair value of debt directly in direct operating subsidiaries and operating subsidiaries of these holding companies and \$291,876 at cost and \$239,742

at fair value of equity in controlled investments. This structure gives rise to several of the risks described in our public documents and highlighted below in Part II, Item 1A of this report.

We seek to be a long-term investor with our portfolio companies. The aggregate fair value of our portfolio investments was \$6,006,203 and \$4,172,852 as of March 31, 2014 and June 30, 2013, respectively. During the nine months ended March 31, 2014, our net cost of investments increased by \$1,855,581, or 43.6%, as a result of thirty-seven new investments, four revolver advances and several follow-on investments of \$2,494,813, accrued of payment-in-kind interest of \$13,043, structuring fees of \$40,064 and net amortization of discounts and premiums of \$31,837, while we received full repayments on sixteen investments, sold eight investments and restructured one investment, for which we realized a net loss of \$7,456, received \$3,974 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 \$617,452.

Compared to the end of last fiscal year (ended June 30, 2013), net assets increased by \$904,882, or 34.1%, during the nine months ended March 31, 2014, from \$2,656,494 to \$3,561,376. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$935,058, dividend reinvestments of \$12,336, and another \$247,363 from operations. These increases, in turn, were offset by \$289,875 in dividend distributions to our stockholders. The \$247,363 increase in net assets resulting from operations is net of the following: net investment income of \$273,075, net realized loss on investments of \$3,482, and an increase in net unrealized depreciation on investments of \$22,230.

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.

#### Third Quarter Highlights

##### Investment Transactions

During the three months ended March 31, 2014, we acquired \$936,754 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$398,054, funded \$5,350 of revolver advances, and recorded PIK interest of \$3,198, resulting in gross investment originations of \$1,343,356. The more significant of these investments are discussed in Portfolio Investment Activity.

##### Proposed Investment Transactions

On December 17, 2013, we entered into a definitive agreement to acquire 100% of the common stock of Nicholas Financial, Inc. ("Nicholas") for \$16.00 per share. Nicholas is a specialty finance company headquartered in Clearwater, Florida. Nicholas is engaged primarily as an indirect lender in the consumer automobile lending business, where Nicholas purchases loans originated by more than 1,600 car dealerships.

If the arrangement is completed, each outstanding Common Share of Nicholas Financial-Canada will be converted into the right to receive the number of shares of common stock of Prospect determined by dividing \$16.00 by the volume-weighted average price of Prospect common stock for the 20 trading days prior to and ending on the trading day immediately preceding the effective time of the arrangement. Each option to acquire shares of Nicholas Financial-Canada common stock outstanding immediately prior to the effective time of the arrangement will be cancelled or transferred by the holder thereof in exchange for a cash amount equal to the amount by which (i) the product obtained by multiplying (x) the number of Common Shares of Nicholas Financial-Canada underlying such option by (y) \$16.00 exceeds (ii) the aggregate exercise price payable under such option. As of May 5, 2014, the last reported sales price for Prospect common stock was \$10.81.

Including the \$199,466 equity valuation for Nicholas and after taking into consideration its outstanding net debt, which is currently \$122,911, the overall value placed on Nicholas in the transaction is approximately \$322,377 before estimated transaction fees and expenses. Upon closing the transaction, Prospect currently intends to refinance the business using proceeds from a newly committed \$250,000 revolving credit facility from bank lenders and an operating company term loan that Prospect will provide. The aggregate net proceeds from this recapitalization will be used to repay the existing debt of Nicholas and return a portion of capital issued by Prospect to complete the transaction on the closing date. After receipt of the recapitalization cash distribution, Prospect will have a net

investment in the transaction of approximately \$135,906.

As disclosed elsewhere in this document, the staff of the SEC has asserted that certain unconsolidated holding company subsidiaries through which we hold our investment in operating subsidiaries should be consolidated and consequently is delaying the

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effectiveness of our registration statement on Form N-14 related to this transaction. The purchase agreement provides for this transaction to close by June 12, 2014, subject to certain terms, or on such other date as the parties to the arrangement may agree in writing. We are currently in discussions to extend the closing deadline to allow us time to appeal the staff's position. Based on the foregoing, we do not currently anticipate that the transaction will close by June 12, 2014.

#### Equity Issuance

During the three months ended March 31, 2014, we sold 29,643,197 shares of our common stock at an average price of \$11.13 per share, and raised \$329,963 of gross proceeds, under the ATM Program. Net proceeds were \$326,750 after commissions to the broker-dealer on shares sold and offering costs.

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

#### Dividend

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

\$0.110475 per share for July 2014 to holders of record on July 31, 2014 with a payment date of August 21, 2014; \$0.110500 per share for August 2014 to holders of record on August 29, 2014 with a payment date of September 18, 2014; and \$0.110525 per share for September 2014 to holders of record on September 30, 2014 with a payment date of October 22, 2014.

#### Revolving Credit Facility

On January 15, 2014, we expanded the accordion feature of our Revolving Credit Facility from \$650,000 to \$1,000,000. On January 15, 2014, February 28, 2014 and March 28, 2014, we increased total commitments to our Revolving Credit Facility by \$62,500, \$45,000 and \$35,000, respectively. The lenders have extended commitments of \$792,500 as of March 31, 2014.

#### Debt Issuance

During the three months ended March 31, 2014, we issued \$168,428 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$165,823. These notes were issued with stated interest rates ranging from 3.75% to 6.50% with a weighted average interest rate of 4.97%. These notes mature between January 15, 2018 and March 15, 2039.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                  |
|---------------------------------|------------------|---------------------|--------------------------------|--------------------------------------|
| 4                               | \$20,447         | 3.75%–4.00%         | 3.94                           | % January 15, 2018 – March 15, 2018  |
| 5                               | 70,385           | 4.75%–5.00%         | 4.90                           | % January 15, 2019 – August 15, 2019 |
| 5.5                             | 40,000           | 4.75%               | 4.75                           | % August 15, 2019 – August 15, 2019  |
| 7                               | 12,789           | 5.25%–5.50%         | 5.38                           | % January 15, 2021 – March 15, 2021  |
| 10                              | 13,691           | 5.75%–6.50%         | 6.02                           | % January 15, 2024 – March 15, 2024  |
| 25                              | 11,116           | 6.25%–6.50%         | 6.38                           | % January 15, 2039 – March 15, 2039  |
|                                 | \$168,428        |                     |                                |                                      |

#### Investment Holdings

As of March 31, 2014, we continue to pursue our diversified investment strategy. At March 31, 2014, approximately \$6,006,203, or 168.6%, of our net assets are invested in 138 long-term portfolio investments and CLOs.

During the nine months ended March 31, 2014, we originated \$2,507,856 of new investments, primarily composed of \$1,412,538 of debt and equity financing to non-controlled investments, \$834,106 of debt and equity financing to controlled investments, and \$261,212 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 March 31, 2014, 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 are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, 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 25% or more of the voting securities of an investee company. Under the 1940 Act, "Affiliate Investments" 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. "Non-Control/Non-Affiliate Investments" are those that are neither Control Investments nor Affiliate Investments.

As of March 31, 2014, we own controlling interests in AMU Holdings Inc. ("AIRMALL"); APH Property Holdings, LLC ("APH"); ARRM Holdings Inc.; AWCNC, LLC; Borga, Inc. ("Borga"); BXC Holding Company ("Boxercraft"); CCPI Holdings Inc. ("CCPI"); CP Holdings of Delaware LLC ("CP Holdings"); Credit Central Holdings of Delaware, LLC ("Credit Central"); Echelon Aviation LLC; Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"); First Tower Holdings of Delaware, LLC ("First Tower"); Gulf Coast Machine & Supply Company ("Gulf Coast"); Harbortouch Holdings of Delaware Inc. ("Harbortouch"); The Healing Staff, Inc. ("THS"); Manx Energy, Inc. ("Manx"); MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC ("NPH"); R-V Industries, Inc. ("R-V"); UPH Property Holdings, LLC ("UPH"); Valley Electric Holdings I, Inc. ("Valley Electric"); and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork).

The following shows the composition of our investment portfolio by level of control as of March 31, 2014 and June 30, 2013:

| Level of Control                      | March 31, 2014 |                |              |                | June 30, 2013 |                |              |                |   |
|---------------------------------------|----------------|----------------|--------------|----------------|---------------|----------------|--------------|----------------|---|
|                                       | Cost           | % of Portfolio | Fair Value   | % of Portfolio | Cost          | % of Portfolio | Fair Value   | % of Portfolio |   |
| Control Investments                   | \$1,655,363    | 27.1           | %\$1,559,214 | 26.0           | % \$830,151   | 19.5           | %\$811,634   | 19.5           | % |
| Affiliate Investments                 | 31,979         | 0.5            | %31,799      | —              | % 49,189      | 1.2            | %42,443      | 1.0            | % |
| Non-Control/Non-Affiliate Investments | 4,424,017      | 72.4           | %4,415,190   | 0.1            | % 3,376,438   | 79.3           | %3,318,775   | 79.5           | % |
| Total Investments                     | \$6,111,359    | 100.0          | %\$6,006,203 | 100.0          | % \$4,255,778 | 100.0          | %\$4,172,852 | 100.0          | % |

The following shows the composition of our investment portfolio by type of investment as of March 31, 2014 and June 30, 2013:

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| Type of Investment          | March 31, 2014 |                |               |                | June 30, 2013 |                |               |                |   |
|-----------------------------|----------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---|
|                             | Cost           | % of Portfolio | Fair Value    | % of Portfolio | Cost          | % of Portfolio | Fair Value    | % of Portfolio |   |
| Revolving Line of Credit    | \$3,445        | 0.1            | % \$2,853     | —              | % \$9,238     | 0.2            | % \$8,729     | 0.2            | % |
| Senior Secured Debt         | 3,788,155      | 62.0           | % 3,719,846   | 61.9           | % 2,262,327   | 53.1           | % 2,207,091   | 52.8           | % |
| Subordinated Secured Debt   | 1,021,561      | 16.7           | % 983,820     | 16.4           | % 1,062,386   | 25.0           | % 1,024,901   | 24.6           | % |
| Subordinated Unsecured Debt | 99,935         | 1.6            | % 100,000     | 1.7            | % 88,470      | 2.1            | % 88,827      | 2.1            | % |
| CLO Debt                    | 28,002         | 0.4            | % 33,554      | 0.6            | % 27,667      | 0.7            | % 28,589      | 0.7            | % |
| CLO Residual Interest       | 867,913        | 14.2           | % 913,102     | 15.2           | % 660,619     | 15.5           | % 658,086     | 15.8           | % |
| Preferred Stock             | 84,052         | 1.4            | % 4,271       | 0.1            | % 25,016      | 0.6            | % 14,742      | 0.4            | % |
| Common Stock                | 66,253         | 1.1            | % 60,136      | 1.0            | % 34,629      | 0.8            | % 47,083      | 1.1            | % |
| Membership Interest         | 146,478        | 2.4            | % 149,074     | 2.5            | % 83,265      | 1.9            | % 61,903      | 1.5            | % |
| Net Profits Interest        | —              | —              | % 224         | —              | % —           | —              | % 520         | —              | % |
| Net Revenue Interest        | —              | —              | % 26,684      | 0.4            | % —           | —              | % 20,439      | 0.5            | % |
| Escrow Receivable           | —              | —              | % 1,681       | —              | % —           | —              | % 4,662       | 0.1            | % |
| Warrants                    | 2,161          | —              | % 7,658       | 0.1            | % 2,161       | 0.1            | % 7,280       | 0.2            | % |
| Small Business Whole Loans  | 3,404          | 0.1            | % 3,300       | 0.1            | % —           | —              | % —           | —              | % |
| Total Investments           | \$6,111,359    | 100.0          | % \$6,006,203 | 100.0          | % \$4,255,778 | 100.0          | % \$4,172,852 | 100.0          | % |

The following shows our investments in interest bearing securities by type of investment as of March 31, 2014 and June 30, 2013:

| Type of Investment         | March 31, 2014 |                |               |                | June 30, 2013 |                |               |                |   |
|----------------------------|----------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---|
|                            | Cost           | % of Portfolio | Fair Value    | % of Portfolio | Cost          | % of Portfolio | Fair Value    | % of Portfolio |   |
| First Lien                 | \$3,791,600    | 65.2           | % \$3,722,699 | 64.7           | % \$2,271,565 | 55.3           | % \$2,215,820 | 55.2           | % |
| Second Lien                | 1,021,561      | 17.6           | % 983,820     | 17.1           | % 1,062,386   | 25.8           | % 1,024,901   | 25.5           | % |
| Unsecured                  | 99,935         | 1.7            | % 100,000     | 1.7            | % 88,470      | 2.2            | % 88,827      | 2.2            | % |
| CLO Debt                   | 28,002         | 0.5            | % 33,554      | 0.6            | % 27,667      | 0.7            | % 28,589      | 0.7            | % |
| CLO Residual Interest      | 867,913        | 14.9           | % 913,102     | 15.8           | % 660,619     | 16.0           | % 658,086     | 16.4           | % |
| Small Business Whole Loans | 3,404          | 0.1            | % 3,300       | 0.1            | % —           | —              | % —           | —              | % |
| Total Debt Investments     | \$5,812,415    | 100.0          | % \$5,756,475 | 100.0          | % \$4,110,707 | 100.0          | % \$4,016,223 | 100.0          | % |

The following shows the composition of our investment portfolio by geographic location as of March 31, 2014 and June 30, 2013:

| Geographic Location | March 31, 2014 |                |               |                | June 30, 2013 |                |               |                |   |
|---------------------|----------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---|
|                     | Cost           | % of Portfolio | Fair Value    | % of Portfolio | Cost          | % of Portfolio | Fair Value    | % of Portfolio |   |
| Canada              | \$15,000       | 0.2            | % \$15,000    | 0.2            | % \$165,000   | 3.9            | % \$165,000   | 4.0            | % |
| Cayman Islands      | 895,915        | 14.7           | % 946,656     | 15.8           | % 688,286     | 16.2           | % 686,675     | 16.5           | % |
| France              | 10,210         | 0.2            | % 10,195      | 0.2            | % —           | —              | % —           | —              | % |
| Ireland             | 14,935         | 0.2            | % 15,000      | 0.2            | % 14,927      | 0.4            | % 15,000      | 0.4            | % |
| Midwest US          | 884,907        | 14.5           | % 849,954     | 14.2           | % 565,239     | 13.3           | % 531,934     | 12.7           | % |
| Northeast US        | 1,180,503      | 19.3           | % 1,166,865   | 19.4           | % 522,759     | 12.2           | % 536,300     | 12.8           | % |
| Puerto Rico         | 41,406         | 0.7            | % 36,418      | 0.6            | % 41,352      | 1.0            | % 41,352      | 1.0            | % |
| Southeast US        | 1,429,810      | 23.4           | % 1,396,035   | 23.3           | % 1,124,119   | 26.4           | % 1,098,996   | 26.3           | % |
| Southwest US        | 747,604        | 12.2           | % 715,175     | 11.9           | % 459,944     | 10.8           | % 445,411     | 10.7           | % |
| Western US          | 891,069        | 14.6           | % 854,905     | 14.2           | % 674,152     | 15.8           | % 652,184     | 15.6           | % |
| Total Investments   | \$6,111,359    | 100.0          | % \$6,006,203 | 100.0          | % \$4,255,778 | 100.0          | % \$4,172,852 | 100.0          | % |

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The following shows the composition of our investment portfolio by industry as of March 31, 2014 and June 30, 2013:

| Industry                                | March 31, 2014 |                |              |                | June 30, 2013 |                |              |                |   |
|---|----------------|----------------|--------------|----------------|---------------|----------------|--------------|----------------|---|
|   | Cost           | % of Portfolio | Fair Value   | % of Portfolio | Cost          | % of Portfolio | Fair Value   | % of Portfolio |   |
| Aerospace & Defense                     | \$102,843      | 1.7            | %\$102,823   | 1.7            | % \$56        | —              | %\$—         | —              | % |
| Auto Finance                            | 11,083         | 0.2            | %11,083      | 0.2            | % 10,914      | 0.3            | %10,417      | 0.2            | % |
| Automobile                              | 22,283         | 0.4            | %22,450      | 0.4            | % 12,300      | 0.3            | %12,500      | 0.3            | % |
| Biotechnology                           | —              | —              | %—           | —              | % —           | —              | %14          | —              | % |
| Business Services                       | 520,194        | 8.5            | %520,194     | 8.6            | % 180,793     | 4.2            | %179,544     | 4.3            | % |
| Chemicals                               | 19,633         | 0.3            | %18,765      | 0.3            | % 28,364      | 0.7            | %28,648      | 0.7            | % |
| Commercial Services                     | 308,127        | 5.0            | %308,127     | 5.1            | % 247,073     | 5.8            | %247,073     | 5.9            | % |
| Construction & Engineering              | 56,043         | 0.9            | %35,761      | 0.6            | % 53,615      | 1.3            | %53,615      | 1.3            | % |
| Consumer Finance                        | 423,982        | 6.9            | %437,049     | 7.3            | % 413,332     | 9.7            | %406,964     | 9.8            | % |
| Consumer Services                       | 504,028        | 8.2            | %505,882     | 8.4            | % 311,982     | 7.3            | %314,033     | 7.5            | % |
| Contracting                             | 3,831          | 0.1            | %—           | —              | % 3,831       | 0.1            | %—           | —              | % |
| Diversified / Conglomerate Service      | —              | —              | %—           | —              | % —           | —              | %143         | —              | % |
| Diversified Financial Services          | 937,456        | 15.4           | %988,093     | 16.5           | % 745,705     | 17.5           | %742,434     | 17.8           | % |
| Durable Consumer Products               | 377,195        | 6.2            | %376,198     | 6.3            | % 359,403     | 8.5            | %349,654     | 8.4            | % |
| Ecological                              | —              | —              | %—           | —              | % 141         | —              | %335         | —              | % |
| Electronics                             | —              | —              | %—           | —              | % —           | —              | %149         | —              | % |
| Energy                                  | 77,740         | 1.3            | %70,903      | 1.2            | % 63,895      | 1.5            | %56,321      | 1.3            | % |
| Food Products                           | 173,762        | 2.8            | %173,767     | 2.9            | % 177,423     | 4.2            | %177,428     | 4.3            | % |
| Healthcare                              | 311,625        | 5.1            | %306,928     | 5.1            | % 273,438     | 6.4            | %273,838     | 6.6            | % |
| Hotels, Restaurants & Leisure           | 132,399        | 2.2            | %132,614     | 2.2            | % 35,125      | 0.8            | %35,361      | 0.8            | % |
| Machinery                               | 396            | —              | %742         | —              | % 396         | —              | %790         | —              | % |
| Manufacturing                           | 208,549        | 3.4            | %163,379     | 2.7            | % 163,431     | 3.8            | %167,584     | 4.0            | % |
| Media                                   | 391,746        | 6.4            | %376,263     | 6.3            | % 171,290     | 4.0            | %161,325     | 3.9            | % |
| Metal Services & Minerals               | 48,398         | 0.8            | %50,799      | 0.9            | % 98,662      | 2.3            | %102,832     | 2.5            | % |
| Oil & Gas Production                    | 169,128        | 2.8            | %123,389     | 2.1            | % 75,126      | 1.8            | %24,420      | 0.6            | % |
| Personal & Nondurable Consumer Products | 84,278         | 1.4            | %86,042      | 1.4            | % 59,822      | 1.4            | %60,183      | 1.4            | % |
| Pharmaceuticals                         | 78,565         | 1.3            | %77,722      | 1.3            | % —           | —              | %—           | —              | % |
| Property Management                     | 57,647         | 0.9            | %47,961      | 0.8            | % 51,170      | 1.2            | %54,648      | 1.3            | % |
| Real Estate                             | 348,681        | 5.7            | %351,036     | 5.8            | % 152,540     | 3.6            | %152,540     | 3.7            | % |
| Retail                                  | 14,219         | 0.2            | %14,626      | 0.2            | % 14,190      | 0.3            | %14,569      | 0.3            | % |
| Software & Computer Services            | 256,471        | 4.2            | %257,544     | 4.3            | % 307,734     | 7.2            | %309,308     | 7.4            | % |
| Telecommunication Services              | 79,629         | 1.3            | %79,654      | 1.3            | % —           | —              | %—           | —              | % |
| Textiles, Apparel & Luxury Goods        | 276,024        | 4.5            | %262,212     | 4.4            | % 116,260     | 2.8            | %108,708     | 2.6            | % |
| Transportation                          | 115,404        | 1.9            | %104,197     | 1.7            | % 127,767     | 3.0            | %127,474     | 3.1            | % |
| Total Investments                       | \$6,111,359    | 100.0          | %\$6,006,203 | 100.0          | % \$4,255,778 | 100.0          | %\$4,172,852 | 100.0          | % |



#### Portfolio Investment Activity

During the nine months ended March 31, 2014, we acquired \$1,695,189 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$784,774, funded \$14,850 of revolver advances, and recorded PIK interest of \$13,043, resulting in gross investment originations of \$2,507,856. The more significant of these transactions are briefly described below.

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On November 1, 2013, we made a \$9,869 follow-on investment in APH to acquire Bexley Apartment Houses, a multi-family residential property located in Marietta, Georgia. We invested \$1,669 of equity and \$8,200 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to NPH. On November 5, 2013, we made a \$2,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020. This investment was subsequently contributed to NPH.

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

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

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

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

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

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

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

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

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

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

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



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

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

On December 13, 2013, we purchased an additional \$5,000 investment in Therakos, Inc., a developer of technologies for extracorporeal photopheresis treatments. The second lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

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

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

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

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

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

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

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

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

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

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

On January 8, 2014, we made a \$161,500 follow-on investment in Broder Bros., Co. ("Broder") to support an acquisition. The senior secured term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of April 8, 2019.



On January 17, 2014, we made a \$6,565 follow-on investment in APH to acquire the Gulf Coast II Portfolio, a portfolio of two multi-family residential properties located in Alabama and Florida. We invested \$1,065 of equity and \$5,500 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On January 31, 2014, we made a \$4,805 follow-on investment in NPH to acquire Island Club, a multi-family residential property located in Jacksonville, Florida. We invested \$805 of equity and \$4,000 of debt in NPH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On February 4, 2014, we made a secured debt investment of \$25,000 in Ikaria, Inc., a biotherapeutics company focused on developing and commercializing innovative therapies designed to meet the unique and complex medical needs of critically ill patients. The second lien term loan bears interest in cash at the greater of 8.75% or Libor plus 7.75% and has a final maturity of February 12, 2022.

On February 5, 2014, we made an investment of \$32,383 to purchase 94.27% of the subordinated notes in ING IM CLO 2014-1, Ltd.

On February 7, 2014, we made an investment of \$23,111 to purchase 63.64% of the subordinated notes in Halcyon Loan Advisors Funding 2014-1 Ltd.

On February 11, 2014, we made a \$7,000 follow-on investment in InterDent, Inc. to fund an acquisition. We invested an additional \$3,500 in Term Loan A and \$3,500 in Term Loan B. The Term Loan A note bears interest in cash at the greater of 7.25% or Libor plus 5.75% and has a final maturity of August 3, 2017. The Term Loan B note bears interest in cash at the greater of 12.25% or Libor plus 9.25% and has a final maturity of August 3, 2017.

On February 11, 2014, we made a secured debt investment of \$10,000 in TriMark USA, LLC, a foodservice equipment and supplies distributor and provider of custom kitchen design services. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of August 11, 2019.

On February 19, 2014, we provided \$17,000 of secured floating rate financing to support the acquisition of Venio LLC (f/k/a LM Keane Acquisition Co.) by Lovell Minnick Partners. Keane provides unclaimed property services to many of the nation's largest financial institutions including transfer agents, mutual funds, banks, brokerages and insurance companies. The second lien term loan bears interest in cash at the greater of 12.0% or Libor plus 9.5% and has a final maturity of February 19, 2020.

On March 7, 2014, we provided \$78,000 of senior secured floating rate debt to support the continued growth of Tolt Solutions, Inc., a retail-focused information technology services company, providing customized network architecture solutions, installation, deployment, maintenance, and customer support to retailers nationwide. The \$39,000 Term Loan A note bears interest in cash at the greater of 7.0% or Libor plus 6.0% and has a final maturity of March 7, 2019. The \$39,000 Term Loan B note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of March 7, 2019.

On March 12, 2014, we made a secured debt investment of \$10,000 in Tectum Holdings, Inc., a manufacturer of aftermarket accessories for the lite-truck market. The second lien term loan bears interest in cash at the greater of 10.25% or PRIME plus 7.0% and has a final maturity of March 12, 2019.

On March 18, 2014, we made a \$28,250 follow-on investment in LaserShip, Inc., of which \$22,250 was funded at closing, to finance an acquisition. The \$22,250 Term Loan B note bears interest in cash at the greater of 10.25% or Libor plus 8.25% and has a final maturity of March 18, 2019. The \$6,000 delayed draw term loan, which was unfunded at closing, bears interest in cash at 2.0% and has a final maturity of December 31, 2015.

On March 25, 2014, we made a secured debt investment of \$28,500 in Global Employment Solutions, Inc., a provider of contract and permanent placement staffing services, with a strategic focus on the information technology segment. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of March 25, 2019.

On March 28, 2014, we provided \$277,500 of secured floating rate debt to support the refinancing of Instant Web, LLC ("IWCO"), a provider of direct marketing solutions to direct marketers for acquisition and loyalty programs in the United States. The \$132,500 Term Loan A note bears interest in cash at the greater of 5.5% or Libor plus 4.5% and has a final maturity of March 28, 2019. The \$132,500 Term Loan B note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of March 28, 2019. The \$12,500 Term Loan C note bears interest



in cash at the greater of 12.75% or Libor plus 11.75% and has a final maturity of March 28, 2019.

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On March 31, 2014, we made a secured debt investment of \$60,000 in United States Environmental Services, LLC, a provider of industrial, environmental, and maritime services in the Gulf States region. The \$24,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.5% and has a final maturity of March 31, 2019. The \$36,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.5% and has a final maturity of March 31, 2019.

On March 31, 2014, we provided \$153,500 follow-on investment in Progrexion to fund a dividend recapitalization. The senior secured first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On March 31, 2014, we invested \$246,250 in cash and 2,306,294 unregistered shares of our common stock to support the recapitalization of Harbortouch Payments, LLC (f/k/a United Bank Card, Inc. (d/b/a Harbortouch)), a provider of transaction processing services and point-of-sale equipment used by merchants across the United States. We invested \$24,898 of equity and \$123,000 of debt in Harbortouch Holdings of Delaware Inc., the newly-formed holding company, and \$130,796 of debt in Harbortouch Payments, LLC, the operating company. Through the recapitalization, we acquired a controlling interest in Harbortouch Payments, LLC. After the recapitalization, we received repayment of the \$23,894 loan previously outstanding. The \$130,796 senior secured term loan issued to the operating company bears interest in cash at the greater of 9.0% or Libor plus 7.0% and has a final maturity of September 30, 2017. The \$123,000 senior secured note issued to the holding company bears interest in cash at the greater of 10.0% or Libor plus 8.0% and interest payment in kind of 6.0% and has a final maturity of March 31, 2019.

On March 31, 2014, we provided \$78,521 of debt and \$14,107 of equity financing to Echelon Aviation LLC (“Echelon”), a newly established portfolio company which provides liquidity alternatives on aviation assets. We are the controlling equity owner of Echelon. The senior term loan bears interest in cash at the greater of 11.75% or Libor plus 9.75% and interest payment in kind of 2.25% and has a final maturity of March 31, 2022.

In addition to the purchases noted above, during the nine months ended March 31, 2014, we made seven follow-on investments in NPH totaling \$14,000 to support the peer-to-peer lending initiative. We invested \$2,100 of equity and \$11,900 of debt in NPH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

During the nine months ended March 31, 2014, we received full repayments on sixteen investments, sold eight investments and restructured one investment, for which we realized a net loss of \$7,456, received \$3,974 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 \$617,452. The more significant of these transactions are briefly described below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On November 19, 2013, United Bank Card, Inc. (d/b/a Harbortouch) made a partial repayment of \$23,942.

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

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

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

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

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

On March 20, 2014, New Star Metals, Inc. repaid the \$50,534 loan receivable to us.

On March 26, 2014, Material Handling Services, LLC repaid the \$64,547 loan receivable to us.

In addition to the sales noted above, during the nine months ended March 31, 2014, we sold \$19,500 of our investment in ICON Health & Fitness, Inc. ("ICON") and realized losses of \$1,588 on the sales.

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

| Quarter-End          | Acquisitions(1) | Dispositions(2) |
|----------------------|-----------------|-----------------|
| March 31, 2014       | \$ 1,343,356    | \$ 198,047      |
| December 31, 2013    | 607,657         | 255,238         |
| September 30, 2013   | 556,843         | 164,167         |
| June 30, 2013        | 798,760         | 321,615         |
| March 31, 2013       | 784,395         | 102,527         |
| December 31, 2012    | 772,125         | 349,269         |
| September 30, 2012   | 747,937         | 158,123         |
| June 30, 2012        | 573,314         | 146,292         |
| March 31, 2012       | 170,073         | 188,399         |
| December 31, 2011    | 154,697         | 120,206         |
| September 30, 2011   | 222,575         | 46,055          |
| June 30, 2011        | 312,301         | 71,738          |
| March 31, 2011       | 359,152         | 78,571          |
| December 31, 2010    | 140,933         | 67,405          |
| September 30, 2010   | 140,951         | 68,148          |
| June 30, 2010        | 88,973          | 39,883          |
| March 31, 2010       | 59,311          | 26,603          |
| December 31, 2009(3) | 210,438         | 45,494          |
| September 30, 2009   | 6,066           | 24,241          |
| June 30, 2009        | 7,929           | 3,148           |
| March 31, 2009       | 6,356           | 10,782          |
| December 31, 2008    | 13,564          | 2,128           |
| September 30, 2008   | 70,456          | 10,949          |
| June 30, 2008        | 118,913         | 61,148          |
| March 31, 2008       | 31,794          | 28,891          |
| December 31, 2007    | 120,846         | 19,223          |
| September 30, 2007   | 40,394          | 17,949          |
| June 30, 2007        | 130,345         | 9,857           |
| March 31, 2007       | 19,701          | 7,731           |
| December 31, 2006    | 62,679          | 17,796          |
| September 30, 2006   | 24,677          | 2,781           |
| June 30, 2006        | 42,783          | 5,752           |
| March 31, 2006       | 15,732          | 901             |
| December 31, 2005    | —               | 3,523           |
| September 30, 2005   | 25,342          | —               |
| June 30, 2005        | 17,544          | —               |
| March 31, 2005       | 7,332           | —               |
| December 31, 2004    | 23,771          | 32,083          |
| September 30, 2004   | 30,371          | —               |
| Since Inception      | \$ 8,860,386    | \$ 2,706,663    |

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

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

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

### Investment Valuation

In determining the fair value of our portfolio investments at March 31, 2014, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$5,807,855 to \$6,172,069, excluding money market investments.

In determining the range of value for debt instruments except CLOs, management and the independent valuation firm generally estimate corporate and security credit ratings and identify corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine range of value. For non-traded equity investments, the enterprise value was determined by applying EBITDA multiples for similar guideline public companies and/or similar recent investment transactions. 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 firm used discounted cash flow model. 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 waterfall engine is used to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates.

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 \$6,006,203, 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.

#### AMU Holdings 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. During the six months ended December 31, 2013, we provided an additional \$7,600 of subordinated secured financing to AIRMALL. On December 4, 2013, we sold a \$972 participation in our term loans in AIRMALL, equal to 2% of the outstanding principal amount of loans on that date. As of March 31, 2014, we own 98% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

During the nine months ended March 31, 2014, we received distributions of \$12,000 from AIRMALL which were recorded as dividend income. No dividends were received from AIRMALL during the three and nine months ended March 31, 2013. Primarily as a result of the distribution of earnings during the nine months ended March 31, 2014, the Board of Directors decreased the fair value of our investment in AIRMALL to \$47,961 as of March 31, 2014, a discount of \$9,686 from its amortized cost, compared to the \$3,478 unrealized appreciation recorded at June 30, 2013.

APH Property Holdings, LLC

APH is a holding company that owns 100% of the common stock of American Property Holdings Corp. (“APHC”). APHC is a Maryland corporation and a qualified REIT for federal income tax purposes. APHC was formed to hold for investment, operate, finance, lease, manage and sell a portfolio of real estate assets. As of March 31, 2014, we own 100% of the fully-diluted common equity of APH.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various real estate properties. During the nine months ended March 31, 2014, we provided \$135,350 and \$26,679 of debt and equity financing, respectively, to APH for the acquisition of certain properties. In December 2013, APHC, a wholly-owned subsidiary of APH, distributed its investments in fourteen properties: eight to National Property Holdings Corp. ("NPHC"); and six to United Property Holdings Corp. ("UPHC"), two newly formed REIT holding companies which are discussed below. The investments transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

As of March 31, 2014, APHC's real estate portfolio was comprised of 14 multi-family properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

| No. | Property Name               | City               | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|-----------------------------|--------------------|------------------|----------------|----------------------|
| 1   | Abbingtion Pointe           | Marietta, GA       | 12/28/2012       | \$ 23,500      | \$ 15,275            |
| 2   | Amberly Place               | Tampa, FL          | 1/17/2013        | 63,400         | 39,600               |
| 3   | Lofton Place                | Tampa, FL          | 4/30/2013        | 26,000         | 16,965               |
| 4   | Vista at Palma Sola         | Bradenton, FL      | 4/30/2013        | 27,000         | 17,550               |
| 5   | Arlington Park              | Marietta, GA       | 5/8/2013         | 14,850         | 9,650                |
| 6   | The Resort                  | Pembroke Pines, FL | 6/24/2013        | 225,000        | 157,500              |
| 7   | Inverness Lakes(1)          | Mobile, AL         | 11/15/2013       | 29,600         | 19,400               |
| 8   | Kings Mill Apartments(1)    | Pensacola, FL      | 11/15/2013       | 20,750         | 13,622               |
| 9   | Crestview at Oakleigh(1)    | Pensacola, FL      | 11/15/2013       | 17,500         | 11,488               |
| 10  | Plantations at Pine Lake(1) | Tallahassee, FL    | 11/15/2013       | 18,000         | 11,817               |
| 11  | Cordova Regency(1)          | Pensacola, FL      | 11/15/2013       | 13,750         | 9,026                |
| 12  | Verandas at Rocky Ridge(1)  | Birmingham, AL     | 11/15/2013       | 15,600         | 10,205               |
| 13  | Plantations at Hillcrest(2) | Mobile, AL         | 1/17/2014        | 6,930          | 5,094                |
| 14  | Crestview at Cordova(2)     | Pensacola, FL      | 1/17/2014        | 8,500          | 5,072                |
|     |                             |                    |                  | \$ 510,380     | \$ 342,264           |

(1)These properties comprise the Gulf Coast Portfolio.

(2)These properties comprise the Gulf Coast II Portfolio.

The Board of Directors set the fair value of our investment in APH at \$202,404 as of March 31, 2014, a premium of \$1,938 from its amortized cost, compared to being valued at cost at June 30, 2013.

ARRM Holdings Inc.

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.

On April 4, 2008, we acquired a controlling equity interest in ARRM Holdings Inc. ("ARRM"), which owns 100% of Ajax, the operating company. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. During the quarter ended December 31, 2012, we funded an additional \$3,600 of unsecured debt to refinance first lien debt held by Wells Fargo.

On April 1, 2013, we refinanced our existing \$38,472 senior loans to Ajax, increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans that were previously outstanding. On October 11, 2013, we provided \$25,000 in preferred equity for the recapitalization of Ajax. After the financing, we received repayment of the \$20,008 subordinated unsecured loan previously outstanding. As of March 31, 2014, we control 79.53% of the fully-diluted common and preferred equity.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in ARRM to \$18,978 as of March 31, 2014, a discount of \$31,516 from its amortized cost, compared to the \$6,057 unrealized depreciation recorded at June 30, 2013.



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

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

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

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Through March 31, 2014, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a 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 nine months ended March 31, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. No such dividends were received during the three or nine months ended March 31, 2014.

During the nine months ended March 31, 2014, Energy Solutions repaid the remaining \$8,500 of our subordinated secured debt to the company. In addition to the repayment of principal, we received \$4,812 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as additional interest income during the nine months ended March 31, 2014.

On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Freedom Marine. The subordinated secured loan to Jettco was replaced with a senior secured note to Vessel Holdings II, LLC, a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine. Overall the restructuring of our investment in Freedom Marine provided approximately \$16,000 net senior secured debt financing to support the acquisition of two new vessels. We received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income during the nine months ended March 31, 2014. In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment: a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. The Board of Directors set the fair value of our investment in Energy Solutions, including the underlying portfolio companies affected by the reorganization, at \$34,909 as of March 31, 2014, a discount of \$6,837 from its amortized cost, compared to the \$7,574 unrealized depreciation recorded at June 30, 2013.

First Tower Holdings of Delaware, LLC

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 170 branch offices. On June 15, 2012, we acquired 80.1% of First Tower, LLC businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. During the three months ended December 31, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. During the three months ended June 30, 2012, we received \$8,075 in structuring fee

income. During the three months ended December 31, 2013, we funded an additional \$10,000 to again support seasonal demand. We received \$8,000 of structuring fees related to the renegotiation and expansion of First Tower's revolver with a third party which was recognized as other income during the nine months ended March 31, 2014. As of December 31, 2013, First Tower had total assets of approximately \$652,264 including \$421,338 of finance

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receivables net of unearned charges. As of March 31, 2014, First Tower's total debt outstanding to parties senior to us was \$271,759.

Due to improved operating results, the Board of Directors increased the fair value of our investment in First Tower to \$330,563 as of March 31, 2014, a premium of \$12,610 from its amortized cost, compared to the \$9,869 unrealized depreciation recorded at June 30, 2013.

#### NPH Property Holdings, LLC

NPH is a holding company that owns 100% of the common stock of National Property Holdings Corp. ("NPHC") and 100% of the membership units of NPH Property Holdings II, LLC ("NPH II"). NPHC is a Maryland corporation that intends to qualify to be a REIT for federal income tax purposes. NPHC was formed to hold for investment, operate, finance, lease, manage and sell a portfolio of real estate assets. NPH II is a Delaware single member limited liability company structured to enable Prospect to invest in peer-to-peer loans. As of March 31, 2014, we own 100% of the fully-diluted common equity of NPH.

During the nine months ended March 31, 2014, we provided \$24,700 and \$4,725 of debt and equity financing, respectively, to NPH for the acquisition of certain properties. The eight investments transferred to NPHC from APHC consisted of \$79,309 and \$16,315 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

As of March 31, 2014, NPHC's real estate portfolio was comprised of nine multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

| No. | Property Name       | City                  | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|---------------------|-----------------------|------------------|----------------|----------------------|
| 1   | 146 Forest Parkway  | Forest Park, GA       | 10/24/2012       | \$7,400        | \$—                  |
| 2   | Bexley              | Marietta, GA          | 11/1/2013        | 30,600         | 22,497               |
| 3   | St. Marin(1)        | Coppell, TX           | 11/19/2013       | 73,078         | 53,863               |
| 4   | Mission Gate(1)     | Plano, TX             | 11/19/2013       | 47,621         | 36,148               |
| 5   | Vinings Corner(1)   | Smyrna, GA            | 11/19/2013       | 35,691         | 26,640               |
| 6   | Central Park(1)     | Altamonte Springs, FL | 11/19/2013       | 36,590         | 27,471               |
| 7   | City West(1)        | Orlando, FL           | 11/19/2013       | 23,562         | 18,533               |
| 8   | Matthews Reserve(1) | Matthews, NC          | 11/19/2013       | 22,063         | 17,571               |
| 9   | Indigo              | Jacksonville, FL      | 12/31/2013       | 38,000         | 28,500               |
| 10  | Island Club         | Atlantic Beach, FL    | 1/31/2014        | 13,025         | 9,118                |
|     |                     |                       |                  | \$327,630      | \$240,341            |

(1)These properties comprise the Oxford Portfolio.

The Board of Directors set the fair value of our investment in NPH at \$124,213 as of March 31, 2014, a discount of \$1,268 from its amortized cost.

#### UPH Property Holdings, LLC

UPH is a holding company that owns 100% of the common stock of United Property Holdings Corp. ("UPHC"). UPHC is a Delaware limited liability company that intends to qualify to be a REIT for federal income tax purposes. UPHC was formed to hold for investment, operate, finance, lease, manage and sell a portfolio of real estate assets. As of March 31, 2014, we own 100% of the fully-diluted common equity of UPH.

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

As of March 31, 2014, UPHC's real estate portfolio was comprised of six multi-family properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

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

(1)These properties comprise the Stonemark Portfolio.

The Board of Directors set the fair value of our investment in UPH at \$24,419 as of March 31, 2014, a premium of \$1,685 from its amortized cost.

Valley Electric Holdings I, Inc.

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

On December 31, 2012, Valley Electric Holdings II, Inc., a wholly-owned subsidiary of Valley Electric Holdings I, Inc., and management acquired 100% of the outstanding shares of Valley Electric Company of Mount Vernon, Inc. We funded the recapitalization of Valley Electric with \$42,572 of debt and \$9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley Electric for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. As of March 31, 2014, we control 96.3% of the common equity.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Valley Electric to \$35,761 as of March 31, 2014, a discount of \$20,282 from its amortized cost, compared to being valued at cost at June 30, 2013.

Wolf Energy Holdings, Inc.

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

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

The Board of Directors set the fair value of our investment in Wolf at \$3,759 as of March 31, 2014, a discount of \$4,282 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. Seven of our controlled companies, AIRMALL, Ajax, Boxercraft, First Tower, Gulf Coast, NMMB and Valley Electric, experienced such volatility and experienced fluctuations in valuations during the nine months ended March 31, 2014. See above for discussion regarding the fluctuations in AIRMALL, Ajax, First Tower, and Valley Electric. The value of Boxercraft decreased to \$3,337 as of March 31, 2014, a discount of \$13,812 to its amortized cost, compared to the \$7,375 unrealized depreciation recorded at June 30, 2013 due to a decline in operating results. The value of Gulf Coast decreased to \$11,842 as of March 31, 2014, a discount of \$31,608 to its amortized cost, compared to the \$9,241 unrealized depreciation recorded at June 30, 2013 due to a decline in operating results. The value of NMMB decreased to \$9,715 as of March 31, 2014, a discount of \$13,485 to its amortized cost, compared to the \$10,051 unrealized depreciation recorded at June 30, 2013 due to a decline in operating results. Eight of the other controlled investments have been valued at discounts to the original investment. Nine of the other control investments are valued at the original investment amounts or higher. Overall, at March 31, 2014, control investments are valued at \$96,149 below their amortized cost.

We hold one affiliate investments at March 31, 2014. None of our affiliate portfolio companies experienced a significant change in valuation during the nine months ended March 31, 2014 due to declining operating results. With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. Three of our Non-control/non-affiliate investments, New Century Transportation, Inc. ("NCT"), 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 March 31, 2014, other non-control/non-affiliate investments are valued at \$48,982 above their amortized cost, excluding our investments in NCT, 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 as of March 31, 2014 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Senior Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012 and December 2012; Senior Unsecured Notes which we issued in May 2012 and March 2013; and Prospect Capital InterNotes® which we may issue from time to time. Our equity capital is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® maximum draw amounts and outstanding borrowings as of March 31, 2014 and June 30, 2013:

|                              | March 31, 2014      |                    | June 30, 2013       |                    |
|------------------------------|---------------------|--------------------|---------------------|--------------------|
|                              | Maximum Draw Amount | Amount Outstanding | Maximum Draw Amount | Amount Outstanding |
| Revolving Credit Facility    | \$ 792,500          | \$ 729,000         | \$ 552,500          | \$ 124,000         |
| Senior Convertible Notes     | 847,500             | 847,500            | 847,500             | 847,500            |
| Senior Unsecured Notes       | 347,858             | 347,858            | 347,725             | 347,725            |
| Prospect Capital InterNotes® | 767,644             | 767,644            | 363,777             | 363,777            |
| Total                        | \$ 2,755,502        | \$ 2,692,002       | \$ 2,111,502        | \$ 1,683,002       |

The following table shows the contractual maturities of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® as of March 31, 2014:

|                               | Payments Due by Period |                     |              |             |                  |
|-------------------------------|------------------------|---------------------|--------------|-------------|------------------|
|                               | Total                  | Less than 1<br>Year | 1 – 3 Years  | 3 – 5 Years | After 5<br>Years |
| Revolving Credit Facility     | \$ 729,000             | \$—                 | \$ 729,000   | \$—         | \$—              |
| Senior Convertible Notes      | 847,500                | —                   | 317,500      | 330,000     | 200,000          |
| Senior Unsecured Notes        | 347,858                | —                   | —            | —           | 347,858          |
| Prospect Capital InterNotes®  | 767,644                | —                   | 5,710        | 381,895     | 380,039          |
| Total Contractual Obligations | \$ 2,692,002           | \$—                 | \$ 1,052,210 | \$ 711,895  | \$ 927,897       |

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

|                               | Payments Due by Period |                     |             |             |                  |
|-------------------------------|------------------------|---------------------|-------------|-------------|------------------|
|                               | Total                  | Less than 1<br>Year | 1 – 3 Years | 3 – 5 Years | After 5<br>Years |
| Revolving Credit Facility     | \$ 124,000             | \$—                 | \$—         | \$ 124,000  | \$—              |
| Senior Convertible Notes      | 847,500                | —                   | 150,000     | 297,500     | 400,000          |
| Senior Unsecured Notes        | 347,725                | —                   | —           | —           | 347,725          |
| Prospect Capital InterNotes®  | 363,777                | —                   | —           | —           | 363,777          |
| Total Contractual Obligations | \$ 1,683,002           | \$—                 | \$ 150,000  | \$ 421,500  | \$ 1,111,502     |

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of March 31, 2014, we can issue up to \$4,097,491 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

#### Revolving Credit Facility

On March 27, 2012, we closed on an expanded five-year \$650,000 revolving credit facility with a syndicate of lenders through PCF (the “2012 Facility”). The lenders have extended commitments of \$792,500 under the 2012 Facility as of March 31, 2014. The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$1,000,000 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 March 31, 2014, 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 March 31, 2014 and June 30, 2013, we had \$792,500 and \$473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was \$729,000 and \$124,000, respectively. As additional eligible investments are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the current commitment amount of \$792,500. At March 31, 2014, the investments used as collateral for the 2012 Facility had an aggregate fair value of \$1,488,222, which represents 23.7% of our total investments and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the 2012 Facility, we incurred \$13,616 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 \$5,876 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of March 31, 2014.

During the three months ended March 31, 2014 and March 31, 2013, we recorded \$3,243 and \$2,305, respectively, of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense. During the nine months ended March 31, 2014 and March 31, 2013, we recorded \$8,319 and \$6,700, respectively, of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense.

#### Senior Convertible Notes

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

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

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

On August 14, 2012, we issued \$200,000 aggregate principal amount of senior convertible notes that mature on March 15, 2018 (the "2018 Notes"), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600.

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





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

|  | 2015 Notes  | 2016 Notes  | 2017 Notes  | 2018 Notes  | 2019 Notes  |
|--|-------------|-------------|-------------|-------------|-------------|
| Initial conversion rate(1)               | 88.0902     | 78.3699     | 85.8442     | 82.3451     | 79.7766     |
| Initial conversion price                 | \$ 11.35    | \$ 12.76    | \$ 11.65    | \$ 12.14    | \$ 12.54    |
| Conversion rate at March 31, 2014(1)(2)  | 89.0157     | 79.3176     | 86.1162     | 82.8631     | 79.7863     |
| Conversion price at March 31, 2014(2)(3) | \$ 11.23    | \$ 12.61    | \$ 11.61    | \$ 12.07    | \$ 12.53    |
| Last conversion price calculation date   | 12/21/2013  | 2/18/2014   | 4/16/2013   | 8/14/2013   | 12/21/2013  |
| Dividend threshold amount (per share)(4) | \$ 0.101125 | \$ 0.101150 | \$ 0.101500 | \$ 0.101600 | \$ 0.110025 |

(1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Senior Convertible Notes converted.

(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

(3) The conversion price in effect at March 31, 2014 was calculated on the last anniversary of the issuance and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

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

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

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

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

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

In connection with the issuance of the Senior Convertible Notes, we incurred \$27,030 of fees which are being amortized over the terms of the notes, of which \$16,862 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of March 31, 2014.

During the three months ended March 31, 2014 and March 31, 2013, we recorded \$13,378 and \$13,299, respectively, of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense. During the nine months ended March 31, 2014 and March 31, 2013, we recorded \$40,048 and \$32,529, respectively, of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense.

#### Senior Unsecured Notes

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

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

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

In connection with the issuance of the Senior Unsecured Notes, we incurred \$7,364 of fees which are being amortized over the term of the notes, of which \$6,595 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of March 31, 2014.

During the three months ended March 31, 2014 and March 31, 2013, we recorded \$5,591 and \$2,466, respectively, of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense. During the nine months ended March 31, 2014 and March 31, 2013, we recorded \$16,764 and \$6,087, respectively, of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense.

#### Prospect Capital InterNotes®

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

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

During the nine months ended March 31, 2014, we issued \$407,208 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$400,062. These notes were issued with stated interest rates ranging from 3.75% to 6.75% with a weighted average interest rate of 5.14%. These notes mature between October 15, 2016 and October 15, 2043. Below is a summary of the Prospect Capital InterNotes® issued during the nine months ended March 31, 2014:

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| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                     |
|---------------------------------|------------------|---------------------|--------------------------------|---|
| 3                               | \$ 5,710         | 4.00%               | 4.00                           | % October 15, 2016 – October 15, 2016   |
| 3.5                             | 3,149            | 4.00%               | 4.00                           | % April 15, 2017 – April 15, 2017       |
| 4                               | 36,992           | 3.75%–4.00%         | 3.96                           | % November 15, 2017 – March 15, 2018    |
| 5                               | 195,965          | 4.75%–5.00%         | 4.96                           | % July 15, 2018 – August 15, 2019       |
| 5.5                             | 43,820           | 4.75%–5.00%         | 4.77                           | % February 15, 2019 – August 15, 2019   |
| 6.5                             | 1,800            | 5.50%               | 5.50                           | % February 15, 2020 – February 15, 2020 |
| 7                               | 47,227           | 5.25%–5.75%         | 5.50                           | % July 15, 2020 – March 15, 2021        |
| 7.5                             | 1,996            | 5.75%               | 5.75                           | % February 15, 2021 – February 15, 2021 |
| 10                              | 13,691           | 5.75%–6.50%         | 6.02                           | % January 15, 2024 – March 15, 2024     |
| 12                              | 2,978            | 6.00%               | 6.00                           | % November 15, 2025 – December 15, 2025 |
| 15                              | 2,495            | 6.00%               | 6.00                           | % August 15, 2028 – November 15, 2028   |
| 18                              | 4,062            | 6.00%–6.25%         | 6.21                           | % July 15, 2031 – August 15, 2031       |
| 20                              | 2,791            | 6.00%               | 6.00                           | % September 15, 2033 – October 15, 2033 |
| 25                              | 24,382           | 6.25%–6.50%         | 6.45                           | % August 15, 2038 – March 15, 2039      |
| 30                              | 20,150           | 6.50%–6.75%         | 6.60                           | % July 15, 2043 – October 15, 2043      |
|                                 | \$407,208        |                     |                                |   |

During the nine months ended March 31, 2014, we repaid \$3,341 aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. Below are the Prospect Capital InterNotes® outstanding as of March 31, 2014:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                     |
|---------------------------------|------------------|---------------------|--------------------------------|---|
| 3                               | \$ 5,710         | 4.00%               | 4.00                           | % October 15, 2016 – October 15, 2016   |
| 3.5                             | 3,149            | 4.00%               | 4.00                           | % April 15, 2017 – April 15, 2017       |
| 4                               | 36,992           | 3.75%–4.00%         | 3.96                           | % November 15, 2017 – March 15, 2018    |
| 5                               | 195,965          | 4.75%–5.00%         | 4.96                           | % July 15, 2018 – August 15, 2019       |
| 5.5                             | 43,820           | 4.75%–5.00%         | 4.77                           | % February 15, 2019 – August 15, 2019   |
| 6.5                             | 1,800            | 5.50%               | 5.50                           | % February 15, 2020 – February 15, 2020 |
| 7                               | 241,961          | 4.00%–6.55%         | 5.40                           | % June 15, 2019 – March 15, 2021        |
| 7.5                             | 1,996            | 5.75%               | 5.75                           | % February 15, 2021 – February 15, 2021 |
| 10                              | 31,793           | 3.23%–7.00%         | 6.32                           | % March 15, 2022 – March 15, 2024       |
| 12                              | 2,978            | 6.00%               | 6.00                           | % November 15, 2025 – December 15, 2025 |
| 15                              | 17,495           | 5.00%–6.00%         | 5.14                           | % May 15, 2028 – November 15, 2028      |
| 18                              | 25,625           | 4.125%–6.25%        | 5.49                           | % December 15, 2030 – August 15, 2031   |
| 20                              | 5,897            | 5.625%–6.00%        | 5.84                           | % November 15, 2032 – October 15, 2033  |
| 25                              | 24,382           | 6.25%–6.50%         | 6.45                           | % August 15, 2038 – March 15, 2039      |
| 30                              | 128,081          | 5.50%–6.75%         | 6.23                           | % November 15, 2042 – October 15, 2043  |
|                                 | \$767,644        |                     |                                |   |

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$18,662 of fees which are being amortized over the term of the notes, of which \$17,609 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of March 31, 2014.

During the three months ended March 31, 2014 and March 31, 2013, we recorded \$9,535 and \$2,784, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the nine months ended March 31, 2014 and March 31, 2013, we recorded \$23,279 and \$5,463, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.



### Net Asset Value

During the nine months ended March 31, 2014, we issued \$947,394 of additional equity, net of underwriting and offering costs, by issuing 85,662,896 shares of our common stock. The following table shows the calculation of net asset value per share as of March 31, 2014 and June 30, 2013:

|   | March 31, 2014 | June 30, 2013 |
|---|----------------|---------------|
| Net assets                                    | \$3,561,376    | \$2,656,494   |
| Shares of common stock issued and outstanding | 333,499,861    | 247,836,965   |
| Net asset value per share                     | \$10.68        | \$10.72       |

### Results of Operations

Net increase in net assets resulting from operations for the three months ended March 31, 2014 and March 31, 2013 was \$82,101 and \$44,429, respectively, representing \$0.26 and \$0.20 per weighted average share, respectively. This increase is primarily due to a \$15,861, or \$0.04 per weighted average share, increase in other income primarily due to structuring fees from originations in Harbortouch, IWCO, and Progrexion, and a \$7,507, or \$0.02 per weighted average share, increase in dividend income primarily from our investments in Credit Central and Nationwide.

Net increase in net assets resulting from operations for the nine months ended March 31, 2014 and March 31, 2013 was \$247,363 and \$138,167, respectively, representing \$0.86 and \$0.71 per weighted average share, respectively. The increase is primarily due to a \$68,949, or \$0.40 per weighted average share, favorable decrease in our net realized losses and net change in unrealized depreciation on investments. (See Net Realized Losses and Net Decrease in Net Assets from Changes in Unrealized Depreciation.) The favorable decrease in realized losses and unrealized depreciation is partially offset by a \$0.24 per weighted average share decline in net investment income primarily due to a decrease in dividend income from our investment in Energy Solutions, a decrease in the average rate of interest earned on investments, and an increase in interest expense due to additional debt financing. (See Investment Income for further discussion of dividend income.)

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

### Investment Income

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$190,327 and \$120,195 for the three months ended March 31, 2014 and March 31, 2013, respectively. Investment income was \$529,451 and \$409,866 for the nine months ended March 31, 2014 and March 31, 2013, respectively. During the three and nine months ended March 31, 2014, 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:

|  | Three Months Ended March 31, |              | Nine Months Ended March 31, |              |   |
|--|------------------------------|--------------|-----------------------------|--------------|---|
|  | 2014                         | 2013         | 2014                        | 2013         |   |
| Interest income  | \$ 156,376                   | \$ 109,612   | \$ 441,900                  | \$ 304,788   |   |
| Dividend income  | 7,590                        | 83           | 23,571                      | 68,246       |   |
| Other income   | 26,361                       | 10,500       | 63,980                      | 36,832       |   |
| Total investment income                                    | \$ 190,327                   | \$ 120,195   | \$ 529,451                  | \$ 409,866   |   |
| Average debt principal of performing investments           | \$ 4,976,702                 | \$ 3,114,965 | \$ 4,541,874                | \$ 2,595,767 |   |
| Weighted average interest rate earned on performing assets | 12.76                        | % 14.23      | % 12.85                     | % 15.48      | % |

Average interest income producing assets have increased from \$3,114,965 for the three months ended March 31, 2013 to \$4,976,702 for the three months ended March 31, 2014. The average yield on interest bearing performing assets decreased from 14.2% for the three months ended March 31, 2013 to 12.8% for the three months ended March 31, 2014. Average interest income producing assets have increased from \$2,595,767 for the nine months ended March 31, 2013 to \$4,541,874 for the nine months ended March 31, 2014. The average yield on interest bearing performing assets decreased from 15.5% for the nine months ended March 31, 2013 to 12.8% for the nine months ended March 31, 2014. The decrease in annual returns during the comparable period is primarily due to a decline in prepayment penalty income driven by a \$12,140 decrease in the make-whole fees we received from Energy Solutions. The decrease in our current yield is also the result of senior secured loan refinancing activity that took place in the leveraged loan market and within our CLO portfolios during the first half of calendar year 2013, and to a lesser extent, originations at lower rates than our average existing portfolio yield. Excluding these adjustments for make whole fees and CLO portfolio returns, our annual return would have been 13.0% and 13.1% for both the three and nine months ended March 31, 2013, respectively.

Investment income is also generated from dividends and other income. Dividend income increased by \$7,507 for the three months ended March 31, 2014 in comparison to the three months ended March 31, 2013. The increase in dividend income is primarily attributed to dividends of \$5,000 and \$2,000 received from our investments in Nationwide and Credit Central. The dividends received include distributions as part of follow-on financings in March 2014 for which we provided an additional \$6,500 of financing. We also received a \$500 dividend from our investment in CCPI. No dividends were received from these investments during the three months ended March 31, 2013. Dividend income decreased from \$68,246 for the nine months ended March 31, 2013 to \$23,571 for the nine months ended March 31, 2014. The decrease in dividend income is primarily attributed to a \$53,820 decrease in the level of dividends received from our investment in Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, we received dividends from Energy Solutions of \$53,820 during the nine months ended March 31, 2013. No such dividends were received during the nine months ended March 31, 2014 related to our investment in Energy Solutions. The decrease in dividend income is also attributed to a \$10,196 decrease in the level of dividends received from our investment in R-V. We received dividends from R-V of \$1,026 and \$11,222 during the nine months ended March 31, 2014 and March 31, 2013, respectively. The \$11,222 of dividends received from R-V during the nine months ended March 31, 2013 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The decrease in dividend income is further attributed to a \$2,945 decrease in dividends received from our investment in AGC. We received dividends of \$2,945 from AGC during the nine months ended March 31, 2013. No such dividends were received during the nine months ended March 31, 2014 related to our investment in AGC. The decrease in dividend income was partially offset by dividends of \$12,000, \$5,000 and \$5,000 received from our investments in AIRMALL, Credit Central and Nationwide, respectively, during the nine months ended March 31, 2014. The dividends received from Credit Central and Nationwide include distributions as part of follow-on financings in March 2014 for which we provided an additional \$6,500 of financing, as discussed above. No dividends were received from AIRMALL, Credit Central or Nationwide during the nine months ended March 31, 2013.



Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Comparing the three months ended March 31, 2013 to the three months ended March 31, 2014, income from other sources increased from \$10,500 to \$26,361. This \$15,861 increase is primarily due to a \$15,104 increase in structuring fees. During the three months ended March 31, 2014, we recognized structuring fees of \$24,659 resulting from follow-on investments and new originations, primarily from our investments in Broder, Echelon, Harbortouch, IWCO, Progexion, and USES. During the three months ended March 31, 2013, we received \$9,555 of structuring fees primarily related to our investments in Broder, Cinedigm, Capstone and USC.

Comparing the nine months ended March 31, 2013 to the nine months ended March 31, 2014, income from other sources increased from \$36,832 to \$63,980. This \$27,148 increase is primarily due to an \$18,844 increase in structuring fees, \$5,000 of legal cost reimbursement from a litigation settlement, which has been expensed in prior quarters, and a \$2,195 increase in royalty interests from our controlled investments, particularly APH, Credit Central, First Tower and Nationwide. During the nine months ended March 31, 2014 and March 31, 2013, we recognized structuring fees of \$52,672 and \$33,828, respectively, from new originations, restructurings and follow-on investments. Included within the \$52,672 of structuring fees recognized during the nine months ended March 31, 2014, is an \$8,000 fee from First Tower Delaware related to the renegotiation and expansion of First Tower's third party revolver for which a fee was received in December 2013. The remaining \$44,672 of structuring fees recognized during the nine months ended March 31, 2014, resulted from follow-on investments and new originations, primarily from our investments in APH, Broder, Echelon, Harbortouch, IWCO and Progrexion. During the nine months ended March 31, 2013, we recognized structuring fees of \$33,828 primarily from our investments in Arctic, Broder, Interdent and USC.

#### 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. Operating expenses were \$91,804 and \$60,610 for the three months ended March 31, 2014 and March 31, 2013, respectively, or approximately \$0.29 and \$0.27 per weighted average share outstanding, respectively.

Operating expenses were \$256,376 and \$177,038 for the nine months ended March 31, 2014 and March 31, 2013, respectively, or approximately \$0.89 and \$0.91 per weighted average share outstanding, respectively.

The base management fee was \$28,709 and \$18,966 for the three months ended March 31, 2014 and March 31, 2013, respectively. This \$9,743 increase is directly related to our growth in total assets. For the three months ended March 31, 2014 and March 31, 2013, we incurred \$24,631 and \$14,896, respectively, of income incentive fees. The \$9,735 increase in the income incentive fee for the respective three-month period is driven by a \$48,673 increase in pre-incentive fee net investment income from \$74,481 for the three months ended March 31, 2013 to \$123,154 for the three months ended March 31, 2014, primarily due to an increase in net investment income before incentive fees from a larger asset base.

The base management fee was \$76,829 and \$48,500 for the nine months ended March 31, 2014 and March 31, 2013, respectively. This \$28,329 increase is directly related to our growth in total assets. For the nine months ended March 31, 2014 and March 31, 2013, we incurred \$68,269 and \$58,207, respectively, of income incentive fees. The \$10,062 increase in the income incentive fee for the respective nine-month period is driven by a \$50,309 increase in pre-incentive fee net investment income from \$291,035 for the nine months ended March 31, 2013 to \$341,344 for the nine months ended March 31, 2014, 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. (See Investment Income.) No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended March 31, 2014 and March 31, 2013, we incurred \$31,747 and \$20,854, respectively, of expenses related to our 2012 Facility, Prospect Capital InterNotes®, Senior Unsecured Notes and Senior Convertible Notes. During the nine months ended March 31, 2014 and March 31, 2013, we incurred \$88,410 and \$50,779, 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 periods and the levels of indebtedness actually undertaken in those periods. The table below describes the various expenses of our 2012 Facility, Prospect Capital InterNotes®, Senior Unsecured Notes and Senior Convertible Notes and the related indicators of leveraging capacity and indebtedness during these periods.

|   | Three Months Ended March 31, |              | Nine Months Ended March 31, |            |   |
|---|------------------------------|--------------|-----------------------------|------------|---|
|   | 2014                         | 2013         | 2014                        | 2013       |   |
| Interest on borrowings  | \$ 27,206                    | \$ 17,311    | \$ 75,826                   | \$ 40,921  |   |
| Amortization of deferred financing costs  | 2,857                        | 2,162        | 7,943                       | 5,886      |   |
| Commitment and other fees   | 1,684                        | 1,381        | 4,641                       | 3,972      |   |
| Total   | \$ 31,747                    | \$ 20,854    | \$ 88,410                   | \$ 50,779  |   |
| Weighted-average debt outstanding   | \$ 1,920,717                 | \$ 1,178,121 | \$ 1,753,868                | \$ 925,652 |   |
| Weighted-average interest rate  | 5.69                         | % 6.61       | % 5.77                      | % 6.74     | % |
| Weighted-average interest rate including amortization of deferred financing costs | 6.27                         | % 7.34       | % 6.36                      | % 7.59     | % |
| 2012 Facility amount at beginning of period                                       | \$ 650,000                   | \$ 552,500   | \$ 552,500                  | \$ 492,500 |   |

The increase in interest expense for the three and nine months ended March 31, 2014 is primarily due to the issuance of additional Prospect Capital InterNotes®, the 2023 Notes and the 2019 Notes for which we incurred an incremental \$9,487 and \$33,025 of collective interest expense, respectively. The weighted average interest rate on borrowings (excluding amortization and undrawn facility fees) decreased from 6.61% to 5.69% for the three months ended March 31, 2013 and March 31, 2014, respectively. The weighted average interest rate on borrowings (excluding amortization and undrawn facility fees) decreased from 6.74% to 5.77% for the nine months ended March 31, 2013 and March 31, 2014, respectively. This decrease is primarily due to issuances of our Prospect Capital InterNotes® at lower coupon rates. The weighted average interest rate on our Prospect Capital InterNotes® decreased from 5.84% as of March 31, 2013 to 5.38% as of March 31, 2014.

The allocation of overhead expense from Prospect Administration was \$3,986 and \$2,957 for the three months ended March 31, 2014 and March 31, 2013, respectively. The allocation of overhead expense from Prospect Administration was \$11,958 and \$7,280 for the nine months ended March 31, 2014 and March 31, 2013, respectively. As our portfolio continues to grow, we expect Prospect Administration to continue to increase the size of its administrative and financial staff.

Excise tax was \$1,000 for the three months ended March 31, 2014 and March 31, 2013. Excise tax was \$3,000 and \$5,500 for the nine months ended March 31, 2014 and March 31, 2013, respectively. As of March 31, 2014, we have \$5,000 accrued as an estimate of the excise tax due for continuing to retain a portion of our annual taxable income for the calendar years ending December 31, 2013 and December 31, 2014.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration, and excise tax (“Other Operating Expenses”) were \$1,731 and \$1,937 for the three months ended March 31, 2014 and March 31, 2013, respectively, holding consistent at approximately \$0.01 per weighted average share outstanding. Other Operating Expenses were \$7,910 and \$6,772 for the nine months ended March 31, 2014 and March 31, 2013 respectively. The increase of \$1,138, representing approximately \$0.01 per weighted average share outstanding, is primarily due to an increase in our investor relations expense which is included within other general and administrative expenses. Investor relations expense increased due to increased proxy costs incurred for our larger investor base.

#### Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Our net investment income was \$98,523 and \$59,585 for the three months ended March 31, 2014 and March 31, 2013, respectively, or \$0.31 per weighted average share and \$0.26 per weighted average share, respectively. The \$38,938, or \$0.05 per weighted average share, increase in net investment income is primarily due to a \$15,861, or \$0.04 per weighted average share, increase in other income primarily due to structuring fees from originations and a \$7,507, or \$0.02 per weighted average share, increase in dividend income primarily from our investments in Credit Central and Nationwide. These increase were partially offset by a \$10,893, or \$0.01 per weighted average share, increase in interest expense due to additional debt financing



Net investment income was \$273,075 and \$232,828 for the nine months ended March 31, 2014 and March 31, 2013, respectively, or \$0.95 per weighted average share and \$1.20 per weighted average share, respectively. The \$40,247 increase for the nine months ended March 31, 2014 is primarily the result of a \$119,585 increase in investment income partially offset by a \$79,338 increase in operating expenses. The \$119,585 increase in investment income is primarily due to a larger income producing portfolio and increased structuring fees from originations, partially offset by a decrease in the level of dividends received from our investment in ESHI. The \$79,338 increase in operating expenses is primarily due to a \$38,391 increase in advisory fees due to the growing size of our portfolio and related income and \$37,631 of additional interest and credit facility expenses as we maintain consistent leverage on our growing portfolio. The \$0.24 per weighted average share decrease in net investment income for the nine months ended March 31, 2014 is primarily due to a \$0.27 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. (See Investment Income.)

#### Net Realized Losses

Net realized losses were \$1,600 and \$6,014 for the three months ended March 31, 2014 and March 31, 2013, respectively. The net realized loss of \$1,600 for the three months ended March 31, 2014 was due primarily to a \$1,588 realized loss from the sale of our loan receivable in ICON at a discount. The net realized loss for the three months ended March 31, 2013 was due primarily to the sale of our investment in Meatco for which we realized a loss of \$10,814. This loss was partially offset by a \$900 gain we recognized on the partial sale of our equity investment in C&H and a distribution of \$3,250 related to our investment in NRG Manufacturing, Inc. for which we realized a gain of the same amount.

Net realized losses were \$3,482 and \$12,362 for the nine months ended March 31, 2014 and March 31, 2013, respectively. The net realized loss of \$3,482 for nine months ended March 31, 2014 was due primarily to the \$7,853 and \$1,588 realized losses related to the sale of our loan receivables in NBS and ICON at discounts, respectively.

These losses were partially offset by a \$3,252 gain realized from the release of escrowed amounts to us related to our investment in NRG and a \$1,183 gain realized when the subordinated notes from Apidos VIII were called in October 2013. The net realized loss for the nine months ended March 31, 2013 was primarily due to the sale of Meatco, the other-than-temporary impairment of ICS, sale of our equity investments in C&H, Northwestern and Shearer's, distributions received from escrow receivable accounts, primarily NRG, and the sale of our common stock in Iron Horse for which we realized a gain of \$1,772.

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

Net decrease in net assets from changes in unrealized depreciation was \$14,822 and \$9,142 for the three months ended March 31, 2014 and March 31, 2013, 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 March 31, 2014, the \$14,822 net change in unrealized depreciation was driven by significant write-downs of our equity investments in Ajax, CCPI, Credit Central, NCT and Valley Electric. These instances of unrealized depreciation were partially offset by unrealized appreciation related to First Tower and our CLO equity investments. During the three months ended March 31, 2014, we partially sold our debt investment in ICON at a discount and realized a loss of \$1,588, reducing the amount previously recorded unrealized depreciation. Included within the change in net unrealized appreciation of \$14,822 for the three months ended March 31, 2014 is \$2,880 of unrealized appreciation resulting from the partial sale of ICON.

Net decrease in net assets from changes in unrealized depreciation was \$22,230 and \$82,299 for the nine months ended March 31, 2014 and March 31, 2013, 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 nine months ended March 31, 2014, the \$22,230 net change in unrealized depreciation was driven by significant write-downs of our equity investments in AIRMALL, Ajax, Boxercraft, Gulf Coast, NCT and Valley Electric. 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 nine months ended March 31, 2014 and March 31, 2013, our operating activities used \$1,547,961 and \$1,408,273 of cash, respectively. There were no investing activities for the nine months ended March 31, 2014 and March 31, 2013. Financing activities provided \$1,619,693 and \$1,565,137 of cash during the nine months ended

March 31, 2014 and March 31, 2013, respectively, which included dividend payments of \$268,028 and \$166,084, 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 nine months ended March 31, 2014, we borrowed \$986,500 and made repayments totaling \$381,500 under our Revolving Credit Facility. As of March 31, 2014, we had \$729,000 outstanding on our Revolving Credit Facility, \$847,500 outstanding on our Senior Convertible Notes, Senior Unsecured Notes with a carrying value of \$347,858 and \$767,644 outstanding on our Prospect Capital InterNotes®. (See Capitalization.)

Undrawn committed revolvers to our portfolio companies incur commitment fees ranging from 0.00% to 2.00%. As of March 31, 2014 and June 30, 2013, we have \$267,761 and \$202,518 of undrawn revolver commitments to our portfolio companies, respectively.

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,097,491 of additional debt and equity securities in the public market as of March 31, 2014.

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

On May 8, 2013, we entered into an ATM Program with BB&T Capital Markets, BMO Capital Markets, and KeyBanc Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from July 5, 2013 to August 21, 2013, we sold 9,818,907 shares of our common stock at an average price of \$10.97 per share, and raised \$107,725 of gross proceeds, under the ATM Program. Net proceeds were \$106,654 after commissions to the broker-dealer on shares sold and offering costs. On August 22, 2013, we entered into an ATM Program with BMO Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from August 29, 2013 to November 4, 2013, we sold 24,127,242 shares of our common stock at an average price of \$11.28 per share, and raised \$272,114 of gross proceeds, under the ATM Program. Net proceeds were \$268,997 after commissions to the broker-dealer on shares sold and offering costs.

On November 5, 2013, we entered into an ATM Program with Barclays Capital, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from November 12, 2013 to February 5, 2014, we sold 27,301,889 shares of our common stock at an average price of \$11.25 per share, and raised \$307,045 of gross proceeds, under the ATM Program. Net proceeds were \$303,540 after commissions to the broker-dealer on shares sold and offering costs.

On February 4, 2014, we entered into an ATM Program with BMO Capital Markets, BNP Paribas, Goldman Sachs, KeyBanc Capital Markets, and UBS Investment Bank through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from February 10, 2014 to March 31, 2014, we sold 19,095,226 shares of our common stock at an average price of \$11.11 per share, and raised \$212,155 of gross proceeds, under the ATM Program. Net proceeds were \$209,953 after commissions to the broker-dealer on shares sold and offering costs. See Recent Developments for issuances under the ATM Program subsequent to March 31, 2014.

#### Off-Balance Sheet Arrangements

At March 31, 2014, 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 April 1, 2014 to May 5, 2014, we issued \$50,784 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$49,797. In addition, we sold \$15,770 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$15,454 with expected closing on May 8, 2014. In conjunction with the debt issuance on April 7, 2014 (see below), \$45,000 of Prospect Capital InterNotes® were converted into 5.00% 2019 Notes. On April 15, 2014, we repaid \$258 aggregate principal amount of our Prospect Capital InterNotes® in

accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus.

During the period from April 1, 2014 to May 2, 2014, we sold 7,711,389 shares of our common stock at an average price of \$10.91 per share, and raised \$84,145 of gross proceeds, under the ATM Program. Net proceeds were \$83,501 after commissions to the broker-dealer on shares sold and offering costs.



On April 7, 2014, we issued \$300,000 aggregate principal amount of senior unsecured notes that mature on July 15, 2019 (the "5.00% 2019 Notes"). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that was converted into the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$250,775.

On April 8, 2014, we provided \$59,000 of senior secured financing, of which \$54,000 was funded at closing, to support the recapitalization of Ark-La-Tex Wireline Services, LLC and affiliates ("AWS"), a provider of cased hole wireline and related completion-stage services in connection with oil and gas production.

On April 8, 2014, we refinanced our existing \$15,000 subordinated loan to Pelican Products, Inc., making a new debt investment. Concurrent with the refinancing, we received repayment of the \$15,000 loan previously outstanding.

On April 11, 2014, we made an investment of \$21,685 to purchase 52.87% of the subordinated notes in Washington Mill CLO Ltd.

On April 11, 2014, we issued \$400,000 aggregate principal amount of senior convertible notes that mature on April 15, 2020 (the "2020 Notes"), unless previously converted or repurchased in accordance with their terms. The 2020 Notes bear interest at a rate of 4.75% per year, payable semi-annually on April 15 and October 15 each year, beginning October 15, 2014. Total proceeds from the issuance of the 2020 Notes, net of underwriting discounts and offering costs, were \$387,500.

On April 14, 2014, we made an investment of \$38,220 to purchase 78.37% of the subordinated notes in Halcyon Loan Advisors Funding 2014-2 Ltd.

On April 16, 2014, we announced the then current conversion rate on the 2017 Notes as 86.9430 shares of common stock per \$1 principal amount of the 2017 Notes converted, which is equivalent to a conversion price of approximately \$11.50.

On April 17, 2014, we issued 86,333 shares of our common stock in connection with the dividend reinvestment plan.

On April 21, 2014, we made an \$18,250 follow-on investment in InterDent, Inc. to fund an acquisition.

On April 30, 2014, we made a \$65,000 senior secured investment, of which \$50,000 was funded at closing, in Fleetwash, Inc., a national provider of vehicle and facility washing services.

On May 1, 2014, Totes Isotoner Corporation repaid the \$53,000 loan receivable to us.

On May 5, 2014, we invested \$48,960 in cash and 1,102,313 unregistered shares of our common stock to support the recapitalization of Arctic Energy Services, LLC, an oil and gas service company based in Glenrock, Wyoming and doing business as Arctic Oilfield Services.

On May 6, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014;

\$0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and

\$0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.

#### 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 accompanying notes to conform to the presentation as of and for the three and nine months ended March 31, 2014.

##### Use of Estimates

The preparation of GAAP consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported

amounts of income, gains and losses, and expenses during the reported period. Changes in the economic environment, financial markets, creditworthiness of our portfolio companies and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

#### Basis of Consolidation

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

In connection with the SEC staff’s review of our filing on Form N-14 for the acquisition of Nicholas Financial, Inc., the staff of the SEC has asserted that some of our wholly owned companies are investment companies for accounting purposes and are required to be consolidated by us. Based on our assessment of generally accepted accounting principles (“GAAP”), we disagree with the staff’s assertion and intend to appeal to the SEC’s Chief Accountant and, if necessary, the Commission itself. We do not yet know the timing of such appeal process.

The staff asserts that these wholly owned holding companies should be accounted for as investment companies. We disagree with the staff’s assertion. These companies are the holding companies through which we own and operate the underlying subsidiary operating companies engaged in a variety of industries, including manufacturing, services, real estate and consumer finance businesses. These holding companies are used for a variety of business purposes relevant to each underlying operating company, including the borrowing of structurally subordinated debt against the holding companies, which is a common private equity industry practice employed to make possible attractive financing terms for operating company debt and to achieve other important benefits, including enhanced supplier, customer, and insurance terms. We believe the consolidation position of the staff is not supported by any written guidance within existing GAAP and that it is not appropriate to account for such holding companies of the operating companies as investment companies, as these holding companies do not meet the definition of an investment company under current GAAP. In addition, current GAAP permits but does not require investment companies to consolidate other investment companies (ASC 946-810-45-2). Based on existing accounting standards, we believe the consolidated financial statements set forth herein were compiled in accordance with GAAP and fairly depict the financial condition and results of operations of the Company.

We expect the near-term resolution of the issue will result in one of the following three outcomes:

- (1) no changes to our current accounting treatment;
- (2) consolidation of such wholly-owned companies in the future for financial statement purposes but not for tax purposes; or
- (3) restatement of our prior financial statements with certain wholly-owned companies consolidated for financial statement purposes but not for tax purposes.

While the potential effect of the staff’s proposed accounting change is still being evaluated, should a restatement be required, we expect that on a historical basis such consolidation and restatement would:

- (1) remain unchanged), which we believe is an important measure of our ability to generate recurring cash income distributions to our shareholders;
- (2) increase our historical net increase in net assets resulting from operations;

- decrease our historical net investment income by the amount of interest and structuring income paid by such
- (3) wholly-owned companies in excess of the amount of income that can be reported as dividend income based on taxable earnings and profits; and
  - (4) decrease our historical operating expenses by any resultant decrease in income incentive fees (partially offset by any resultant increased base management fees) paid to our Investment Adviser.

We believe the proposed change advocated by the SEC in the method by which net investment income would be reported would significantly decouple net investment income from taxable income and in our opinion make net investment income a less useful metric of both our profitability and distribution requirement. If we are required to consolidate holding companies of operating companies, we expect in conjunction with such change to calculate and report a non-GAAP measure titled adjusted net investment income adding back interest payments from the holding companies that are in excess of taxable earnings and profits that would for GAAP purposes be reported as return of capital distributions, and we believe that such adjusted net investment income would be a better measure of our economic operating profit than net investment income. We expect that adjusted net investment income for prior periods would be in excess of net investment income reported in prior periods due to the reduction in income incentive fees. The amount of any change to the items above is in the process of being evaluated.

#### Cash and Cash Equivalents

Cash and cash equivalents include funds deposited with financial institutions and short-term, highly-liquid investments in money market funds. Cash and cash equivalents are carried at cost which approximates fair value.

#### Investment Classification

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, 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 25% or more of the voting securities of an investee company. Under the 1940 Act, "Affiliate Investments" 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. "Non-Control/Non-Affiliate Investments" are those that are neither Control Investments nor Affiliate Investments.

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

#### Investment Risks

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

##### Market Risk

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

##### Credit Risk

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

##### Liquidity Risk

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

##### Interest Rate Risk

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

### Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

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

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

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

Our investments in CLOs are classified as ASC 820 Level 3 securities, and are valued using a discounted cash flow model. 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 collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

#### Valuation of Other Financial Assets and Financial Liabilities

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

#### Senior Convertible Notes

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

#### Revenue Recognition

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis.

Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or amortization of premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. ("Patriot") was determined based on the difference between par value and fair value as of December 2, 2009, and continues to accrete until maturity or repayment of the respective loans (see Note 3).

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 March 31, 2014, approximately 0.3% of our total assets are in non-accrual status.

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



#### Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income. As of March 31, 2014, we have \$5,000 accrued as an estimate of the excise tax due for continuing to retain a portion of our annual taxable income for the calendar years ending December 31, 2013 and December 31, 2014.

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 March 31, 2014 and for the three and nine months then ended, we did not have a liability for any unrecognized tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2009 remain subject to examination by the Internal Revenue Service.

#### Dividends and Distributions

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

#### Financing Costs

We record origination expenses related to our Revolving Credit Facility and Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® (collectively, our “Senior Notes”), as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Senior Notes, over the respective expected life or maturity. We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of Securities and Exchange Commission (“SEC”) registration fees, legal fees and accounting fees incurred. These prepaid assets are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed.



#### Guarantees and Indemnification Agreements

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

#### Per Share Information

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

#### 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. We are currently evaluating the effect the adoption of ASU 2013-08 may have on our consolidated financial statements and disclosures.

#### Item 3. 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 March 31, 2014, we did not engage in hedging activities.

#### Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, the Company’s Chief Executive Officer and Chief Financial Officer conducted an evaluation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934). Based upon this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective to allow timely decisions regarding required disclosure of any material information relating to the Company that is required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934.

There have been no changes in the Company’s internal controls over financial reporting that occurred during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of such of these matters as may arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any such litigation as of March 31, 2014.

#### Item 1A. Risk Factors

The following risk factors have been revised. There have been no material changes to any other risk factors disclosed in our most recent Form 10-K filing.

Our investments in prospective portfolio companies may be risky and we could lose all or part of our investment. Some of our portfolio companies have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their investment objective and the value of our investment in them may decline substantially or fall to zero. In addition, investment in the middle market companies that we are targeting involves a number of other significant risks, including:

- these companies may have limited financial resources and may be unable to meet their obligations under their securities that we hold, which may be accompanied by a deterioration in the value of their securities or of any collateral with respect to any securities and a reduction in the likelihood of our realizing on any guarantees we may have obtained in connection with our investment;
- they may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- because many of these companies are privately held companies, public information is generally not available about these companies. As a result, we will depend on the ability of the Investment Adviser to obtain adequate information to evaluate these companies in making investment decisions. If the Investment Adviser is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and we may lose money on our investments;
  - they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a materially adverse impact on our portfolio company and, in turn, on us;
- they may have less predictable operating results, may from time to time be parties to litigation, may be engaged in changing businesses with products subject to a risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;
- they may have difficulty accessing the capital markets to meet future capital needs;
- changes in laws and regulations, as well as their interpretations, may adversely affect their business, financial structure or prospects; and
- increased taxes, regulatory expense or the costs of changes to the way they conduct business due to the effects of climate change may adversely affect their business, financial structure or prospects.

We acquire majority interests in operating companies engaged in a variety of industries. When we acquire these companies we generally seek to apply financial leverage to them in the form of debt. In most cases all or a portion of this debt is held by us, with the obligor being either the operating company itself, a holding company through which we own our majority interest or both. The level of debt leverage utilized by these companies makes them susceptible to the risks identified above.

In addition, our executive officers, directors and the Investment Adviser could, in the ordinary course of business, be named as defendants in litigation arising from proposed investments or from our investments in the portfolio companies.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our

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investments in such companies.

Our portfolio companies may have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, our investments. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments would usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company typically are entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with our investments, we would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company. The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements (including agreements governing “first out” and “last out” structures) that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

This risk is characteristic of many of the majority-owned operating companies in our portfolio in that any debt to us from a holding company and the holding company's substantial equity investments in the related operating company are subordinated to any creditors of the operating company.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

#### Item 3. Defaults Upon Senior Securities

Not applicable.

#### Item 4. Mine Safety Disclosures

Not applicable.

#### Item 5. Other Information

None.

#### Item 6. Exhibits

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC (according to the number assigned to them in Item 601 of Regulation S-K):

- 4.1 Articles of Amendment and Restatement(1)
- 4.2 Amended and Restated Bylaws(2)
- 4.3 Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(3)
- 4.4 Joinder Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Original Trustee, and U.S.

- Bank National Association, as Series Trustee(4)  
Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the
- 4.5 Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee(5)  
Two Hundred Twenty-Seventh Supplemental Indenture dated as of January 3, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance
- 4.6 dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(6)
- 4.7 Form of 4.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.6)(6)  
Two Hundred Twenty-Eighth Supplemental Indenture dated as of January 3, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.8 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(6)
- 4.9 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.8)(6)  
Two Hundred Twenty-Ninth Supplemental Indenture dated as of January 3, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.10 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(6)
- 4.11 Form of 5.500% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.10)(6)

- Two Hundred Thirtieth Supplemental Indenture dated as of January 3, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(6)
- 4.12 Form of 6.000% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.12)(6)
- Two Hundred Thirty-First Supplemental Indenture dated as of January 3, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(6)
- 4.13 Form of 6.500% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.14)(6)
- Two Hundred Thirty-Second Supplemental Indenture dated as of January 9, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(7)
- 4.14 Form of 4.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.16)(7)
- Two Hundred Thirty-Third Supplemental Indenture dated as of January 9, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(7)
- 4.15 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.18)(7)
- Two Hundred Thirty-Fourth Supplemental Indenture dated as of January 9, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(7)
- 4.16 Form of 5.500% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.20)(7)
- Two Hundred Thirty-Fifth Supplemental Indenture dated as of January 9, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(7)
- 4.17 Form of 6.000% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.22)(7)
- Two Hundred Thirty-Sixth Supplemental Indenture dated as of January 9, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(7)
- 4.18 Form of 6.500% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.24)(7)
- Two Hundred Thirty-Seventh Supplemental Indenture dated as of January 16, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(8)
- 4.19 Form of 4.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.26)(8)
- 4.20 Two Hundred Thirty-Eighth Supplemental Indenture dated as of January 16, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated

- as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(8)
- 4.29 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.28)(8)  
Two Hundred Thirty-Ninth Supplemental Indenture dated as of January 16, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.30 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(8)
- 4.31 Form of 5.500% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.30)(8)  
Two Hundred Fortieth Supplemental Indenture dated as of January 16, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.32 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(8)
- 4.33 Form of 6.000% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.32)(8)  
Two Hundred Forty-First Supplemental Indenture dated as of January 16, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.34 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(8)
- 4.35 Form of 6.500% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.34)(8)

- Two Hundred Forty-Second Supplemental Indenture dated as of January 24, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(9)
- 4.36 Form of 4.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.36)(9)
- Two Hundred Forty-Third Supplemental Indenture dated as of January 24, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(9)
- 4.38 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.38)(9)
- Two Hundred Forty-Fourth Supplemental Indenture dated as of January 24, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(9)
- 4.39 Form of 5.500% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.40)(9)
- Two Hundred Forty-Fifth Supplemental Indenture dated as of January 24, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(9)
- 4.40 Form of 6.000% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.42)(9)
- Two Hundred Forty-Sixth Supplemental Indenture dated as of January 24, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(9)
- 4.41 Form of 6.500% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.44)(9)
- Two Hundred Forty-Seventh Supplemental Indenture dated as of January 30, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(10)
- 4.42 Form of 4.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.46)(10)
- Two Hundred Forty-Eighth Supplemental Indenture dated as of January 30, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(10)
- 4.43 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.48)(10)
- Two Hundred Forty-Ninth Supplemental Indenture dated as of January 30, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(10)
- 4.44 Form of 5.500% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.50)(10)
- 4.45 Two Hundred Fiftieth Supplemental Indenture dated as of January 30, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated



- as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(10)
- 4.53 Form of 6.000% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.52)(10)  
Two Hundred Fifty-First Supplemental Indenture dated as of January 30, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.54 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(10)
- 4.55 Form of 6.500% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.54)(10)  
Two Hundred Fifty-Second Supplemental Indenture dated as of February 6, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.56 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(11)
- 4.57 Form of 4.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.56)(11)  
Two Hundred Fifty-Third Supplemental Indenture dated as of February 6, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.58 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(11)
- 4.59 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.58)(11)

- Two Hundred Fifty-Fourth Supplemental Indenture dated as of February 6, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(11)
- 4.60 Form of 5.500% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.60)(11)
- Two Hundred Fifty-Fifth Supplemental Indenture dated as of February 6, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(11)
- 4.62 Form of 6.000% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.62)(11)
- Two Hundred Fifty-Sixth Supplemental Indenture dated as of February 6, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(11)
- 4.64 Form of 6.500% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.64)(11)
- Two Hundred Fifty-Seventh Supplemental Indenture dated as of February 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(12)
- 4.66 Form of 4.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.66)(12)
- Two Hundred Fifty-Eighth Supplemental Indenture dated as of February 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(12)
- 4.68 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.68)(12)
- Two Hundred Fifty-Ninth Supplemental Indenture dated as of February 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(12)
- 4.70 Form of 5.500% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.70)(12)
- Two Hundred Sixtieth Supplemental Indenture dated as of February 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(12)
- 4.72 Form of 6.000% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.72)(12)
- Two Hundred Sixty-First Supplemental Indenture dated as of February 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(12)
- 4.74 Form of 6.500% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.74)(12)
- 4.75 Two Hundred Sixty-Seventh Supplemental Indenture dated as of February 19, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance

dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(13)

- 4.77 Form of 4.75% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.76)(13)  
Two Hundred Sixty-Second Supplemental Indenture dated as of February 21, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.78 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(14)
- 4.79 Form of 4.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.78)(14)  
Two Hundred Sixty-Third Supplemental Indenture dated as of February 21, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.80 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(14)
- 4.81 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.80)(14)  
Two Hundred Sixty-Fourth Supplemental Indenture dated as of February 21, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.82 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(14)
- 4.83 Form of 5.500% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.82)(14)



as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(16)

- 4.101 Form of 4.750% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.100)(16)  
Two Hundred Seventy-Fifth Supplemental Indenture dated as of March 6, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.102 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(16)
- 4.103 Form of 5.250% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.102)(16)  
Two Hundred Seventy-Sixth Supplemental Indenture dated as of March 6, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.104 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(16)
- 4.105 Form of 5.750% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.104)(16)  
Two Hundred Seventy-Seventh Supplemental Indenture dated as of March 6, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.106 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(16)
- 4.107 Form of 6.250% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.106)(16)

- Supplement No. 1 to the Two Hundred Sixty-Seventh Supplemental Indenture dated as of March 11, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation,
- 4.108 Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(17)
- 4.109 Form of 4.75% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.108)(17)  
Two Hundred Seventy-Eighth Supplemental Indenture dated as March 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.110 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(18)
- 4.111 Form of 3.750% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.110)(18)  
Two Hundred Seventy-Ninth Supplemental Indenture dated as of March 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.112 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(18)
- 4.113 Form of 4.750% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.112)(18)  
Two Hundred Eightieth Supplemental Indenture dated as of March 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.114 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(18)
- 4.115 Form of 5.250% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.114)(18)  
Two Hundred Eighty-First Supplemental Indenture dated as of March 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.116 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(18)
- 4.117 Form of 5.750% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.116)(18)  
Two Hundred Eighty-Second Supplemental Indenture dated as of March 13, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.118 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(18)
- 4.119 Form of 6.250% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.118)(18)  
Two Hundred Eighty-Fourth Supplemental Indenture dated as March 20, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.120 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(19)
- 4.121 Form of 3.750% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.120)(19)  
Two Hundred Eighty-Fifth Supplemental Indenture dated as of March 20, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.122 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(19)
- 4.123 Form of 4.750% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.122)(19)
- 4.124 Two Hundred Eighty-Sixth Supplemental Indenture dated as of March 20, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated

as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(19)

- 4.125 Form of 5.250% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.124)(19)  
Two Hundred Eighty-Seventh Supplemental Indenture dated as of March 20, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.126 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(19)
- 4.127 Form of 5.750% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.126)(19)  
Two Hundred Eighty-Eighth Supplemental Indenture dated as of March 20, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.128 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(19)
- 4.129 Form of 6.250% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.128)(19)  
Two Hundred Eighty-Ninth Supplemental Indenture dated as March 27, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated
- 4.130 as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(20)
- 4.131 Form of 3.750% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.130)(20)

- Two Hundred Ninetieth Supplemental Indenture dated as of March 20, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(20)
- 4.132 Form of 4.750% Prospect Capital InterNote® due 2019 (included as part of Exhibit 4.132)(20)  
Two Hundred Ninety-First Supplemental Indenture dated as of March 27, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(20)
- 4.134 Form of 5.250% Prospect Capital InterNote® due 2021 (included as part of Exhibit 4.134)(20)  
Two Hundred Ninety-Second Supplemental Indenture dated as of March 27, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(20)
- 4.135 Form of 5.750% Prospect Capital InterNote® due 2026 (included as part of Exhibit 4.136)(20)  
Two Hundred Ninety-Third Supplemental Indenture dated as of March 27, 2014, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(20)
- 4.136 Form of 6.250% Prospect Capital InterNote® due 2039 (included as part of Exhibit 4.138)(20)
- 11 Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)
- 12 Computation of Ratios (included in the notes to the financial statements contained in this report)
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended\*
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended\*
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)\*
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)\*

\* Filed herewith.

- (1) Incorporated by reference from the Registrant's Form 8-K filed on July 30, 2012.
- (2) Incorporated by reference from the Registrant's Form 8-K filed on August 26, 2011.
- (3) Incorporated by reference from Post-Effective Amendment No. 1 to the Registrant's Registration Statement, filed on March 1, 2012.
- (4) Incorporated by reference from Post-Effective Amendment No. 2 to the Registrant's Registration Statement, filed on March 8, 2012.
- (5) Incorporated by reference from Post-Effective Amendment No. 3 to the Registrant's Registration Statement, filed on March 14, 2012.
- (6) Incorporated by reference from Post-Effective Amendment No. 14 to the Registrant's Registration Statement, filed on January 3, 2014.
- (7) Incorporated by reference from Post-Effective Amendment No. 15 to the Registrant's Registration Statement, filed on January 9, 2014.
- (8) Incorporated by reference from Post-Effective Amendment No. 16 to the Registrant's Registration Statement, filed on January 16, 2014.



- (9) Incorporated by reference from Post-Effective Amendment No. 17 to the Registrant's Registration Statement, filed on January 24, 2014.
- (10) Incorporated by reference from Post-Effective Amendment No. 18 to the Registrant's Registration Statement, filed on January 30, 2014.
- (11) Incorporated by reference from Post-Effective Amendment No. 19 to the Registrant's Registration Statement, filed on February 6, 2014.
- (12) Incorporated by reference from Post-Effective Amendment No. 20 to the Registrant's Registration Statement, filed on February 13, 2014.
- (13) Incorporated by reference from Post-Effective Amendment No. 21 to the Registrant's Registration Statement, filed on February 19, 2014.
- (14) Incorporated by reference from Post-Effective Amendment No. 22 to the Registrant's Registration Statement, filed on February 21, 2014.
- (15) Incorporated by reference from Post-Effective Amendment No. 23 to the Registrant's Registration Statement, filed on February 27, 2014.
- (16) Incorporated by reference from Post-Effective Amendment No. 24 to the Registrant's Registration Statement, filed on March 6, 2014.
- (17) Incorporated by reference from Post-Effective Amendment No. 25 to the Registrant's Registration Statement, filed on March 11, 2014.
- (18) Incorporated by reference from Post-Effective Amendment No. 26 to the Registrant's Registration Statement, filed on March 13, 2014.
- (19) Incorporated by reference from Post-Effective Amendment No. 27 to the Registrant's Registration Statement, filed on March 20, 2014.
- (20) Incorporated by reference from Post-Effective Amendment No. 28 to the Registrant's Registration Statement, filed on March 27, 2014.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 6, 2014.

PROSPECT CAPITAL CORPORATION

By:           /s/ John F. Barry III  
              John F. Barry III  
              Chief Executive Officer and Chairman of the Board

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