

PROSPECT CAPITAL CORP  
Form 10-Q  
February 03, 2014

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

**For the Quarter Ended December 31, 2013**

**o** **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**

(State or other jurisdiction of incorporation or organization)

**43-2048643**

(I.R.S. Employer Identification No.)

**10 East 40th Street**

**44th Floor**

**New York, New York**

(Address of principal executive offices)

**10016**

(Zip Code)

**(212) 448-0702**

(Registrant's telephone number, including area code)

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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 January 31, 2014 was 310,346,894.

---

---

PROSPECT CAPITAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2013

TABLE OF CONTENTS

|   | <b><u>Page</u></b> |
|---|--------------------|
| <b><u>PART I.</u></b>   |                    |
| <b><u>FINANCIAL INFORMATION</u></b>   | 3                  |
| <u>Item 1.</u>  | 3                  |
| <u>Financial Statements</u>   | 3                  |
| <u>Consolidated Statements of Assets and Liabilities December 31, 2013 (Unaudited) and June 30, 2013 (Audited)</u>      | 3                  |
| <u>Consolidated Statements of Operations (Unaudited) For the Three and Six Months Ended December 31, 2013 and 2012</u>  | 4                  |
| <u>Consolidated Statements of Changes in Net Assets (Unaudited) For the Six Months Ended December 31, 2013 and 2012</u> | 5                  |
| <u>Consolidated Statements of Cash Flows (Unaudited) For the Six Months Ended December 31, 2013 and 2012</u>            | 6                  |
| <u>Consolidated Schedules of Investments December 31, 2013 (Unaudited) and June 30, 2013 (Audited)</u>                  | 7                  |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u>   | 41                 |
| <u>Item 2.</u>  | 70                 |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | 70                 |
| <u>Item 3.</u>  | 107                |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 107                |
| <u>Item 4.</u>  | 107                |
| <u>Controls and Procedures</u>  | 107                |
| <b><u>PART II.</u></b>  |                    |
| <b><u>OTHER INFORMATION</u></b>   | 108                |
| <u>Item 1.</u>  | 108                |
| <u>Legal Proceedings</u>  | 108                |
| <u>Item 1A.</u>   | 108                |
| <u>Risk Factors</u>   | 108                |
| <u>Item 2.</u>  | 108                |
| <u>Unregistered Sales in Equity Securities and Use of Proceeds</u>  | 108                |
| <u>Item 3.</u>  | 108                |
| <u>Defaults Upon Senior Securities</u>  | 108                |
| <u>Item 4.</u>  | 108                |
| <u>Mine Safety Disclosures</u>  | 108                |
| <u>Item 5.</u>  | 108                |
| <u>Other Information</u>  | 108                |
| <u>Item 6.</u>  | 108                |
| <u>Exhibits</u>   | 108                |
| <u>Signatures</u>   | 118                |

**PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

**December 31, 2013 and June 30, 2013**  
(in thousands, except share and per share data)

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|  |    |           |    |           |
|--|----|-----------|----|-----------|
| Paid-in capital in excess of par (Note 9)  |    | 3,332,469 |    | 2,739,864 |
| Undistributed net investment income        |    | 68,321    |    | 77,084    |
| Accumulated realized losses on investments |    | (79,658)  |    | (77,776)  |
| Unrealized depreciation on investments     |    | (90,334)  |    | (82,926)  |
| <b>Net Assets</b>                          | \$ | 3,231,099 | \$ | 2,656,494 |
| <b>Net Asset Value Per Share (Note 15)</b> | \$ | 10.73     | \$ | 10.72     |

See notes to consolidated financial statements.

## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended December 31, 2013 and 2012  
(in thousands, except share and per share data)  
(Unaudited)

|  | For the Three Months Ended<br>December 31, |                | For the Six Months Ended<br>December 31, |                |
|--|--|----------------|--|----------------|
|  | 2013                                       | 2012           | 2013                                     | 2012           |
| <b>Investment Income</b>   |  |                |  |                |
| Interest income:   |  |                |  |                |
| Control investments  | \$ 37,086                                  | \$ 33,239      | \$ 69,719                                | \$ 51,158      |
| Affiliate investments  | 1,399                                      | 1,694          | 2,895                                    | 3,345          |
| Non-control/Non-affiliate investments                            | 79,420                                     | 58,513         | 157,532                                  | 103,540        |
| CLO fund securities  | 29,198                                     | 23,420         | 55,378                                   | 37,133         |
| <b>Total interest income</b>                                     | <b>147,103</b>                             | <b>116,866</b> | <b>285,524</b>                           | <b>195,176</b> |
| Dividend income:   |  |                |  |                |
| Control investments  | 8,877                                      | 31,717         | 15,952                                   | 64,967         |
| Non-control/Non-affiliate investments                            | 9  | 230            | 12                                       | 3,185          |
| Money market funds   | 6  | 8              | 17                                       | 11             |
| <b>Total dividend income</b>                                     | <b>8,892</b>                               | <b>31,955</b>  | <b>15,981</b>                            | <b>68,163</b>  |
| Other income: (Note 10)  |  |                |  |                |
| Control investments  | 17,928                                     | 5,095          | 27,149                                   | 5,097          |
| Affiliate investments  | 5  | 605            | 7  | 613            |
| Non-control/Non-affiliate investments                            | 4,162                                      | 11,514         | 10,463                                   | 20,622         |
| <b>Total other income</b>  | <b>22,095</b>                              | <b>17,214</b>  | <b>37,619</b>                            | <b>26,332</b>  |
| <b>Total Investment Income</b>                                   | <b>178,090</b>                             | <b>166,035</b> | <b>339,124</b>                           | <b>289,671</b> |
| <b>Operating Expenses</b>  |  |                |  |                |
| Investment advisory fees:  |  |                |  |                |
| Base management fee (Note 12)                                    | 25,075                                     | 16,306         | 48,120                                   | 29,534         |
| Income incentive fee (Note 12)                                   | 23,054                                     | 24,804         | 43,638                                   | 43,311         |
| <b>Total investment advisory fees</b>                            | <b>48,129</b>                              | <b>41,110</b>  | <b>91,758</b>                            | <b>72,845</b>  |
| Interest and credit facility expenses                            | 29,256                                     | 16,414         | 56,663                                   | 29,925         |
| Legal fees   | (42)                                       | 635            | 177                                      | 1,257          |
| Valuation services   | 449  | 371            | 888                                      | 747            |
| Audit, compliance and tax related fees                           | 745  | 378            | 1,368                                    | 810            |
| Allocation of overhead from Prospect<br>Administration (Note 12) | 3,986                                      | 2,139          | 7,972                                    | 4,323          |
| Insurance expense  | 90   | 78             | 183                                      | 171            |
| Directors' fees  | 75   | 75             | 150                                      | 150            |
| Excise tax   | 1,000                                      | 4,500          | 2,000                                    | 4,500          |
| Other general and administrative expenses                        | 2,187                                      | 1,119          | 3,413                                    | 1,700          |
| <b>Total Operating Expenses</b>                                  | <b>85,875</b>                              | <b>66,819</b>  | <b>164,572</b>                           | <b>116,428</b> |
| <b>Net Investment Income</b>                                     | <b>92,215</b>                              | <b>99,216</b>  | <b>174,552</b>                           | <b>173,243</b> |
| Net realized loss on investments (Note 3)                        | (5,671)                                    | (8,123)        | (1,882)                                  | (6,348)        |
| Net change in unrealized depreciation on<br>investments (Note 3) | (1,182)                                    | (44,604)       | (7,408)                                  | (73,157)       |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|  |    |        |    |        |    |         |    |        |
|--|----|--------|----|--------|----|---------|----|--------|
| <b>Net Increase in Net Assets Resulting from Operations</b>                      | \$ | 85,362 | \$ | 46,489 | \$ | 165,262 | \$ | 93,738 |
| Net increase in net assets resulting from operations per share (Notes 11 and 16) | \$ | 0.30   | \$ | 0.24   | \$ | 0.61    | \$ | 0.52   |
| Dividends declared per share   | \$ | 0.33   | \$ | 0.31   | \$ | 0.66    | \$ | 0.62   |

See notes to consolidated financial statements.

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

**For the Six Months Ended December 31, 2013 and 2012**  
(in thousands, except share data)  
(Unaudited)

|   | <b>For the Six Months Ended December 31,</b> |                     |
|---|--|---------------------|
|   | <b>2013</b>                                  | <b>2012</b>         |
| <b>Increase in Net Assets from Operations:</b>                              |  |                     |
| Net investment income   | \$ 174,552                                   | \$ 173,243          |
| Net realized loss on investments  | (1,882)                                      | (6,348)             |
| Net change in unrealized depreciation on investments                        | (7,408)                                      | (73,157)            |
| <b>Net Increase in Net Assets Resulting from Operations</b>                 | <b>165,262</b>                               | <b>93,738</b>       |
| <b>Dividends to Shareholders:</b>   |  |                     |
| Distribution of net investment income                                       | (183,315)                                    | (114,093)           |
| Distribution of return of capital   |  |                     |
| <b>Total Dividends to Shareholders</b>                                      | <b>(183,315)</b>                             | <b>(114,093)</b>    |
| <b>Capital Share Transactions:</b>  |  |                     |
| Proceeds from capital shares sold, net of underwriting costs                | 563,578                                      | 770,252             |
| Less: Offering costs of public share offerings                              | (1,019)                                      | (1,514)             |
| Proceeds from shares issued to acquire controlled investments               | 21,006                                       | 59,251              |
| Reinvestment of dividends   | 9,093  | 7,027               |
| <b>Net Increase in Net Assets Resulting from Capital Share Transactions</b> | <b>592,658</b>                               | <b>835,016</b>      |
| <b>Total Increase in Net Assets</b>   | <b>574,605</b>                               | <b>814,661</b>      |
| Net assets at beginning of period   | 2,656,494                                    | 1,511,974           |
| <b>Net Assets at End of Period</b>  | <b>\$ 3,231,099</b>                          | <b>\$ 2,326,635</b> |
| <b>Capital Share Activity:</b>  |  |                     |
| Shares sold   | 50,700,067                                   | 69,407,632          |
| Shares issued to acquire controlled investments                             | 1,918,342                                    | 5,507,381           |
| Shares issued through reinvestment of dividends                             | 804,062                                      | 624,527             |
| Net increase in capital share activity                                      | 53,422,471                                   | 75,539,540          |
| Shares outstanding at beginning of period                                   | 247,836,965                                  | 139,633,870         |
| <b>Shares Outstanding at End of Period</b>                                  | <b>301,259,436</b>                           | <b>215,173,410</b>  |

See notes to consolidated financial statements.



## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended December 31, 2013 and 2012  
(in thousands, except share data)  
(Unaudited)

|   | For the Six Months Ended December 31, |                    |
|---|---------------------------------------|--------------------|
|   | 2013                                  | 2012               |
| <b>Cash Flows from Operating Activities:</b>                              |                                       |                    |
| Net increase in net assets resulting from operations                      | \$ 165,262                            | \$ 93,738          |
| Net realized loss on investments  | 1,882                                 | 6,348              |
| Net change in unrealized depreciation on investments                      | 7,408                                 | 73,157             |
| Amortization of discounts and premiums, net                               | 23,133                                | (11,422)           |
| Amortization of deferred financing costs                                  | 5,087                                 | 3,724              |
| Payment-in-kind interest  | (9,845)                               | (4,048)            |
| Structuring fees  | (15,533)                              | (24,273)           |
| Change in operating assets and liabilities                                |                                       |                    |
| Payments for purchases of investments                                     | (1,118,612)                           | (1,432,490)        |
| Proceeds from sale of investments and collection of investment principal  | 419,405                               | 507,392            |
| Net increase of investments in money market funds                         | (77,588)                              | (312,576)          |
| Decrease (increase) in interest receivable, net                           | 8,679                                 | (2,312)            |
| Decrease (increase) in other receivables                                  | 2,328                                 | (1,636)            |
| Decrease in prepaid expenses  | 263                                   | 194                |
| Increase (decrease) in due to broker                                      | 1,238                                 | (6,242)            |
| Increase (decrease) in due to Prospect Administration                     | 375                                   | (285)              |
| Increase (decrease) in due to Prospect Capital Management                 | 42,784                                | (5,894)            |
| Increase in accrued expenses  | 1,279                                 | 380                |
| Increase in interest payable  | 2,369                                 | 6,516              |
| Increase in other liabilities   | 4,006                                 | 7,487              |
| <b>Net Cash Used In Operating Activities</b>                              | <b>(536,080)</b>                      | <b>(1,102,242)</b> |
| <b>Cash Flows from Financing Activities:</b>                              |                                       |                    |
| Borrowings under credit facility (Note 4)                                 | 96,000                                | 99,000             |
| Principal payments under credit facility (Note 4)                         | (220,000)                             | (195,000)          |
| Issuance of Senior Convertible Notes (Note 5)                             |                                       | 400,000            |
| Issuance of Prospect Capital InterNotes® (Note 7)                         | 238,780                               | 144,355            |
| Redemptions of Prospect Capital InterNotes® (Note 7)                      | (1,650)                               |                    |
| Financing costs paid and deferred   | (6,139)                               | (17,880)           |
| Proceeds from issuance of common stock, net of underwriting costs         | 563,578                               | 770,252            |
| Offering costs from issuance of common stock                              | (1,019)                               | (1,514)            |
| Dividends paid  | (168,290)                             | (97,577)           |
| <b>Net Cash Provided By Financing Activities</b>                          | <b>501,260</b>                        | <b>1,101,636</b>   |
| <b>Total Decrease in Cash</b>   | <b>(34,820)</b>                       | <b>(606)</b>       |
| Cash balance at beginning of period                                       | 59,974                                | 2,825              |
| <b>Cash Balance at End of Period</b>                                      | <b>\$ 25,154</b>                      | <b>\$ 2,219</b>    |
| <b>Cash Paid For Interest</b>   | <b>\$ 47,226</b>                      | <b>\$ 17,442</b>   |
| <b>Non-Cash Financing Activity:</b>                                       |                                       |                    |
| Proceeds from shares issued in connection with dividend reinvestment plan | \$ 9,093                              | \$ 7,027           |
| Proceeds from shares issued in conjunction with controlled investments    | \$ 21,006                             | \$ 59,251          |

See notes to consolidated financial statements.

## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## CONSOLIDATED SCHEDULES OF INVESTMENTS

December 31, 2013 (Unaudited) and June 30, 2013 (Audited)  
(in thousands, except share data)

| Portfolio Company   | Locale / Industry                  | Investments(1)   | December 31, 2013 (Unaudited) |                |                | % of Net Assets |
|---|------------------------------------|--|-------------------------------|----------------|----------------|-----------------|
|   |                                    |  | Principal Value               | Cost           | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                    |  |                               |                |                |                 |
| <b>Control Investments (greater than 25.00% voting control)(42)</b> |                                    |  |                               |                |                |                 |
| AIRMALL USA, Inc.(27)   | Pennsylvania / Property Management | Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3), (4)  | \$ 27,881                     | \$ 27,881      | \$ 27,881      | 0.9%            |
|   |                                    | Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)  | 19,698                        | 19,698         | 19,698         | 0.6%            |
|   |                                    | Convertible Preferred Stock (9,919.684 shares)   |                               | 9,920          | 1,888          | 0.1%            |
|   |                                    | Common Stock (100 shares)  |                               |                |                | 0.0%            |
|   |                                    |  | <b>57,499</b>                 | <b>49,467</b>  | <b>1.6%</b>    |                 |
| Ajax Rolled Ring & Machine, Inc.                                    | South Carolina / Manufacturing     | Senior Secured Note (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018) (4)   | 19,536                        | 19,536         | 19,536         | 0.6%            |
|   |                                    | Convertible Preferred Stock Series B (25,000 shares)   |                               | 25,000         | 5,045          | 0.2%            |
|   |                                    | Convertible Preferred Stock Series A (6,142.6 shares)  |                               | 6,057          |                | 0.0%            |
|   |                                    | Unrestricted Common Stock (6 shares)   |                               |                |                | 0.0%            |
|   |                                    |  | <b>50,593</b>                 | <b>24,581</b>  | <b>0.8%</b>    |                 |
| APH Property Holdings, LLC(32)                                      | Florida / Real Estate              | Senior Secured Note (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4)   | 161,662                       | 161,662        | 161,662        | 5.0%            |
|   |                                    | Membership Units (100 shares)  |                               | 32,240         | 32,240         | 1.0%            |
|   |                                    |  | <b>193,902</b>                | <b>193,902</b> | <b>193,902</b> | <b>6.0%</b>     |
| AWCNC, LLC(19)  | North Carolina / Machinery         | Members Units Class A (1,800,000 units)  |                               |                |                | 0.0%            |
|   |                                    | Members Units Class B-1 (1 unit)   |                               |                |                | 0.0%            |
|   |                                    | Members Units Class B-2 (7,999,999 units)  |                               |                |                | 0.0%            |
|   |                                    |  |                               |                |                | <b>0.0%</b>     |
| Borga, Inc.   | California / Manufacturing         | Revolving Line of Credit 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          | 474            | 0.0%            |
|   |                                    | Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)                | 1,612                         | 1,501          |                | 0.0%            |
|   |                                    |  | 9,940                         | 707            |                | 0.0%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                                 |                                 |  |        |                |                |             |
|---------------------------------|---------------------------------|--|--------|----------------|----------------|-------------|
|                                 |                                 | 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) |        |                |                |             |
|                                 |                                 | Common Stock (100 shares)(21)  |        |                |                | 0.0%        |
|                                 |                                 | Warrants (33,750 warrants)(21)   |        |                |                | 0.0%        |
|                                 |                                 |  |        | <b>3,303</b>   | <b>474</b>     | <b>0.0%</b> |
| CCPI Holdings, Inc.(33)         | Ohio / Manufacturing            | Senior Secured Note (10.00%, due 12/31/2017)(3)  | 17,437 | 17,437         | 17,437         | 0.5%        |
|                                 |                                 | Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018)   | 8,075  | 8,075          | 8,075          | 0.2%        |
|                                 |                                 | Common Stock (100 shares)  |        | 8,581          | 13,790         | 0.4%        |
|                                 |                                 | Net Revenue Interest (4% of Net Revenue)   |        |                | 516            | 0.0%        |
|                                 |                                 |  |        | <b>34,093</b>  | <b>39,818</b>  | <b>1.1%</b> |
| CP Holdings of Delaware LLC(38) | Oklahoma / Oil & Gas Production | Senior Secured Note (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 8/2/2018) (4)                                  | 75,773 | 75,773         | 75,773         | 2.3%        |
|                                 |                                 | Senior Secured Note (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor), due 8/2/2018) (4)  | 22,400 | 22,400         | 22,400         | 0.7%        |
|                                 |                                 | Membership Units (100 shares)  |        | 15,228         | 20,955         | 0.6%        |
|                                 |                                 |  |        | <b>113,401</b> | <b>119,128</b> | <b>3.6%</b> |

See notes to consolidated financial statements.

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

| Portfolio Company   | Locale / Industry                 | Investments(1)   | December 31, 2013 (Unaudited) |                |                | % of Net Assets |
|---|-----------------------------------|--|-------------------------------|----------------|----------------|-----------------|
|   |                                   |  | Principal Value               | Cost           | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                   |  |                               |                |                |                 |
| <b>Control Investments (greater than 25.00% voting control)(42)</b> |                                   |  |                               |                |                |                 |
| Credit Central Holdings of Delaware, LLC (22), (34)                 | South Carolina / Consumer Finance | Senior Secured Revolving Credit Facility \$60,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 12/31/2022)(4), (25) | \$ 38,082                     | \$ 38,082      | \$ 38,082      | 1.2%            |
|   |                                   | Membership Units (100 shares)  |                               | 9,581          | 10,957         | 0.3%            |
|   |                                   | Net Revenue Interest (5% of Net Revenue)   |                               |                | 2,207          | 0.1%            |
|   |                                   |  |                               | <b>47,663</b>  | <b>51,246</b>  | <b>1.6%</b>     |
| Energy Solutions Holdings, Inc.(8)                                  | Texas / Energy                    | Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)  | 3,500                         | 3,500          | 3,500          | 0.1%            |
|   |                                   | Senior Secured Debt to Vessel Holdings II, LLC (13.00%, in non-accrual status, due 11/25/2018)   | 13,000                        | 13,000         | 11,928         | 0.4%            |
|   |                                   | Senior Secured Debt to Vessel Holdings III, LLC (13.00%, due 12/3/2018)  | 16,000                        | 16,000         | 14,584         | 0.5%            |
|   |                                   | Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)                                | 1,449                         | 1,449          |                | 0.0%            |
|   |                                   | Common Stock (100 shares)  |                               | 8,318          | 3,539          | 0.1%            |
|   |                                   | <b>42,267</b>  | <b>33,551</b>                 | <b>1.1%</b>    |                |                 |
| First Tower Holdings of Delaware, LLC (22), (29)                    | Mississippi / Consumer Finance    | Senior Secured Revolving Credit Facility \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(4), (25) | 273,260                       | 273,260        | 273,260        | 8.4%            |
|   |                                   | Membership Units (100 shares)  |                               | 44,693         | 34,648         | 1.1%            |
|   |                                   | Net Revenue Interest (5% of Net Revenue & Distributions)   |                               |                | 14,603         | 0.5%            |
|   |                                   |  |                               | <b>317,953</b> | <b>322,511</b> | <b>10.0%</b>    |
| Gulf Coast Machine & Supply Company                                 | Texas / Manufacturing             | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(4)  | 17,500                        | 17,500         | 12,414         | 0.4%            |
|   |                                   | Convertible Preferred Stock Series A (99,900 shares)   |                               | 25,950         |                | 0.0%            |
|   |                                   |  |                               | <b>43,450</b>  | <b>12,414</b>  | <b>0.4%</b>     |
| The Healing Staff, Inc.(9)  | North Carolina / Contracting      | Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, past due)  | 1,688                         | 1,686          |                | 0.0%            |
|   |                                   |  | 1,170                         | 1,170          |                | 0.0%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                                    |                                  |  |        |               |               |             |
|------------------------------------|----------------------------------|--|--------|---------------|---------------|-------------|
|                                    |                                  | Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)                     |        |               |               |             |
|                                    |                                  | Common Stock (1,000 shares)  |        | 975           |               | 0.0%        |
|                                    |                                  |  |        | <b>3,831</b>  |               | <b>0.0%</b> |
| Manx Energy, Inc.(12)              | Kansas / Oil & Gas Production    | Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)                    | 225    | 225           |               | 0.0%        |
|                                    |                                  | Preferred Stock (6,635 shares)   |        |               |               | 0.0%        |
|                                    |                                  | Common Stock (17,082 shares)   |        |               |               | 0.0%        |
|                                    |                                  |  |        | <b>225</b>    |               | <b>0.0%</b> |
| MITY Holdings of Delaware Inc.(17) | Utah / Durable Consumer Products | Senior Secured Note (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 9/19/2019) (4) | 22,968 | 22,968        | 22,968        | 0.7%        |
|                                    |                                  | Senior Secured Note (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019) (3), (4)          | 18,250 | 18,250        | 18,250        | 0.6%        |
|                                    |                                  | Common Stock (100 shares)  |        | 6,943         | 6,943         | 0.2%        |
|                                    |                                  |  |        | <b>48,161</b> | <b>48,161</b> | <b>1.5%</b> |

See notes to consolidated financial statements.

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

| Portfolio Company   | Locale / Industry                       | Investments(1)  | December 31, 2013 (Unaudited) |                |               | % of Net Assets |
|---|---|---|-------------------------------|----------------|---------------|-----------------|
|   |   |   | Principal Value               | Cost           | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |   |   |                               |                |               |                 |
| <b>Control Investments (greater than 25.00% voting control)(42)</b> |   |   |                               |                |               |                 |
| Nationwide Acceptance Holdings, LLC (22), (36)                      | Illinois / Consumer Finance             | Senior Secured Revolving Credit Facility \$30,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 1/31/2023)(4), (25) | \$ 21,308                     | \$ 21,308      | \$ 21,308     | 0.7%            |
|   |   | Membership Units (100 shares)   |                               | 3,843          | 3,843         | 0.1%            |
|   |   | Net Revenue Interest (5% of Net Revenue)  |                               |                | 1,739         | 0.1%            |
|   |   |   |                               | <b>25,151</b>  | <b>26,890</b> | <b>0.9%</b>     |
| NMMB Holdings, Inc. (24)  | New York / Media                        | Senior Secured Note (14.00%, due 5/6/2016)  | 10,714                        | 10,714         | 10,714        | 0.3%            |
|   |   | Series A Preferred Stock (8,086 shares)   |                               | 12,486         | 453           | 0.0%            |
|   |   |   | <b>23,200</b>                 | <b>11,167</b>  | <b>0.3%</b>   |                 |
| NPH Property Holdings, LLC (40)                                     | Texas / Real Estate                     | Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4)                                     | 88,109                        | 88,109         | 88,109        | 2.7%            |
|   |   | Membership Units (100 shares)   |                               | 18,135         | 18,135        | 0.6%            |
|   |   |   | <b>106,244</b>                | <b>106,244</b> | <b>3.3%</b>   |                 |
| R-V Industries, Inc.  | Pennsylvania / Manufacturing            | Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3), (4)                                       | 32,750                        | 32,750         | 32,750        | 1.0%            |
|   |   | Warrants (200,000 warrants, expiring 6/30/2017)   |                               | 1,682          | 6,692         | 0.2%            |
|   |   | Common Stock (545,107 shares)   |                               | 5,087          | 18,238        | 0.6%            |
|   |   |   | <b>39,519</b>                 | <b>57,680</b>  | <b>1.8%</b>   |                 |
| UPH Property Holdings, LLC (41)                                     | Georgia / Real Estate                   | Senior Secured Note (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020) (4)                                 | 18,855                        | 18,855         | 18,855        | 0.6%            |
|   |   | Membership Units (100 shares)   |                               | 3,707          | 3,707         | 0.1%            |
|   |   |   |                               | <b>22,562</b>  | <b>22,562</b> | <b>0.7%</b>     |
| Valley Electric Holdings I, Inc.(35)                                | Washington / Construction & Engineering | Senior Secured Note (9.00% (LIBOR + 6.00%, with 3.00% LIBOR floor) plus 9.00% PIK, due 12/31/2018)(4)                                 | 35,648                        | 35,648         | 28,163        | 0.9%            |
|   |   | Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3),(4)                              | 10,054                        | 10,054         | 10,054        | 0.3%            |
|   |   | Common Stock (50,000 shares)  |                               | 9,526          |               | 0.0%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                                      |                               | Net Revenue Interest (5% of Net Revenue)  |                  |              |      |
|--------------------------------------|-------------------------------|---|------------------|--------------|------|
|                                      |                               |   | 724              | 0.0%         |      |
|                                      |                               | 55,228  | 38,941           | 1.2%         |      |
| Wolf Energy Holdings, Inc.(12), (37) | Kansas / Oil & Gas Production | Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018) | 22,000           | 4,043        | 0.1% |
|                                      |                               | Appalachian Energy Holdings, LLC ( AEH ) Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, past due)      | 2,753            | 2,000        | 0.0% |
|                                      |                               | Appalachian Energy Holdings, LLC ( AEH ) Senior Secured First Lien Note (8.00%, in non-accrual status, past due)                          | 54               | 50           | 0.0% |
|                                      |                               | Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6)  | 8,258            | 5,991        | 0.0% |
|                                      |                               | Common Stock (100 shares)   |                  |              | 0.0% |
|                                      |                               | Net Profits Interest (8.00% payable on Equity distributions)(7)   |                  | 520          | 0.0% |
|                                      |                               |   | 8,041            | 4,563        | 0.1% |
| <b>Total Control Investments</b>     |                               | <b>1,236,286</b>  | <b>1,163,300</b> | <b>36.0%</b> |      |

See notes to consolidated financial statements.



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

| Portfolio Company  | Locale / Industry                                   | Investments(1)  | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|---|---|-------------------------------|---------------|---------------|-----------------|
|  |   |   | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |   |                               |               |               |                 |
| <b>Affiliate Investments (5.00% to 24.99% voting control)(43)</b>                |   |   |                               |               |               |                 |
| BNN Holdings Corp.<br>(f/k/a Biotronic<br>NeuroNetwork)                          | Michigan / Healthcare                               | Senior Secured Note (10.00%<br>(LIBOR + 8.00% with 2.00%<br>LIBOR floor),<br>due 12/17/2017)(3),(4) | \$ 29,250                     | \$ 29,250     | \$ 29,250     | 0.9%            |
|  |   | Preferred Stock Series A<br>(9,925.455 shares)(13)  |                               | 2,300         | 1,869         | 0.1%            |
|  |   | Preferred Stock Series B<br>(1,753.64 shares)(13)   |                               | 579           | 405           | 0.0%            |
|  |   |   |                               | <b>32,129</b> | <b>31,524</b> | <b>1.0%</b>     |
| Boxercraft<br>Incorporated(20)   | Georgia / Textiles &<br>Leather                     | Senior Secured Term Loan A<br>(10.00% plus 1.00% PIK, due<br>9/15/2015)                             | 1,621                         | 1,621         | 1,621         | 0.0%            |
|  |   | Senior Secured Term Loan B<br>(10.00% plus 1.00% PIK, due<br>9/15/2015)                             | 4,918                         | 4,918         | 3,990         | 0.1%            |
|  |   | Senior Secured Term Loan C<br>(10.00% plus 1.00% PIK, due<br>9/15/2015)                             | 2,383                         | 2,383         |               | 0.0%            |
|  |   | Senior Secured Term Loan<br>(10.00% plus 1.00% PIK, due<br>9/15/2015)                               | 8,368                         | 8,227         |               | 0.0%            |
|  |   | Preferred Stock<br>(1,000,000 shares)   |                               |               |               | 0.0%            |
|  |   | Common Stock (10,000 shares)  |                               |               |               | 0.0%            |
|  |   | Warrants (1 warrant, expiring<br>8/31/2022)   |                               |               |               | 0.0%            |
|  |   |   | <b>17,149</b>                 | <b>5,611</b>  | <b>0.1%</b>   |                 |
| Smart, LLC(14)   | New York /<br>Diversified /<br>Conglomerate Service | Membership Interest   |                               |               | 1,745         | 0.1%            |
|  |   |   |                               |               | <b>1,745</b>  | <b>0.1%</b>     |
| <b>Total Affiliate Investments</b>   |   |   | <b>49,278</b>                 |               | <b>38,880</b> | <b>1.2%</b>     |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |   |                               |               |               |                 |
| Aderant North<br>America, Inc.   | Georgia / Software &<br>Computer Services           | Second Lien Term Loan (10.00%<br>(LIBOR + 8.75% with 1.25% LIBOR<br>floor), due 6/20/2019)(4)       | 7,000                         | 6,907         | 7,000         | 0.2%            |
|  |   |   |                               | <b>6,907</b>  | <b>7,000</b>  | <b>0.2%</b>     |
| Aircraft Fasteners<br>International, LLC   | California /<br>Machinery                           | Convertible Preferred Stock<br>(32,500 units)   |                               | 396           | 571           | 0.0%            |
|  |   |   |                               | <b>396</b>    | <b>571</b>    | <b>0.0%</b>     |
| ALG USA Holdings,<br>LLC   | Pennsylvania /<br>Hotels, 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                        | 11,778        | 12,000        | 0.4%            |
|  |   |   |                               | <b>11,778</b> | <b>12,000</b> | <b>0.4%</b>     |
| Allied Defense<br>Group, Inc.  | Virginia /<br>Aerospace & Defense                   | Common Stock (10,000 shares)  |                               | 5             |               | 0.0%            |
|  |   |   |                               | <b>5</b>      |               | <b>0.0%</b>     |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

See notes to consolidated financial statements.

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

| Portfolio Company  | Locale / Industry                               | Investments(1)  | Principal Value | December 31, 2013 (Unaudited) |                | % of Net Assets |
|--|---|---|-----------------|-------------------------------|----------------|-----------------|
|  |   |   |                 | Cost                          | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |   |                 |                               |                |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |   |                 |                               |                |                 |
| Apidos CLO IX, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | \$ 20,525       | \$ 18,932                     | \$ 20,196      | 0.6%            |
|  |   |   |                 | <b>18,932</b>                 | <b>20,196</b>  | <b>0.6%</b>     |
| Apidos CLO XI, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 38,340          | 35,440                        | 38,755         | 1.2%            |
|  |   |   |                 | <b>35,440</b>                 | <b>38,755</b>  | <b>1.2%</b>     |
| Apidos CLO XII, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 44,063          | 42,873                        | 41,681         | 1.3%            |
|  |   |   |                 | <b>42,873</b>                 | <b>41,681</b>  | <b>1.3%</b>     |
| Apidos CLO XV, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 36,515          | 37,111                        | 36,326         | 1.1%            |
|  |   |   |                 | <b>37,111</b>                 | <b>36,326</b>  | <b>1.1%</b>     |
| Arctic Glacier U.S.A, Inc. (3) ,(4)  | Minnesota / Food Products                       | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 11/10/2019)                              | 150,000         | 150,000                       | 150,000        | 4.6%            |
|  |   |   |                 | <b>150,000</b>                | <b>150,000</b> | <b>4.6%</b>     |
| Armor Holding II LLC(16)   | New York / Diversified Financial Services       | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020) (3), (4)                      | 7,000           | 6,867                         | 6,867          | 0.2%            |
|  |   |   |                 | <b>6,867</b>                  | <b>6,867</b>   | <b>0.2%</b>     |
| Atlantis Healthcare Group (Puerto Rico), Inc.(4)                                 | Puerto Rico / Healthcare                        | Revolving Line of Credit \$7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014)(25),(26) | 2,000           | 2,000                         | 2,000          | 0.1%            |
|  |   | Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)                                  | 39,155          | 39,155                        | 33,589         | 1.0%            |
|  |   |   |                 | <b>41,155</b>                 | <b>35,589</b>  | <b>1.1%</b>     |
| Babson CLO Ltd 2011-I(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 35,000          | 34,723                        | 35,978         | 1.1%            |
|  |   |   |                 | <b>34,723</b>                 | <b>35,978</b>  | <b>1.1%</b>     |
| Babson CLO Ltd 2012-IA(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 29,075          | 24,535                        | 28,339         | 0.9%            |
|  |   |   |                 | <b>24,535</b>                 | <b>28,339</b>  | <b>0.9%</b>     |
| Babson CLO Ltd 2012-IIA(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 27,850          | 27,963                        | 28,758         | 0.9%            |
|  |   |   |                 | <b>27,963</b>                 | <b>28,758</b>  | <b>0.9%</b>     |
| Blue Coat Systems, Inc.(16)  | Massachusetts / Software & Computer Services    | Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3), (4)                         | 11,000          | 10,896                        | 11,000         | 0.3%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                   |   |   |        |               |               |             |
|-------------------|---|---|--------|---------------|---------------|-------------|
|                   |   |   |        | <b>10,896</b> | <b>11,000</b> | <b>0.3%</b> |
| Broder Bros., Co. | Pennsylvania /<br>Textiles, Apparel<br>& Luxury Goods | Senior Secured Notes (10.75%<br>(LIBOR + 9.00% with 1.75%<br>LIBOR floor), due<br>6/27/2018)(3),(4) | 98,500 | 98,500        | 98,500        | 3.0%        |
|                   |   |   |        | <b>98,500</b> | <b>98,500</b> | <b>3.0%</b> |

See notes to consolidated financial statements.

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

| Portfolio Company  | Locale / Industry                                  | Investments(1)  | Principal Value | December 31, 2013 (Unaudited) |                | % of Net Assets |
|--|--|---|-----------------|-------------------------------|----------------|-----------------|
|  |  |   |                 | Cost                          | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |   |                 |                               |                |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |   |                 |                               |                |                 |
| Brookside Mill CLO Ltd.(22)  | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)  | \$ 26,000       | \$ 23,291                     | \$ 25,347      | 0.8%            |
|  |  |   |                 | <b>23,291</b>                 | <b>25,347</b>  | <b>0.8%</b>     |
| Byrider Systems Acquisition Corp (22)  | Indiana / Auto Finance                             | Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)                           | 11,027          | 11,027                        | 10,972         | 0.3%            |
|  |  |   |                 | <b>11,027</b>                 | <b>10,972</b>  | <b>0.3%</b>     |
| Caleel + Hayden, LLC (14), (31)  | Colorado / Personal & Nondurable Consumer Products | Membership Units (13,220 shares)  |                 |                               | 119            | 0.0%            |
|  |  | Escrow Receivable   |                 |                               | 91             | 0.0%            |
|  |  |   |                 |                               | <b>210</b>     | <b>0.0%</b>     |
| Capstone Logistics, LLC(4)   | Georgia / Commercial Services                      | Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)      | 95,466          | 95,466                        | 95,466         | 3.0%            |
|  |  | Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3) | 100,000         | 100,000                       | 100,000        | 3.1%            |
|  |  |   |                 | <b>195,466</b>                | <b>195,466</b> | <b>6.1%</b>     |
| Cargo Airport Services USA, LLC  | New York / Transportation                          | Common Equity (1.6 units)   |                 | 1,639                         | 1,971          | 0.1%            |
|  |  |   |                 | <b>1,639</b>                  | <b>1,971</b>   | <b>0.1%</b>     |
| Cent CLO 17 Limited(22)  | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)  | 24,870          | 23,120                        | 25,977         | 0.8%            |
|  |  |   |                 | <b>23,120</b>                 | <b>25,977</b>  | <b>0.8%</b>     |
| Cent CLO 20 Limited(22)  | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)  | 40,275          | 39,876                        | 39,731         | 1.2%            |
|  |  |   |                 | <b>39,876</b>                 | <b>39,731</b>  | <b>1.2%</b>     |
| CIFC Funding 2011-I, Ltd.(4), (22)   | Cayman Islands / Diversified Financial Services    | Secured Class D Notes (5.24% (LIBOR + 5.00%), due 1/19/2023)                                  | 19,000          | 15,165                        | 18,202         | 0.6%            |
|  |  | Unsecured Class E Notes (7.24% (LIBOR + 7.00%), due 1/19/2023)                                | 15,400          | 12,724                        | 15,264         | 0.5%            |
|  |  |   |                 | <b>27,889</b>                 | <b>33,466</b>  | <b>1.1%</b>     |
| CIFC Funding 2013-III, Ltd. (22)   | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)  | 44,100          | 42,374                        | 43,178         | 1.3%            |
|  |  |   |                 | <b>42,374</b>                 | <b>43,178</b>  | <b>1.3%</b>     |
| CIFC Funding 2013-IV, Ltd. (22)  | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)  | 45,500          | 40,899                        | 40,497         | 1.3%            |
|  |  |   |                 | <b>40,899</b>                 | <b>40,497</b>  | <b>1.3%</b>     |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                               |   |  |        |               |               |             |
|-------------------------------|---|--|--------|---------------|---------------|-------------|
| Cinedigm DC Holdings, LLC (4) | New York / Software & Computer Services | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021) | 69,150 | 69,150        | 69,150        | 2.1%        |
|                               |   |  |        | <b>69,150</b> | <b>69,150</b> | <b>2.1%</b> |

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)**  
**December 31, 2013 (Unaudited) and June 30, 2013 (Audited)**

(in thousands, except share data)

| Portfolio Company  | Locale / Industry                       | Investments(1)  | December 31, 2013 (Unaudited) |               |               | % of Net Assets |
|--|---|---|-------------------------------|---------------|---------------|-----------------|
|  |   |   | Principal Value               | Cost          | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |   |                               |               |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |   |                               |               |               |                 |
| The Copernicus Group, Inc.   | North Carolina / Healthcare             | Escrow Receivable   |                               | \$            | \$ 134        | 0.0%            |
|  |   |   |                               |               | <b>134</b>    | <b>0.0%</b>     |
| Correctional Healthcare Holding Company, Inc.                                    | Colorado / Healthcare                   | Second Lien Term Loan (11.25%, due 1/11/2020)(3)  | \$ 27,100                     | 27,100        | 27,100        | 0.8%            |
|  |   |   |                               | <b>27,100</b> | <b>27,100</b> | <b>0.8%</b>     |
| Coverall North America, Inc.   | Florida / Commercial Services           | Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3),(4) | 43,841                        | 43,841        | 43,841        | 1.4%            |
|  |   |   |                               | <b>43,841</b> | <b>43,841</b> | <b>1.4%</b>     |
| Crosman Corporation  | New York / Manufacturing                | Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/30/2019)(4)        | 40,000                        | 40,000        | 40,000        | 1.2%            |
|  |   |   |                               | <b>40,000</b> | <b>40,000</b> | <b>1.2%</b>     |
| CRT MIDCO, LLC   | Wisconsin / Media                       | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3),(4)  | 70,356                        | 70,356        | 70,356        | 2.2%            |
|  |   |   |                               | <b>70,356</b> | <b>70,356</b> | <b>2.2%</b>     |
| Deltek, Inc.   | Virginia / Software & Computer Services | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(3),(4)    | 12,000                        | 11,842        | 12,000        | 0.4%            |
|  |   |   |                               | <b>11,842</b> | <b>12,000</b> | <b>0.4%</b>     |
| Diamondback Operating, LP  | Oklahoma / Oil & Gas Production         | Net Profits Interest (15.00% payable on Equity distributions)(7)                                |                               |               |               | 0.0%            |
|  |   |   |                               |               |               | <b>0.0%</b>     |
| 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) (3)        | 50,000                        | 48,326        | 50,000        | 1.6%            |
|  |   |   |                               | <b>48,326</b> | <b>50,000</b> | <b>1.6%</b>     |
| Empire Today, LLC  | Illinois / Durable Consumer Products    | Senior Secured Note (11.375%, due 2/1/2017)   | 15,700                        | 15,374        | 15,700        | 0.5%            |
|  |   |   |                               | <b>15,374</b> | <b>15,700</b> | <b>0.5%</b>     |
| EXL Acquisition Corp.  | South Carolina / Biotechnology          | Escrow Receivable   |                               |               | 15            | 0.0%            |
|  |   |   |                               |               | <b>15</b>     | <b>0.0%</b>     |
| Fischbein, LLC   | North Carolina / Machinery              | Escrow Receivable   |                               |               | 233           | 0.0%            |
|  |   |   |                               |               | <b>233</b>    | <b>0.0%</b>     |
| Focus Brands, Inc. (4)   | Georgia / Consumer Services             | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due                       | 18,000                        | 17,753        | 18,000        | 0.6%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|          |   | 8/21/2018)   |        |               |               |             |
|----------|---|--|--------|---------------|---------------|-------------|
|          |   |  |        | <b>17,753</b> | <b>18,000</b> | <b>0.6%</b> |
| FPG, LLC | Illinois / Durable<br>Consumer Products | Senior Secured Term Loan<br>(12.00% (LIBOR + 11.00% with<br>1.00% LIBOR floor), due<br>1/20/2017)(4) | 20,573 | 20,573        | 20,341        | 0.6%        |
|          |   | Common Stock (5,638 shares)  |        | 27            | 16            | 0.0%        |
|          |   |  |        | <b>20,600</b> | <b>20,357</b> | <b>0.6%</b> |

See notes to consolidated financial statements.



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

| Portfolio Company  | Locale / Industry                                   | Investments(1)  | Principal Value | December 31, 2013 (Unaudited) |                | % of Net Assets |
|--|---|---|-----------------|-------------------------------|----------------|-----------------|
|  |   |   |                 | Cost                          | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |   |                 |                               |                |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |   |                 |                               |                |                 |
| Galaxy XII CLO, Ltd.(22)   | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)  | \$ 22,000       | \$ 20,230                     | \$ 20,436      | 0.6%            |
|  |   |   |                 | <b>20,230</b>                 | <b>20,436</b>  | <b>0.6%</b>     |
| Galaxy XV CLO, Ltd.(22)  | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)  | 35,025          | 30,880                        | 32,067         | 1.0%            |
|  |   |   |                 | <b>30,880</b>                 | <b>32,067</b>  | <b>1.0%</b>     |
| Galaxy XVI CLO, Ltd.(22)   | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)  | 22,575          | 21,118                        | 20,410         | 0.6%            |
|  |   |   |                 | <b>21,118</b>                 | <b>20,410</b>  | <b>0.6%</b>     |
| Grocery Outlet, Inc.   | California / Retail                                 | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)           | 14,456          | 14,146                        | 14,456         | 0.5%            |
|  |   |   |                 | <b>14,146</b>                 | <b>14,456</b>  | <b>0.5%</b>     |
| GTP Operations, LLC (f/k/a CI (Transplace) Holdings, LLC)(4)                     | Texas / Software & Computer Services                | Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 6/11/2019) (3), (10) | 114,138         | 114,138                       | 114,138        | 3.5%            |
|  |   |   |                 | <b>114,138</b>                | <b>114,138</b> | <b>3.5%</b>     |
| Halcyon Loan Advisors Funding 2012-I, Ltd.(22)                                   | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)  | 23,188          | 21,328                        | 23,749         | 0.7%            |
|  |   |   |                 | <b>21,328</b>                 | <b>23,749</b>  | <b>0.7%</b>     |
| Halcyon Loan Advisors Funding 2013-I, Ltd.(22)                                   | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)  | 40,400          | 41,027                        | 39,773         | 1.2%            |
|  |   |   |                 | <b>41,027</b>                 | <b>39,773</b>  | <b>1.2%</b>     |
| Harley Marine Services, Inc.   | Washington/ Transportation                          | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(4)          | 9,000           | 8,820                         | 8,820          | 0.3%            |
|  |   |   |                 | <b>8,820</b>                  | <b>8,820</b>   | <b>0.3%</b>     |
| Hoffmaster Group, Inc.(3), (4)   | Wisconsin / Personal & Nondurable Consumer Products | Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019)               | 20,000          | 19,842                        | 19,842         | 0.6%            |
|  |   | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)               | 1,000           | 992                           | 992            | 0.0%            |
|  |   |   |                 | <b>20,834</b>                 | <b>20,834</b>  | <b>0.6%</b>     |
| ICON Health & Fitness, Inc.  | Utah / Durable Consumer Products                    | Senior Secured Note (11.875%, due 10/15/2016)(3)  | 43,100          | 43,283                        | 38,790         | 1.2%            |
|  |   |   |                 | <b>43,283</b>                 | <b>38,790</b>  | <b>1.2%</b>     |
| IDQ Holdings, Inc.   | Texas / Automobile                                  | Senior Secured Note (11.50%, due 4/1/2017)  | 12,500          | 12,322                        | 12,500         | 0.4%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                                  |   |   |        |                         |                         |                     |
|----------------------------------|---|---|--------|-------------------------|-------------------------|---------------------|
| ING IM CLO 2012-II,<br>Ltd.(22)  | Cayman Islands /<br>Diversified<br>Financial Services | Subordinated Notes (Residual<br>Interest) | 38,070 | <b>12,322</b><br>32,550 | <b>12,500</b><br>38,832 | <b>0.4%</b><br>1.2% |
| ING IM CLO 2012-III,<br>Ltd.(22) | Cayman Islands /<br>Diversified<br>Financial Services | Subordinated Notes (Residual<br>Interest) | 46,632 | <b>32,550</b><br>41,388 | <b>38,832</b><br>47,676 | <b>1.2%</b><br>1.5% |
|                                  |   |   |        | <b>41,388</b>           | <b>47,676</b>           | <b>1.5%</b>         |

See notes to consolidated financial statements.

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

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

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

| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |  |           |              |              |              |
|--|---|--|-----------|--------------|--------------|--------------|
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |  |           |              |              |              |
| ING IM CLO 2012-IV, Ltd.(22)   | Cayman Islands /<br>Diversified<br>Financial Services | Income Notes (Residual<br>Interest)  | \$ 40,613 | \$ 36,867    | \$ 42,105    | 1.3%         |
| Injured Workers<br>Pharmacy LLC  | Massachusetts /<br>Healthcare                         | Second Lien Debt (11.50%<br>(LIBOR + 7.00% with 4.50%<br>LIBOR floor) plus 1.00% PIK,<br>due 5/31/2019)(3), (4)                    | 22,564    | 22,564       | 22,564       | 0.7%         |
| Interdent, Inc.(4)   | California /<br>Healthcare                            | Senior Secured Term Loan A<br>(8.00% (LIBOR + 6.50% with<br>1.50% LIBOR floor), due<br>8/3/2017)                                   | 51,288    | 51,288       | 51,288       | 1.6%         |
|  |   | Senior Secured Term Loan B<br>(13.00% (LIBOR + 10.00%<br>with 3.00% LIBOR floor), due<br>8/3/2017)(3)                              | 55,000    | 55,000       | 55,000       | 1.7%         |
| JHH Holdings, Inc.   | Texas / Healthcare                                    | Second Lien Debt (11.25%<br>(LIBOR + 10.00% with 1.25%<br>LIBOR floor) plus 0.50% PIK,<br>due 3/30/2019)(3), (4)                   | 35,030    | 35,030       | 35,030       | 1.1%         |
| LaserShip, Inc.(4)   | Virginia /<br>Transportation                          | Revolving Line of Credit<br>\$5,000 Commitment (10.25%<br>(LIBOR + 8.25% with 2.00%<br>LIBOR floor), due<br>12/21/2014)(25)        |           |              |              | 0.0%         |
|  |   | Senior Secured Term Loan<br>(10.25% (LIBOR + 8.25% with<br>2.00% LIBOR floor), due<br>12/21/2017)(3)                               | 36,562    | 36,562       | 36,562       | 1.1%         |
| LCM XIV CLO<br>Ltd.(22)  | Cayman Islands /<br>Diversified<br>Financial Services | Subordinated Notes (Residual<br>Interest)  | 26,500    | 26,218       | 25,696       | 0.8%         |
| LHC Holdings Corp.   | Florida / Healthcare                                  | Revolving Line of Credit \$750<br>Commitment (8.50% (LIBOR<br>+ 6.00% with 2.50% LIBOR<br>floor), due 5/31/2015)(4), (25),<br>(26) |           |              |              | 0.0%         |
|  |   | Senior Subordinated Debt<br>(10.50%, due 5/31/2015)(3)   | 2,165     | 2,165<br>216 | 2,165<br>259 | 0.1%<br>0.0% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                                     |   | Membership Interest (125 units)  |        |        |        |      |
|-------------------------------------|---|--|--------|--------|--------|------|
| Madison Park Funding IX, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)   | 31,110 | 25,601 | 27,903 | 0.9% |
| Material Handling Services, LLC (4) | Ohio / Business Services                        | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 7/5/2017) (3)                     | 27,160 | 27,160 | 27,160 | 0.8% |
|                                     |   | Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017)                       | 37,387 | 37,387 | 37,387 | 1.2% |
|                                     |   |  |        |        |        |      |
| Matrixx Initiatives, Inc. (4)       | New Jersey / Pharmaceuticals                    | Revolving Line of Credit \$10,000 Commitment (10.00% (LIBOR + 8.50% with 1.50% LIBOR floor), due 2/9/2014)(25) | 9,500  | 9,500  | 9,500  | 0.3% |
|                                     |   | Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018)                        | 34,562 | 34,562 | 34,105 | 1.1% |
|                                     |   | Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)(3)                   | 35,000 | 35,000 | 33,452 | 1.0% |

See notes to consolidated financial statements.

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

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

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

| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |  |           |        |        |              |
|--|---|--|-----------|--------|--------|--------------|
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |  |           |        |        |              |
| Maverick Healthcare, LLC   | Arizona / Healthcare                            | Preferred Units (1,250,000 units)<br>Common Units (1,250,000 units)  | \$ 1,252  | \$ 366 |        | 0.0%         |
| Mountain View CLO 2013-I Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | \$ 43,650 | 42,534 | 43,056 | 1.3%         |
| NCP Finance Limited Partnership(22), (23)  | Ohio / Consumer Finance                         | Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018) (3), (4), (16)   | 11,970    | 11,738 | 11,970 | 0.4%         |
| New Century Transportation, Inc.   | New Jersey / Transportation                     | Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 4.00% PIK, due 2/3/2018)(3), (4)  | 45,890    | 45,890 | 43,349 | 1.3%         |
| New Star Metals, Inc.  | Indiana / Metal Services & Minerals             | Senior Subordinated Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 1.00% PIK, due 2/2/2018)(4)  | 50,534    | 50,534 | 49,586 | 1.5%         |
| Nixon, Inc.  | California / Durable Consumer Products          | Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)   | 13,862    | 13,625 | 13,625 | 0.4%         |
| NRG Manufacturing, Inc.  | Texas / Manufacturing                           | Escrow Receivable  |           |        | 1,068  | 0.0%         |
| Octagon Investment Partners XV, Ltd. (22)  | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)   | 26,901    | 25,153 | 26,162 | 0.8%         |
| Onyx Payments, Inc. (f/k/a Pegasus Business Intelligence, LP)(4)                 | Texas / Diversified Financial Services          | Revolving Line of Credit \$2,500 Commitment (9.00% (LIBOR + 7.75% with 1.25% LIBOR floor), due 4/18/2014)(25)<br>Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with | 15,531    | 15,531 | 15,531 | 0.0%<br>0.5% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|  |  |  |        |        |        |      |
|--|--|--|--------|--------|--------|------|
|  |  | 1.25% LIBOR floor), due 4/18/2018)<br>Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018) | 15,938 | 15,938 | 15,938 | 0.5% |
| Pelican Products, Inc.(16)               | California / Durable Consumer Products | Subordinated Secured (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019)(3),(4)                                      | 15,000 | 14,745 | 15,000 | 0.5% |
| Photonis Technologies SAS(22)            | France / Aerospace & Defense           | First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019) (4), (16)                                     | 10,500 | 10,198 | 10,203 | 0.3% |
| Pinnacle (US) Acquisition Co Limited(16) | Texas / Software & Computer Services   | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)   | 10,000 | 9,824  | 10,000 | 0.3% |

See notes to consolidated financial statements.

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

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

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

| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |   |         |         |         |      |
|--|--|---|---------|---------|---------|------|
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |   |         |         |         |      |
| PrimeSport, Inc.(4)  | Georgia/ Hotels,<br>Restaurants &<br>Leisure       | Revolving Line of Credit<br>\$15,000 Commitment (10.00%<br>(LIBOR + 9.50% with 0.50%<br>LIBOR floor), due<br>6/23/2014)(25) | \$      | \$      | \$      | 0.0% |
|  |  | Senior Secured Term Loan A<br>(7.50% (LIBOR + 6.50% with<br>1.00% LIBOR floor), due<br>12/23/2019)                          | 43,700  | 43,700  | 43,700  | 1.4% |
|  |  | Senior Secured Term Loan B<br>(11.50% (LIBOR + 10.50%<br>with 1.00% LIBOR floor) plus<br>1.00% PIK, due 12/23/2019)         | 43,700  | 43,700  | 43,700  | 1.4% |
| Prince Mineral Holding<br>Corp.  | New York / Metal<br>Services &<br>Minerals         | Senior Secured Term Loan<br>(11.50%, due 12/15/2019)  | 10,000  | 9,895   | 9,895   | 0.3% |
| Progrexion Holdings, Inc.(4),(28)  | Utah / Consumer<br>Services                        | Senior Secured Term Loan<br>(10.50% (LIBOR + 8.50% with<br>2.00% LIBOR floor), due<br>9/14/2017)(3)                         | 284,521 | 284,521 | 284,521 | 8.8% |
| Rocket<br>Software, Inc.(3), (4)   | Massachusetts /<br>Software &<br>Computer Services | Second Lien Term Loan<br>(10.25% (LIBOR + 8.75% with<br>1.50% LIBOR floor), due<br>2/8/2019)                                | 20,000  | 19,738  | 19,967  | 0.6% |
| Royal Adhesives &<br>Sealants, LLC   | Indiana / Chemicals                                | Second Lien Term Loan<br>(9.75% (LIBOR + 8.50% with<br>1.25% LIBOR floor), due<br>1/31/2019) (4), (16)                      | 20,000  | 19,619  | 19,619  | 0.6% |
| Ryan, LLC(4)   | Texas / Business<br>Services                       | Subordinated Unsecured<br>(12.00% (LIBOR + 9.00% with<br>3.00% LIBOR floor) plus<br>3.00% PIK, due 6/30/2018)               | 70,000  | 70,000  | 70,000  | 2.2% |
| Sadow Media, LLC   | Florida / Media                                    | Senior Secured Term Loan<br>(12.00%, due 5/8/2018) (3)  | 25,143  | 25,143  | 24,403  | 0.8% |
| SESAC Holdco II<br>LLC(3)  | Tennessee / Media                                  | Second Lien Term Loan<br>(10.00% (LIBOR + 8.75% with<br>1.25% LIBOR floor), due<br>7/12/2019)(4), (16)                      | 6,000   | 5,919   | 6,000   | 0.2% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                                       |  |  |        |        |        |      |
|---------------------------------------|--|--|--------|--------|--------|------|
| Skillsoft Public Limited Company (22) | Ireland / Software & Computer Services | Senior Unsecured (11.125%, due 6/1/2018)                                 | 15,000 | 14,933 | 15,000 | 0.5% |
| Snacks Holding Corporation            | Minnesota / Food Products              | Series A Preferred Stock (4,021.45 shares)                               |        | 56     | 56     | 0.0% |
|                                       |  | Series B Preferred Stock (1,866.10 shares)                               |        | 56     | 56     | 0.0% |
|                                       |  | Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020) |        | 479    | 484    | 0.0% |

See notes to consolidated financial statements.



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

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

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

| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |   |           |           |           |              |
|--|--|---|-----------|-----------|-----------|--------------|
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |   |           |           |           |              |
| Spartan Energy Services, Inc. (3)  | Louisiana / Energy                                 | Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017) (4)  | \$ 36,225 | \$ 36,225 | \$ 36,225 | 1.1%         |
| Speedy Group Holdings Corp.  | Canada / Consumer Finance                          | Senior Unsecured (12.00%, due 11/15/2017)(22)   | 15,000    | 15,000    | 15,000    | 0.5%         |
| Sport Helmets Holdings, LLC(14)  | New York / Personal & Nondurable Consumer Products | Escrow Receivable   |           |           | 401       | 0.0%         |
| 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)   | 13,451    | 13,451    | 13,451    | 0.4%         |
|  |  | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)   | 10,106    | 10,106    | 10,106    | 0.3%         |
| Stryker Energy, LLC  | Ohio / Oil & 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)<br>Overriding Royalty Interests(18) | 35,409    | 32,711    |           | 0.0%<br>0.0% |
| Sudbury Mill CLO Ltd.(22)  | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)  | 28,200    | 26,173    | 25,978    | 0.8%         |
| Symphony CLO IX Ltd.(22)   | Cayman Islands / Diversified Financial Services    | LP Certificates (Residual Interest)   | 45,500    | 39,449    | 46,012    | 1.4%         |
| System One Holdings, LLC (3),(4)   | Pennsylvania / Business Services                   | Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due  | 48,000    | 48,000    | 48,000    | 1.5%         |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

| 12/31/2018)                           |  |  |        |        |        |      |
|---------------------------------------|--|--|--------|--------|--------|------|
| TB Corp. (3)                          | Texas / Consumer Service               | Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018)   | 23,539 | 23,539 | 23,539 | 0.7% |
| 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) | 22,374 | 22,110 | 22,110 | 0.7% |
| TGG Medical Transitory, Inc.          | New Jersey / Healthcare                | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4), (16)           | 13,000 | 12,741 | 13,000 | 0.4% |

See notes to consolidated financial statements

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

| Portfolio Company  | Locale / Industry                                  | Investments(1)   | December 31, 2013 (Unaudited) |                  |                  | % of Net Assets |
|--|--|--|-------------------------------|------------------|------------------|-----------------|
|  |  |  | Principal Value               | Cost             | Fair Value(2)    |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |  |                               |                  |                  |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |  |                               |                  |                  |                 |
| Totes Isotoner Corporation   | Ohio / Personal & Nondurable Consumer Products     | Second Lien Term Loan (10.75%, (LIBOR + 9.25% with 1.50% LIBOR floor), due 1/8/2018)(3), (4)   | \$ 53,000                     | \$ 52,836        | \$ 52,836        | 1.6%            |
|  |  |  |                               | <b>52,836</b>    | <b>52,836</b>    | <b>1.6%</b>     |
| Traeger Pellet Grills LLC(4)   | Oregon / Durable Consumer Products                 | Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)   | 29,550                        | 29,550           | 29,550           | 0.9%            |
|  |  | Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018) (3)  | 29,850                        | 29,850           | 29,850           | 0.9%            |
|  |  |  |                               | <b>59,400</b>    | <b>59,400</b>    | <b>1.8%</b>     |
| TransFirst Holdings, Inc.(4)   | New York / Software & Computer Services            | Second Lien Term Loan (11.00%, (LIBOR + 9.75% with 1.25% LIBOR floor), due 6/27/2018)  | 5,000                         | 4,872            | 5,000            | 0.2%            |
|  |  |  |                               | <b>4,872</b>     | <b>5,000</b>     | <b>0.2%</b>     |
| United Bank Card, Inc. (d/b/a Harbortouch)                                       | Pennsylvania / Business Services                   | Senior Secured Term Loan (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 9/5/2018) (3), (4)  | 25,371                        | 25,371           | 25,371           | 0.8%            |
|  |  |  |                               | <b>25,371</b>    | <b>25,371</b>    | <b>0.8%</b>     |
| United Sporting Companies, Inc.(5)   | South Carolina / Durable Consumer Products         | Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018) (3), (4)   | 160,000                       | 160,000          | 160,000          | 5.0%            |
|  |  |  |                               | <b>160,000</b>   | <b>160,000</b>   | <b>5.0%</b>     |
| Water Pik, Inc. (16)   | Colorado / Personal & Nondurable Consumer Products | Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021) (4)   | 11,000                        | 10,584           | 10,584           | 0.3%            |
|  |  |  |                               | <b>10,584</b>    | <b>10,584</b>    | <b>0.3%</b>     |
| Wind River Resources Corporation(39)   | Utah / Oil & Gas Production                        | Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal, 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4) | 15,000                        | 14,750           |                  | 0.0%            |
|  |  | Net Profits Interest (5.00% payable on Equity distributions)(7)  |                               |                  |                  | 0.0%            |
|  |  |  |                               | <b>14,750</b>    |                  | <b>0.0%</b>     |
| <b>Total Non-control/Non-affiliate Investments (Level 3 Investments)</b>         |  |  |                               | <b>3,690,727</b> | <b>3,683,674</b> | <b>114.0%</b>   |

|  |                  |                  |               |
|--|------------------|------------------|---------------|
| <b>Total Level 3 Portfolio Investments</b> | <b>4,976,291</b> | <b>4,885,854</b> | <b>151.2%</b> |
|--|------------------|------------------|---------------|

See notes to consolidated financial statements.

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

| Portfolio Company  | Locale / Industry                 | Investments(1)   | Principal Value | December 31, 2013 (Unaudited) |                    | % of Net Assets |
|--|-----------------------------------|--|-----------------|-------------------------------|--------------------|-----------------|
|  |                                   |  |                 | Cost                          | Fair Value(2)      |                 |
| <b>LEVEL 1 PORTFOLIO INVESTMENTS:</b>  |                                   |  |                 |                               |                    |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |                                   |  |                 |                               |                    |                 |
| Dover Saddlery, Inc.   | Massachusetts / Retail            | Common Stock<br>(30,974 shares)  |                 | \$ 63                         | \$ 166             | 0.0%            |
|  |                                   |  |                 | <b>63</b>                     | <b>166</b>         | <b>0.0%</b>     |
|  |                                   | <b>Total Non-control/Non-affiliate Investments (Level 1 Investments)</b> |                 | <b>63</b>                     | <b>166</b>         | <b>0.0%</b>     |
|  |                                   | <b>Total Portfolio Investments</b>                                       |                 | <b>4,976,354</b>              | <b>4,886,020</b>   | <b>151.2%</b>   |
| <b>SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)</b>          |                                   |  |                 |                               |                    |                 |
| Fidelity Institutional Money Market Funds  | Government Portfolio (Class I)    |  |                 | 179,468                       | 179,468            | 5.6%            |
| Fidelity Institutional Money Market Funds  | Government Portfolio (Class I)(3) |  |                 | 41,382                        | 41,382             | 1.3%            |
| Victory Government Money Market Funds  |                                   |  |                 |                               |                    | 0.0%            |
|  |                                   | <b>Total Money Market Funds</b>  |                 | <b>220,850</b>                | <b>220,850</b>     | <b>6.9%</b>     |
|  |                                   | <b>Total Investments</b>   |                 | <b>\$ 5,197,204</b>           | <b>\$5,106,870</b> | <b>158.1%</b>   |

See notes to consolidated financial statements.

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

| Portfolio Company   | Locale / Industry                  | Investments(1)  | Principal Value | June 30, 2013 (Audited) |               | % of Net Assets |
|---|------------------------------------|---|-----------------|-------------------------|---------------|-----------------|
|   |                                    |   |                 | Cost                    | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                    |   |                 |                         |               |                 |
| <b>Control Investments (greater than 25.00% voting control)(44)</b> |                                    |   |                 |                         |               |                 |
| AIRMALL USA, Inc.(27)   | Pennsylvania / Property Management | Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3), (4)   | \$ 28,750       | \$ 28,750               | \$ 28,750     | 1.1%            |
|   |                                    | Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)   | 12,500          | 12,500                  | 12,500        | 0.5%            |
|   |                                    | Convertible Preferred Stock (9,919,684 shares)  |                 | 9,920                   | 9,920         | 0.4%            |
|   |                                    | Common Stock (100 shares)   |                 |                         | 3,478         | 0.1%            |
|   |                                    |   | <b>51,170</b>   | <b>54,648</b>           | <b>2.1%</b>   |                 |
| Ajax Rolled Ring & Machine, Inc.                                    | South Carolina / Manufacturing     | Senior Secured Note Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(3), (4)  | 19,737          | 19,737                  | 19,737        | 0.7%            |
|   |                                    | Subordinated Unsecured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 3/30/2018)(4)   | 19,700          | 19,700                  | 19,700        | 0.7%            |
|   |                                    | Convertible Preferred Stock Series A (6,142.6 shares)   |                 | 6,057                   |               | 0.0%            |
|   |                                    | Unrestricted Common Stock (6 shares)  |                 |                         |               | 0.0%            |
|   |                                    |   | <b>45,494</b>   | <b>39,437</b>           | <b>1.4%</b>   |                 |
| APH Property Holdings, LLC(32)                                      | Georgia / Real Estate              | Senior Secured Note (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4)  | 125,892         | 125,892                 | 125,892       | 4.8%            |
|   |                                    | Common Stock (148,951 shares)   |                 | 26,648                  | 26,648        | 1.0%            |
|   |                                    |   | <b>152,540</b>  | <b>152,540</b>          | <b>5.8%</b>   |                 |
| AWCNC, LLC(19)  | North Carolina / Machinery         | Members Units Class A (1,800,000 units)   |                 |                         |               | 0.0%            |
|   |                                    | Members Units Class B-1 (1 unit)  |                 |                         |               | 0.0%            |
|   |                                    | Members Units Class B-2 (7,999,999 units)   |                 |                         |               | 0.0%            |
|   |                                    |   |                 |                         | <b>0.0%</b>   |                 |
| Borga, Inc.   | California / Manufacturing         | Revolving Line of Credit Commitment (\$1,150 (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4), (25) | 1,150           | 1,095                   | 586           | 0.0%            |
|   |                                    | Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)                         | 1,611           | 1,501                   |               | 0.0%            |
|   |                                    |   | 9,738           | 706                     |               | 0.0%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                            |                         |  |        |               |               |             |
|----------------------------|-------------------------|--|--------|---------------|---------------|-------------|
|                            |                         | Senior Secured Term Loan C<br>(12.00% plus 4.00% PIK plus<br>3.00% default interest, in<br>non-accrual status effective<br>03/02/2010, past due) |        |               |               |             |
|                            |                         | Common Stock (100 shares)(21)  |        |               |               | 0.0%        |
|                            |                         | Warrants (33,750 warrants)(21)   |        |               |               | 0.0%        |
|                            |                         |  |        | <b>3,302</b>  | <b>586</b>    | <b>0.0%</b> |
| CCPI<br>Holdings, Inc.(33) | Ohio /<br>Manufacturing | Senior Secured Note (10.00%,<br>due 12/31/2017)(3)   | 17,663 | 17,663        | 17,663        | 0.7%        |
|                            |                         | Senior Secured Note (12.00%<br>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<br>Revenue)  |        |               | 604           | 0.0%        |
|                            |                         |  |        | <b>33,903</b> | <b>33,903</b> | <b>1.3%</b> |

See notes to consolidated financial statements.

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

| Portfolio Company   | Locale / Industry                    | Investments(1)   | Principal Value | June 30, 2013 (Audited) |                | % of Net Assets |
|---|--------------------------------------|--|-----------------|-------------------------|----------------|-----------------|
|   |                                      |  |                 | Cost                    | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>                               |                                      |  |                 |                         |                |                 |
| <b>Control Investments (greater than 25.00% voting control)(44)</b> |                                      |  |                 |                         |                |                 |
| Credit Central Holdings of Delaware, LLC (22), (34)                 | Ohio / Consumer Finance              | Senior Secured Revolving Credit Facility \$60,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 12/31/2022)(4), (25)   | \$ 38,082       | \$ 38,082               | \$ 38,082      | 1.4%            |
|   |                                      | Common Stock (100 shares)  |                 | 9,581                   | 8,361          | 0.3%            |
|   |                                      | Net Revenue Interest (5% of Net Revenue)   |                 |                         | 4,019          | 0.2%            |
|   |                                      |  |                 | <b>47,663</b>           | <b>50,462</b>  | <b>1.9%</b>     |
| Energy Solutions Holdings, Inc.(8)                                  | Texas / Gas Gathering and Processing | Junior Secured Note (18.00%, due 12/12/2016)   | 8,500           | 8,500                   | 8,500          | 0.3%            |
|   |                                      | Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)  | 3,500           | 3,500                   | 3,500          | 0.1%            |
|   |                                      | Subordinated Secured Note to Jettco Marine Services, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, past due) (4) | 13,906          | 12,503                  | 8,449          | 0.3%            |
|   |                                      | Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)  | 1,449           | 1,449                   |                | 0.0%            |
|   |                                      | Escrow Receivable  |                 |                         |                | 0.0%            |
|   |                                      | Common Stock (100 shares)  |                 | 8,318                   | 6,247          | 0.2%            |
|   |                                      | <b>34,270</b>  | <b>26,696</b>   | <b>0.9%</b>             |                |                 |
| First Tower Holdings of Delaware, LLC (22), (29)                    | Mississippi / Consumer Finance       | Senior Secured Revolving Credit Facility \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(4), (25)   | 264,760         | 264,760                 | 264,760        | 10.0%           |
|   |                                      | Common Stock (83,729,323 shares)   |                 | 43,193                  | 20,447         | 0.8%            |
|   |                                      | Net Revenue Interest (5% of Net Revenue & Distributions)   |                 |                         | 12,877         | 0.5%            |
|   |                                      |  |                 | <b>307,953</b>          | <b>298,084</b> | <b>11.3%</b>    |
| Manx Energy, Inc.(12)   | Kansas / Oil & Gas Production        | Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)  | 500             | 500                     | 346            | 0.0%            |
|   |                                      | Preferred Stock (6,635 shares)   |                 |                         |                | 0.0%            |
|   |                                      | Common Stock (17,082 shares)   |                 |                         |                | 0.0%            |
|   |                                      | <b>500</b>   | <b>346</b>      | <b>0.0%</b>             |                |                 |
| Nationwide Acceptance Holdings, LLC (22), (36)                      | Chicago / Consumer Finance           | Senior Secured Revolving Credit Facility \$30,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 1/31/2023)(4), (25)  | 21,308          | 21,308                  | 21,308         | 0.8%            |
|   |                                      |  |                 |                         |                |                 |



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                             |                  |  |        |               |               |             |
|-----------------------------|------------------|--|--------|---------------|---------------|-------------|
|                             |                  | Membership Units (100 shares)                        |        | 3,843         | 2,142         | 0.1%        |
|                             |                  | Net Revenue Interest (5% of Net Revenue)             |        |               | 1,701         | 0.1%        |
|                             |                  |  |        | <b>25,151</b> | <b>25,151</b> | <b>1.0%</b> |
| NMMB Holdings, Inc.<br>(24) | New York / Media | Senior Term Loan (14.00%, due 5/6/2016)              | 16,000 | 16,000        | 13,149        | 0.5%        |
|                             |                  | Senior Subordinated Term Loan (15.00%, due 5/6/2016) | 2,800  | 2,800         |               | 0.0%        |
|                             |                  | Series A Preferred Stock (4,400 shares)              |        | 4,400         |               | 0.0%        |
|                             |                  |  |        | <b>23,200</b> | <b>13,149</b> | <b>0.5%</b> |

See notes to consolidated financial statements.

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

**LEVEL 3 PORTFOLIO INVESTMENTS:****Control Investments (greater than 25.00% voting control)(44)**

|  |   |  |           |           |           |      |
|--|---|--|-----------|-----------|-----------|------|
| R-V Industries, Inc.                       | Pennsylvania /<br>Manufacturing               | Senior Subordinated Note<br>(10.00% (LIBOR + 9.00%<br>with 1.00% LIBOR floor),<br>due 6/12/2018)(4)<br>Warrants (200,000 warrants,<br>expiring 6/30/2017)<br>Common Stock (545,107<br>shares)  | \$ 32,750 | \$ 32,750 | \$ 32,750 | 1.2% |
|  |   |  |           | 1,682     | 6,796     | 0.3% |
|  |   |  |           | 5,087     | 18,522    | 0.7% |
| The Healing Staff,<br>Inc.(9)              | North Carolina /<br>Contracting               | Secured Promissory Notes<br>(15.00%, in non-accrual<br>status effective 12/22/2010,<br>past due)<br>Senior Demand Note<br>(15.00%, in non-accrual<br>status effective 11/1/2010,<br>past due)<br>Common Stock (1,000<br>shares)  | 1,688     | 1,686     |           | 0.0% |
|  |   |  | 1,170     | 1,170     |           | 0.0% |
|  |   |  |           | 975       |           | 0.0% |
| Valley Electric<br>Holdings I, Inc. (35)   | Washington /<br>Construction &<br>Engineering | Senior Secured Note (9.00%<br>(LIBOR + 6.00%, with 3.00%<br>LIBOR floor) plus 9.00%<br>PIK, due 12/31/2018)(4)<br>Senior Secured Note (8.00%<br>(LIBOR + 5.00% with 3.00%<br>LIBOR floor) plus 2.50%<br>PIK, due 12/31/2017)(3),(4)<br>Common Stock (50,000<br>shares)<br>Net Revenue Interest (5% of<br>Net Revenue)  | 34,063    | 34,063    | 34,063    | 1.3% |
|  |   |  | 10,026    | 10,026    | 10,026    | 0.4% |
|  |   |  |           | 9,526     | 8,288     | 0.3% |
|  |   |  |           |           | 1,238     | 0.1% |
| Wolf Energy<br>Holdings, Inc.(12),<br>(37) | Kansas / Oil &<br>Gas Production              | Senior Secured Promissory<br>Note secured by assets<br>formerly owned by H&M<br>(18.00%, in non-accrual<br>status effective 4/15/2013,<br>due 4/15/2018)<br>Appalachian Energy<br>Holdings, LLC ( AEH )<br>Senior Secured First Lien<br>Note (8.00%, in non-accrual<br>status effective 1/19/2010,<br>past due)<br>Appalachian Energy<br>Holdings, LLC ( AEH )<br>Senior Secured First Lien<br>Note (8.00%, in non-accrual | 22,000    |           | 3,832     | 0.1% |
|  |   |  | 2,642     | 2,000     | 546       | 0.0% |
|  |   |  | 51        | 50        | 51        | 0.0% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|   |                       |  |                |                |        |              |
|---|-----------------------|--|----------------|----------------|--------|--------------|
|   |                       | status, past due)  |                |                |        |              |
|   |                       | Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6) | 7,930          | 5,990          |        | 0.0%         |
|   |                       | Common Stock (100 shares)  |                |                |        | 0.0%         |
|   |                       | Net Profits Interest (8.00% payable on Equity distributions)(7)                                  |                |                | 520    | 0.0%         |
| <b>Total Control Investments</b>                                  |                       |  | <b>830,151</b> | <b>811,634</b> |        | <b>30.6%</b> |
| <b>Affiliate Investments (5.00% to 24.99% voting control)(45)</b> |                       |  |                |                |        |              |
| BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)                 | Michigan / Healthcare | Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(3),(4)       | 29,550         | 29,550         | 29,550 | 1.1%         |
|   |                       | Preferred Stock Series A (9,925.455 shares)(13)  |                | 2,300          | 2,832  | 0.1%         |
|   |                       | Preferred Stock Series B (1,753.64 shares)(13)   |                | 579            | 533    | 0.0%         |

See notes to consolidated financial statements.

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

**LEVEL 3 PORTFOLIO INVESTMENTS:****Affiliate Investments (5.00% to 24.99% voting control)(45)**

|                                    |   |   |               |               |             |      |
|------------------------------------|---|---|---------------|---------------|-------------|------|
| Boxercraft Incorporated(20)        | Georgia / Textiles & Leather                  | 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% |
|                                    |   | Senior Secured Term Loan (10.00% plus 1.00% PIK, due 9/15/2015)   | 8,325         | 7,878         | 410         | 0.0% |
|                                    |   | Preferred Stock (1,000,000 shares)                                |               |               |             | 0.0% |
|                                    |   | Common Stock (10,000 shares)                                      |               |               |             | 0.0% |
|                                    |   | Warrants (1 warrant, expiring 8/31/2022)                          |               |               |             | 0.0% |
| Smart, LLC(14)                     | New York / Diversified / Conglomerate Service | Membership Interest   |               |               | 143         | 0.0% |
| <b>Total Affiliate Investments</b> |   |   | <b>49,189</b> | <b>42,443</b> | <b>1.6%</b> |      |

**Non-control/Non-affiliate Investments (less than 5.00% of voting control)**

|                                       |  |   |        |        |        |      |
|---------------------------------------|--|---|--------|--------|--------|------|
| ADAPCO, Inc.                          | Florida / Ecological                         | Common Stock (5,000 shares)   |        | 141    | 335    | 0.0% |
| Aderant North America, Inc.           | Georgia / Software & Computer Services       | Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4) | 7,000  | 6,900  | 7,000  | 0.3% |
| Aircraft Fasteners International, LLC | California / Machinery                       | Convertible Preferred Stock (32,500 units)  |        | 396    | 565    | 0.0% |
| ALG USA Holdings, LLC                 | Pennsylvania / Hotels, Restaurants & Leisure | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4) | 12,000 | 11,764 | 12,000 | 0.4% |
| Allied Defense Group, Inc.            | Virginia / Aerospace & Defense               | Common Stock (10,000 shares)  |        | 56     |        | 0.0% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                            |   |  |        |        |        |      |
|----------------------------|---|--|--------|--------|--------|------|
| American Gilsonite Company | Utah / Specialty Minerals                       | Second Lien Term Loan (11.50%, due 9/1/2017)<br>Membership Interest in AGC/PEP, LLC (99.9999%)(15) | 38,500 | 38,500 | 38,500 | 1.4% |
|                            |   |  |        |        | 4,058  | 0.2% |
| Apidos CLO VIII, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 19,730 | 19,931 | 19,718 | 0.7% |

See notes to consolidated financial statements.

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

**LEVEL 3 PORTFOLIO INVESTMENTS:****Non-control/Non-affiliate Investments (less than 5.00% of voting control)**

|  |   |   |                 |                 |                 |              |
|--|---|---|-----------------|-----------------|-----------------|--------------|
| Apidos CLO IX, Ltd.(22)                          | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | \$ 20,525       | \$ 19,609       | \$ 19,294       | 0.7%         |
| Apidos CLO XI, Ltd.(22)                          | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 38,340          | 39,239          | 37,972          | 1.4%         |
| Apidos CLO XII, Ltd.(22)                         | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 44,063          | 43,480          | 40,294          | 1.5%         |
| Arctic Glacier U.S.A, Inc.(4)                    | Canada / Food Products                          | Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 11/10/2019)  | 150,000         | 150,000         | 150,000         | 5.6%         |
| Armor Holding II LLC(4), (16)                    | New York / Diversified Financial Services       | Second Lien Term Loan (9.25% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/26/2020)  | 7,000           | 6,860           | 7,000           | 0.3%         |
| Atlantis Healthcare Group (Puerto Rico), Inc.(4) | Puerto Rico / Healthcare                        | Revolving Line of Credit \$7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014)(25),(26)<br>Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3) | 2,000<br>39,352 | 2,000<br>39,352 | 2,000<br>39,352 | 0.1%<br>1.5% |
| Babson CLO Ltd 2011-I(22)                        | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 35,000          | 34,499          | 34,450          | 1.3%         |
| Babson CLO Ltd 2012-IA(22)                       | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 29,075          | 25,917          | 27,269          | 1.0%         |
| Babson CLO Ltd 2012-IIA(22)                      | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)  | 27,850          | 28,863          | 27,510          | 1.0%         |
| 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)(4)  | 11,000          | 10,890          | 11,000          | 0.4%         |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                   |   |   |        |        |        |      |
|-------------------|---|---|--------|--------|--------|------|
| Broder Bros., Co. | Pennsylvania /<br>Textiles, Apparel &<br>Luxury Goods | Senior Secured Notes (10.75%<br>(LIBOR + 9.00% with 1.75%<br>LIBOR floor), due<br>6/27/2018)(3),(4) | 99,500 | 99,500 | 99,323 | 3.7% |
|-------------------|---|---|--------|--------|--------|------|

See notes to consolidated financial statements.

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

| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |  |           |           |           |      |
|--|--|--|-----------|-----------|-----------|------|
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |  |           |           |           |      |
| Brookside Mill CLO Ltd.(22)  | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)   | \$ 26,000 | \$ 23,896 | \$ 23,743 | 0.9% |
| Byrider Systems Acquisition Corp (22)  | Indiana / Auto Finance                             | Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)                              | 10,914    | 10,914    | 10,417    | 0.4% |
| Caleel + Hayden, LLC (14), (31)  | Colorado / Personal & Nondurable Consumer Products | Membership Units (13,220 shares)   |           |           | 104       | 0.0% |
|  |  | Escrow Receivable  |           |           | 137       | 0.0% |
| Capstone Logistics, LLC(4)   | Georgia / Commercial Services                      | Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)         | 97,291    | 97,291    | 97,291    | 3.7% |
|  |  | Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3)    | 100,000   | 100,000   | 100,000   | 3.8% |
| 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% |
| Cent CLO 17 Limited(22)  | Cayman Islands / Diversified Financial Services    | Subordinated Notes (Residual Interest)   | 24,870    | 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% |
| CIFC Funding 2011-I, Ltd.(4), (22)   | Cayman Islands / Diversified Financial Services    | Secured Class D Notes (5.32% (LIBOR + 5.00%), due 1/19/2023)                                     | 19,000    | 15,029    | 15,844    | 0.6% |
|  |  | Unsecured Class E Notes (7.32% (LIBOR + 7.00%), due 1/19/2023)                                   | 15,400    | 12,638    | 12,745    | 0.5% |
| 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      | 70,595    | 70,595    | 70,595    | 2.7% |



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

3/31/2021)

|                               |                                |                   |     |      |
|-------------------------------|--------------------------------|-------------------|-----|------|
| The Copernicus Group,<br>Inc. | North Carolina /<br>Healthcare | Escrow Receivable | 130 | 0.0% |
|-------------------------------|--------------------------------|-------------------|-----|------|

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
December 31, 2013 (Unaudited) and June 30, 2013 (Audited)**

(in thousands, except share data)

**LEVEL 3 PORTFOLIO INVESTMENTS:**

**Non-control/Non-affiliate Investments (less than 5.00% of voting control)**

|  |  |  |           |           |           |      |
|--|--|--|-----------|-----------|-----------|------|
| 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% |
| 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% |
| CP Well Testing, LLC                               | Oklahoma / Oil & Gas Products                | 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% |
| 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% |
| 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% |
| Diamondback Operating, LP                          | Oklahoma / Oil & Gas Production              | Net Profits Interest (15.00% payable on Equity distributions)(7)                                 |           |           |           | 0.0% |
| 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% |
| 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% |
| Empire Today, LLC                                  | Illinois / Durable Consumer Products         | Senior Secured Note (11.375%, due 2/1/2017)  | 15,700    | 15,332    | 14,650    | 0.6% |
| EXL Acquisition Corp.                              | South Carolina / Biotechnology               | Escrow Receivable  |           |           | 14        | 0.0% |
| Evanta Ventures, Inc. (11)                         | Oregon / Commercial Services                 | Subordinated Unsecured (12.00% plus 1.00% PIK, due 9/28/2018)                                    | 10,479    | 10,479    | 10,479    | 0.4% |

See notes to consolidated financial statements.

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

| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |  |           |              |              |              |
|--|---|--|-----------|--------------|--------------|--------------|
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |  |           |              |              |              |
| Fairchild Industrial Products, Co.   | North Carolina / Electronics                    | Escrow Receivable  | \$        | \$           | 149          | 0.0%         |
| Fischbein, LLC   | North Carolina / Machinery                      | Escrow Receivable  |           |              | 225          | 0.0%         |
| Focus Brands, Inc. (4).  | Georgia / Consumer Services                     | Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)                                       | \$ 18,000 | 17,731       | 18,000       | 0.7%         |
| FPG, LLC   | Illinois / Durable Consumer Products            | Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(4)<br>Common Stock (5,638 shares) | 21,401    | 21,401<br>27 | 21,401<br>19 | 0.8%<br>0.0% |
| Galaxy XII CLO, Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 22,000    | 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%         |
| 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%         |
| 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%         |
| Halcyon Loan Advisors Funding 2012-I, Ltd.(22)                                   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 23,188    | 22,279       | 22,724       | 0.9%         |
| Halcyon Loan Advisors Funding 2013-I, Ltd.(22)                                   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 40,400    | 41,085       | 38,291       | 1.4%         |

See notes to consolidated financial statements.



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

**LEVEL 3 PORTFOLIO INVESTMENTS:****Non-control/Non-affiliate Investments (less than 5.00% of voting control)**

|                               |   |   |                    |                  |                  |              |
|-------------------------------|---|---|--------------------|------------------|------------------|--------------|
| 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)<br>Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)              | \$ 20,000<br>1,000 | \$ 19,831<br>991 | \$ 19,598<br>955 | 0.7%<br>0.0% |
| 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%         |
| IDQ Holdings, Inc.            | Texas / Automobile                                  | Senior Secured Note (11.50%, due 4/1/2017)  | 12,500             | 12,300           | 12,500           | 0.5%         |
| ING IM CLO 2012-II, Ltd.(22)  | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)  | 38,070             | 34,904           | 36,848           | 1.4%         |
| ING IM CLO 2012-III, Ltd.(22) | Cayman Islands / Diversified Financial Services     | Subordinated Notes (Residual Interest)  | 46,632             | 44,454           | 46,361           | 1.7%         |
| ING IM CLO 2012-IV, Ltd.(22)  | Cayman Islands / Diversified Financial Services     | Income Notes (Residual Interest)  | 40,613             | 39,255           | 41,153           | 1.5%         |
| Injured Workers Pharmacy LLC  | Massachusetts / Healthcare                          | Second Lien Debt (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3), (4)  | 22,430             | 22,430           | 22,430           | 0.8%         |
| Interdent, Inc.(4)            | California / Healthcare                             | Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017)<br>Senior Secured Term Loan B (13.00% (LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3) | 53,475<br>55,000   | 53,475<br>55,000 | 53,475<br>55,000 | 2.0%<br>2.1% |
| JHH Holdings, Inc.            | Texas / Healthcare                                  | Second Lien Debt (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%         |
| LaserShip, Inc.(4)            | Virginia / Transportation                           | Revolving Line of Credit \$5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(25)   |                    |                  |                  | 0.0%         |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|  |        |        |        |      |
|--|--------|--------|--------|------|
| Senior Secured Term Loan<br>(10.25% (LIBOR + 8.25% with<br>2.00% LIBOR floor), due<br>12/21/2017)(3) | 37,031 | 37,031 | 37,031 | 1.4% |
|--|--------|--------|--------|------|

See notes to consolidated financial statements.

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

| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |  |           |           |           |      |
|--|---|--|-----------|-----------|-----------|------|
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |  |           |           |           |      |
| LCM XIV CLO Ltd.(22)   | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | \$ 26,500 | \$ 25,838 | \$ 25,838 | 1.0% |
| LHC Holdings Corp.   | Florida / Healthcare                            | Revolving Line of Credit Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4), (25), (26) |           |           |           | 0.0% |
|  |   | Senior Subordinated Debt (10.50%, due 5/31/2015)(3)  | 2,865     | 2,865     | 2,865     | 0.1% |
|  |   | Membership Interest (125 units)  |           | 216       | 245       | 0.0% |
| Madison Park Funding IX, Ltd.(22)  | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)   | 31,110    | 26,401    | 26,596    | 1.0% |
| 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, LLC   | Arizona / Healthcare                            | Preferred Units (1,250,000 units)  |           | 1,252     | 780       | 0.0% |
|  |   | Common Units (1,250,000 units)   |           |           |           | 0.0% |
| Mountain View CLO 2013-I Ltd.(22)  | Cayman Islands / Diversified Financial Services | Subordinated Notes (Residual Interest)   | 43,650    | 44,235    | 43,192    | 1.6% |
| Medical Security Card Company, LLC(4)  | Arizona / Healthcare                            | Revolving Line of Credit Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 2/1/2016)(25)             |           |           |           | 0.0% |
|  |   | 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% |
| 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% |
| Naylor, LLC(4)   | Florida / Media                                 |  |           |           |           | 0.0% |



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|   |         |        |        |        |      |
|---|---------|--------|--------|--------|------|
| Revolving Line of Credit Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25) | \$2,500 |        |        |        |      |
| 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% |

See notes to consolidated financial statements.

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

| Portfolio Company  | Locale / Industry                               | Investments(1)  | Principal Value | June 30, 2013 (Audited) |               | % of Net Assets |
|--|---|---|-----------------|-------------------------|---------------|-----------------|
|  |   |   |                 | Cost                    | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |   |   |                 |                         |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |   |   |                 |                         |               |                 |
| 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%            |
|  |   |   |                 | <b>45,120</b>           | <b>44,166</b> | <b>1.7%</b>     |
| New Star Metals, Inc.  | Indiana / Metal Services & Minerals             | Senior Subordinated Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 1.00% PIK, due 2/2/2018)(4)       | 50,274          | 50,274                  | 50,274        | 1.9%            |
|  |   |   |                 | <b>50,274</b>           | <b>50,274</b> | <b>1.9%</b>     |
| 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%            |
|  |   |   |                 | <b>15,252</b>           | <b>14,992</b> | <b>0.6%</b>     |
| NRG Manufacturing, Inc.  | Texas / Manufacturing                           | Escrow Receivable   |                 |                         | 3,618         | 0.1%            |
|  |   |   |                 |                         | <b>3,618</b>  | <b>0.1%</b>     |
| Pegasus Business Intelligence, LP(4)   | Texas / Diversified Financial Services          | Revolving Line of Credit \$2,500 Commitment (9.00% (LIBOR + 7.75% with 1.25% LIBOR floor), due 4/18/2014)(25)       |                 |                         |               | 0.0%            |
|  |   | Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)                            | 15,938          | 15,938                  | 15,938        | 0.6%            |
|  |   | 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%            |
|  |   |   |                 | <b>31,876</b>           | <b>31,876</b> | <b>1.2%</b>     |
| Octagon Investment Partners XV, Ltd. (22)  | Cayman Islands / Diversified Financial Services | Income Notes (Residual Interest)  | 26,901          | 26,919                  | 25,515        | 1.0%            |
|  |   |   |                 | <b>26,919</b>           | <b>25,515</b> | <b>1.0%</b>     |
| Pelican Products, Inc.(16)   | California / Durable Consumer Products          | Subordinated Secured (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019)(3),(4)                         | 15,000          | 14,729                  | 15,000        | 0.6%            |
|  |   |   |                 | <b>14,729</b>           | <b>15,000</b> | <b>0.6%</b>     |
| Pinnacle (US) Acquisition Co Limited(16)   | Texas / Software & Computer Services            | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)                              | 10,000          | 9,815                   | 10,000        | 0.4%            |
|  |   |   |                 | <b>9,815</b>            | <b>10,000</b> | <b>0.4%</b>     |
| 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%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                              |                                      |   |        |              |               |             |
|------------------------------|--------------------------------------|---|--------|--------------|---------------|-------------|
|                              |                                      |   |        | <b>5,000</b> | <b>5,000</b>  | <b>0.2%</b> |
| 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%        |
|                              |                                      |   |        | <b>9,888</b> | <b>10,000</b> | <b>0.4%</b> |

See notes to consolidated financial statements.

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

| Portfolio Company  | Locale / Industry                            | Investments(1)   | Principal Value | June 30, 2013 (Audited) |                | % of Net Assets |
|--|--|--|-----------------|-------------------------|----------------|-----------------|
|  |  |  |                 | Cost                    | Fair Value(2)  |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |  |                 |                         |                |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |  |                 |                         |                |                 |
| Progrexion Holdings, Inc.(4) (28)  | Utah / Consumer Services                     | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)               | \$ 241,033      | \$ 241,033              | \$ 241,033     | 9.1%            |
|  |  |  |                 | <b>241,033</b>          | <b>241,033</b> | <b>9.1%</b>     |
| Rocket Software, Inc.(3), (4)  | Massachusetts / Software & Computer Services | Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)                      | 20,000          | 19,719                  | 20,000         | 0.8%            |
|  |  |  |                 | <b>19,719</b>           | <b>20,000</b>  | <b>0.8%</b>     |
| Royal Adhesives & Sealants, LLC  | Indiana / Chemicals                          | Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK, due 11/29/2016)                          | 28,364          | 28,364                  | 28,648         | 1.1%            |
|  |  |  |                 | <b>28,364</b>           | <b>28,648</b>  | <b>1.1%</b>     |
| Ryan, LLC(4)   | Texas / Business Services                    | Subordinated Secured (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)       | 70,000          | 70,000                  | 70,000         | 2.6%            |
|  |  |  |                 | <b>70,000</b>           | <b>70,000</b>  | <b>2.6%</b>     |
| Sandow Media, LLC  | Florida / Media                              | Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 1.50% PIK, due 5/8/2018)(4) | 24,900          | 24,900                  | 24,900         | 0.9%            |
|  |  |  |                 | <b>24,900</b>           | <b>24,900</b>  | <b>0.9%</b>     |
| Seaton Corp.(3), (4)   | Illinois / Business Services                 | Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2014)       | 3,305           | 3,249                   | 3,305          | 0.1%            |
|  |  | Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2015)       | 10,005          | 10,005                  | 10,005         | 0.4%            |
|  |  |  |                 | <b>13,254</b>           | <b>13,310</b>  | <b>0.5%</b>     |
| 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)(4)                  | 6,000           | 5,914                   | 6,000          | 0.2%            |
|  |  |  |                 | <b>5,914</b>            | <b>6,000</b>   | <b>0.2%</b>     |
| Skillsoft Public Limited Company (22)  | Ireland / Software & Computer Services       | Senior Unsecured (11.125%, due 6/1/2018)   | 15,000          | 14,927                  | 15,000         | 0.6%            |
|  |  |  |                 | <b>14,927</b>           | <b>15,000</b>  | <b>0.6%</b>     |
| Snacks Holding Corporation   | Minnesota / Food Products                    | Series A Preferred Stock (4,021.45 shares)   |                 | 56                      | 56             | 0.0%            |
|  |  | Series B Preferred Stock (1,866.10 shares)   |                 | 56                      | 56             | 0.0%            |
|  |  | Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)                                 |                 | 479                     | 484            | 0.0%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|  |                                   |  |        |               |               |             |
|--|-----------------------------------|--|--------|---------------|---------------|-------------|
|  |                                   |  |        | <b>591</b>    | <b>596</b>    | <b>0.0%</b> |
| 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%        |
|  |                                   |  |        | <b>17,565</b> | <b>18,267</b> | <b>0.7%</b> |

See notes to consolidated financial statements.

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

| Portfolio Company  | Locale / Industry                                  | Investments(1)   | Principal Value | June 30, 2013 (Audited) |               | % of Net Assets |
|--|--|--|-----------------|-------------------------|---------------|-----------------|
|  |  |  |                 | Cost                    | Fair Value(2) |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |  |                 |                         |               |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |  |                 |                         |               |                 |
| 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%            |
|  |  |  |                 | <b>29,625</b>           | <b>29,625</b> | <b>1.1%</b>     |
| Speedy Group Holdings Corp.  | Canada / Consumer Finance                          | Senior Unsecured (12.00%, due 11/15/2017)(22)  | 15,000          | 15,000                  | 15,000        | 0.6%            |
|  |  |  |                 | <b>15,000</b>           | <b>15,000</b> | <b>0.6%</b>     |
| Sport Helmets Holdings, LLC(14)  | New York / Personal & Nondurable Consumer Products | Escrow Receivable  |                 |                         | 389           | 0.0%            |
|  |  |  |                 |                         | <b>389</b>    | <b>0.0%</b>     |
| Stauber Performance Ingredients, Inc. (3), (4)                                   | California / Food Products                         | Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 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%            |
|  |  |  |                 | <b>26,832</b>           | <b>26,832</b> | <b>1.0%</b>     |
| 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) Overriding Royalty Interests(18) | 34,738          | 32,711                  |               | 0.0%            |
|  |  |  |                 |                         | <b>32,711</b> | <b>0.0%</b>     |
| Symphony CLO, IX Ltd.(22)  | Cayman Islands / Diversified Financial Services    | LP Certificates (Residual Interest)  | 45,500          | 42,289                  | 43,980        | 1.7%            |
|  |  |  |                 | <b>42,289</b>           | <b>43,980</b> | <b>1.7%</b>     |
| 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%            |
|  |  |  |                 | <b>32,000</b>           | <b>32,000</b> | <b>1.2%</b>     |
| TB Corp. (3)   | Texas / Consumer Service                           | Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018)   | 23,361          | 23,361                  | 23,361        | 0.9%            |
|  |  |  |                 | <b>23,361</b>           | <b>23,361</b> | <b>0.9%</b>     |
| 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%            |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                                 |                            |   |               |               |              |             |
|---------------------------------|----------------------------|---|---------------|---------------|--------------|-------------|
|                                 |                            |   | <b>23,209</b> | <b>23,520</b> | <b>0.9%</b>  |             |
| TGG Medical<br>Transitory, Inc. | New Jersey /<br>Healthcare | Second Lien Term Loan<br>(11.25% (LIBOR + 10.00%<br>with 1.25% LIBOR floor),<br>due 6/27/2018)(4), (16) | 8,000         | 7,773         | 8,000        | 0.3%        |
|                                 |                            |   |               | <b>7,773</b>  | <b>8,000</b> | <b>0.3%</b> |

See notes to consolidated financial statements

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

| Portfolio Company  | Locale / Industry                          | Investments(1)   | Principal Value | June 30, 2013 (Audited) |                  | % of Net Assets |
|--|--|--|-----------------|-------------------------|------------------|-----------------|
|  |  |  |                 | Cost                    | Fair Value(2)    |                 |
| <b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>  |  |  |                 |                         |                  |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |  |  |                 |                         |                  |                 |
| 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%            |
|  |  |  |                 | <b>21,690</b>           | <b>22,000</b>    | <b>0.8%</b>     |
| Totes Isotoner Corporation   | Ohio / 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%            |
|  |  |  |                 | <b>39,000</b>           | <b>39,000</b>    | <b>1.5%</b>     |
| Traeger Pellet Grills LLC(4)   | Oregon / Durable Consumer Products         | Revolving Line of Credit \$10,000 Commitment (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 6/18/2014)(25)   | 6,143           | 6,143                   | 6,143            | 0.3%            |
|  |  | Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)   | 30,000          | 30,000                  | 30,000           | 1.1%            |
|  |  | Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)  | 30,000          | 30,000                  | 30,000           | 1.1%            |
|  |  |  |                 | <b>66,143</b>           | <b>66,143</b>    | <b>2.5%</b>     |
| TransFirst Holdings, Inc.(4)   | New York / Software & Computer Services    | Second Lien Term Loan (11.00%, (LIBOR + 9.75% with 1.25% LIBOR floor), due 6/27/2018)  | 5,000           | 4,860                   | 5,000            | 0.2%            |
|  |  |  |                 | <b>4,860</b>            | <b>5,000</b>     | <b>0.2%</b>     |
| United Sporting Companies, Inc.(5)   | South Carolina / Durable Consumer Products | Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(4)   | 160,000         | 160,000                 | 160,000          | 6.0%            |
|  |  |  |                 | <b>160,000</b>          | <b>160,000</b>   | <b>6.0%</b>     |
| Wind River Resources Corp. and Wind River II Corp.                               | Utah / Oil & Gas Production                | Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal, 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4) | 15,000          | 14,750                  |                  | 0.0%            |
|  |  | Net Profits Interest (5.00% payable on Equity distributions)(7)  |                 |                         |                  | 0.0%            |
|  |  |  |                 | <b>14,750</b>           |                  | <b>0.0%</b>     |
| <b>Total Non-control/Non-affiliate Investments (Level 3 Investments)</b>         |  |  |                 | <b>3,376,375</b>        | <b>3,318,663</b> | <b>124.9%</b>   |
| <b>Total Level 3 Portfolio Investments</b>                                       |  |  |                 | <b>4,255,715</b>        | <b>4,172,740</b> | <b>157.1%</b>   |



See notes to consolidated financial statements.

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

| Portfolio Company  | Locale / Industry                 | Investments(1)                  | Principal Value | June 30, 2013 (Audited) |                    | % of Net Assets |
|--|-----------------------------------|---------------------------------|-----------------|-------------------------|--------------------|-----------------|
|  |                                   |                                 |                 | Cost                    | Fair Value(2)      |                 |
| <b>LEVEL 1 PORTFOLIO INVESTMENTS:</b>  |                                   |                                 |                 |                         |                    |                 |
| <b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b> |                                   |                                 |                 |                         |                    |                 |
| Dover Saddlery, Inc.   | Massachusetts / Retail            | Common Stock<br>(30,974 shares) |                 | \$ 63                   | \$ 112             | 0.0%            |
|  |                                   |                                 |                 | <b>63</b>               | <b>112</b>         | <b>0.0%</b>     |
| <b>Total Non-control/Non-affiliate Investments (Level 1 Investments)</b>         |                                   |                                 |                 | <b>63</b>               | <b>112</b>         | <b>0.0%</b>     |
| <b>Total Portfolio Investments</b>   |                                   |                                 |                 | <b>4,255,778</b>        | <b>4,172,852</b>   | <b>157.1%</b>   |
| <b>SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)</b>          |                                   |                                 |                 |                         |                    |                 |
| Fidelity Institutional Money Market Funds  | Government Portfolio (Class I)    |                                 |                 | 83,456                  | 83,456             | 3.1%            |
| Fidelity Institutional Money Market Funds  | Government Portfolio (Class I)(3) |                                 |                 | 49,804                  | 49,804             | 1.9%            |
| Victory Government Money Market Funds  |                                   |                                 |                 | 10,002                  | 10,002             | 0.4%            |
| <b>Total Money Market Funds</b>  |                                   |                                 |                 | <b>143,262</b>          | <b>143,262</b>     | <b>5.4%</b>     |
| <b>Total Investments</b>   |                                   |                                 |                 | <b>\$ 4,399,040</b>     | <b>\$4,316,114</b> | <b>162.5%</b>   |

See notes to consolidated financial statements.

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

**Endnote Explanations for the Consolidated Schedules of Investments as of December 31, 2013 and June 30, 2013**

- (1) The securities in which Prospect Capital Corporation ( we , us or our ) has invested were acquired in transactions that 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.
- (2) Fair value is determined by or under the direction of our Board of Directors. As of December 31, 2013 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 December 31, 2013 and 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. Our investments in money market funds are classified as Level 2. See Notes 2 and 3 within the accompanying notes to consolidated financial statements for further discussion.
- (3) 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 security is not available as collateral to our general creditors (see Note 4). The fair values of these investments held by PCF at December 31, 2013 and June 30, 2013 were \$1,075,441 and \$883,114, respectively; they represent 21.1% and 20.5% of our total investments and money market funds, respectively.
- (4) Security, or portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. Stated interest rate was in effect at December 31, 2013 and June 30, 2013.
- (5) Ellett Brothers, LLC, Evans Sports, Inc., Jerry s Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc., 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.
- (6) 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 October 21, 2009, Coalbed LLC foreclosed on the loan formerly made to Conquest. On January 19, 2010, as part of the 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 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 December 31, 2013 and June 30, 2013.
- (7) In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests.
- (8) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, Inc., Change Clean Energy, Inc., Freedom Marine Services Holdings, LLC ( Freedom Marine ), and Yatesville Coal Holdings, Inc. 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 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.
- (9) We own 1,000 shares of common stock in The Healing Staff, Inc. (f/k/a Lisamarie Fallon, Inc.), representing 100% ownership.
- (10) GTP Operations, LLC (formerly known as 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,

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

LLC are joint borrowers on our senior secured investment.

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

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

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

- (12) On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx Energy, Inc. ( 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 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 December 31, 2013 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.
- (15) We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares (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.
- (17) Our wholly-owned entity, MITY Holdings of Delaware Inc., owns 98.6% (42,053 common shares) of MITY Enterprises, Inc., the operating company.
- (18) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.
- (19) On December 31, 2009, we sold our investment in Aylward Enterprises, LLC. AWCNC, LLC is the remaining 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 December 31, 2013 and June 30, 2013.
- (20) We own a warrant to purchase 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 Boxercraft Incorporated.
- (21) 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, 2010, we foreclosed on the stock in Borga, Inc. that was held by Metal Buildings, obtaining 100% ownership of Borga, Inc.
- (22) Certain investments that we have determined are not qualifying assets under Section 55(a) of the Investment 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 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 December 31, 2013 and June 30, 2013. Our fully diluted ownership in NMMB Acquisition, Inc. is 89.8% and 83.5% as of December 31, 2013 and June 30, 2013, respectively.
- (25) Undrawn committed revolvers to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of December 31, 2013 and June 30, 2013, we had \$200,990 and \$202,518 of undrawn revolver commitments to our portfolio companies, respectively.
- (26) Stated interest rates are based on December 31, 2013 and June 30, 2013 one month or three month Libor rates plus 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.



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

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

- (27) On July 30, 2010, we made a secured first lien \$30,000 debt investment to AIRMALL USA, Inc., a \$12,500 secured second lien to AMU Holdings, Inc., and acquired 100% of the Convertible Preferred Stock and Common stock of AMU Holdings, Inc. Our Convertible Preferred Stock in AMU Holdings, Inc. has a 12.0% dividend rate which is paid from the dividends received from the underlying operating company, AIRMALL USA, Inc. AMU Holdings, Inc. owns 100% of the common stock in AIRMALL USA, 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 December 31, 2013, we own 98% of convertible preferred and common equity securities.
- (28) Progrexion Marketing, Inc., Progrexion Teleservices, Inc., Progrexion ASG, Inc. Progrexion IP, Inc. and Efolks, LLC, are joint borrowers on our senior secured investment. Progrexion Holdings, Inc. and eFolks Holdings, Inc. are the guarantors of this debt investment.
- (29) Our wholly-owned entity, First Tower Holdings of Delaware, LLC, owns 80.1% of First Tower Holdings LLC, which owns 100% of First Tower, LLC, the operating company.
- (30) Southern Management Corporation, Thaxton Investment Corporation, Southern Finance of Tennessee, Inc., 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.
- (31) We own 2.8% (13,220 shares) of the Mineral Fusion Natural, LLC, a subsidiary of Caleel + Hayden, common and preferred interest.
- (32) Our wholly-owned entity, APH Property Holdings, LLC ( APH ), owns 100% of the common equity of American Property Holdings Corp., a REIT which holds investments in several real estate properties. See Note 3 for further discussion of the properties.
- (33) Our wholly-owned entity, CCPI Holdings, Inc., owns 95.13% of CCPI Inc., the operating company.
- (34) Our wholly-owned entity, Credit Central Holdings of Delaware, LLC, owns 74.8% 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.
- (35) Our wholly-owned entity, Valley Electric Holdings I, Inc. ( HoldCo ), owns 100% of Valley Electric Holdings II, Inc. ( Valley II ). Valley II owns 96.3% of Valley Electric Co. of Mt. Vernon, Inc. ( OpCo ), the operating company. Our debt investments are with both HoldCo and OpCo.
- (36) Our wholly-owned entity, Nationwide Acceptance Holdings, LLC, owns 93.8% of Nationwide Acceptance LLC, the operating company.
- (37) 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. 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.
- (38) Our wholly-owned entity, CP Holdings of Delaware LLC, owns 82.9% of CP Energy Services Inc., which owns 100% of CP Well Testing Holding Company, LLC and 100% of Fluid Management Holdings, Inc., the operating companies.
- (39) Wind River Resources Corporation and Wind River II Corporation are joint borrowers on our senior secured loan.
- (40) Our wholly-owned entity, NPH Property Holdings, LLC ( NPH ), owns 100% of the common equity of National Property Holdings Corp., a 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) Our wholly-owned entity, UPH Property Holdings, LLC ( UPH ), owns 100% of the common equity of United Property Holdings Corp., a REIT which holds investments in several real estate properties. See Note 3 for further discussion of the properties.





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

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

(42) As defined in the 1940 Act, we are deemed to be an Affiliated Company of and Control these portfolio companies because we own more than 25% of the portfolio company's outstanding voting securities and we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Our transactions with these portfolio companies during the six months ended December 31, 2013 are as follows:

| Company                                  | Purchases         | Redemptions        | Sales           | Interest income  | Dividend income  | Other income     | Net realized gains (losses) | Net unrealized gains (losses) |
|--|-------------------|--------------------|-----------------|------------------|------------------|------------------|-----------------------------|-------------------------------|
| AIRMALL USA, Inc.                        | \$ 7,600          | \$ (299)           | \$ (972)        | \$ 3,111         | \$ 12,000        | \$               | \$                          | \$ (11,511)                   |
| Ajax Rolled Ring & Machine, Inc.         | 25,000            | (20,208)           |                 | 2,082            |                  | 50               |                             | (19,956)                      |
| APH Property Holdings, LLC               | 155,464           | (118,186)*         |                 | 9,182            |                  | 4,945            |                             |                               |
| AWCNC, LLC                               |                   |                    |                 |                  |                  |                  |                             |                               |
| Borga, Inc.                              |                   |                    |                 |                  |                  |                  |                             | (112)                         |
| CCPI Holdings, Inc.                      |                   | (226)              |                 | 1,660            |                  | 71               |                             | 5,725                         |
| CP Holdings of Delaware LLC              | 113,501           | (100)              |                 | 5,756            |                  | 1,864            |                             | 5,727                         |
| Credit Central Holdings of Delaware, LLC |                   |                    |                 | 3,914            | 3,000            | 233              |                             | 784                           |
| Energy Solutions Holdings, Inc.          | 16,496            | (8,500)            |                 | 6,033            |                  | 2,480            | 496                         | (1,142)                       |
| First Tower Holdings of Delaware, LLC    | 10,000            |                    |                 | 27,074           |                  | 9,381            |                             | 14,427                        |
| Gulf Coast Machine & Supply Company      | 28,450            | (26,213)           |                 | 349              |                  |                  |                             | (2,821)                       |
| The Healing Staff, Inc.                  |                   |                    |                 |                  |                  | 5,000            |                             |                               |
| Manx Energy, Inc.                        |                   | (275)              |                 |                  |                  |                  |                             | (71)                          |
| MITY Holdings of Delaware Inc.           | 47,985            |                    |                 | 1,718            |                  | 1,049            |                             |                               |
| Nationwide Acceptance Holdings, LLC      |                   |                    |                 | 2,178            |                  | 1,685            |                             | 1,739                         |
| NMMB Holdings, Inc.                      | 8,086             | (8,086)            |                 | 1,297            |                  |                  |                             | (1,982)                       |
| NPH Property Holdings, LLC               | 10,620            | 95,624*            |                 | 6                |                  | 319              |                             |                               |
| R-V Industries, Inc.                     |                   |                    |                 | 1,639            | 952              |                  |                             | (388)                         |
| UPH Property Holdings, LLC               |                   | 22,562*            |                 |                  |                  |                  |                             |                               |
| Valley Electric Holdings I, Inc.         |                   | (100)              |                 | 3,720            |                  | 72               |                             | (16,287)                      |
| Wolf Energy Holdings, Inc.               |                   |                    |                 |                  |                  |                  |                             | (386)                         |
| <b>Total</b>                             | <b>\$ 423,202</b> | <b>\$ (64,007)</b> | <b>\$ (972)</b> | <b>\$ 69,719</b> | <b>\$ 15,952</b> | <b>\$ 27,149</b> | <b>\$ 496</b>               | <b>\$ (26,254)</b>            |

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

(43) As defined in the 1940 Act, we are deemed to be an Affiliated Company of these portfolio companies because we own more than 5% of the portfolio company's outstanding voting securities and we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Our transactions with these portfolio companies during the six months ended December 31, 2013 are

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

as follows:

| 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) | \$        | \$ (300)    | \$    | \$ 1,507        | \$              | \$           | \$                          | \$ (1,091)                    |
| Boxercraft Incorporated                           |           | (100)       |       | 1,388           |                 | 7            |                             | (4,163)                       |
| Smart, LLC  |           |             |       |                 |                 |              |                             | 1,602                         |
| <b>Total</b>                                      | \$        | \$ (400)    | \$    | \$ 2,895        | \$              | \$ 7         | \$                          | \$ (3,652)                    |

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

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

(44) As defined in the 1940 Act, we are deemed to be an Affiliated Company of and Control these portfolio companies because we own more than 25% of the portfolio company's outstanding voting securities and we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Our transactions with these portfolio companies during the year ended June 30, 2013 are as follows:

| Company                                  | Purchases         | Redemptions        | Sales             | Interest income   | Dividend income  | Other income     | Net realized gains (losses) | Net unrealized gains (losses) |
|--|-------------------|--------------------|-------------------|-------------------|------------------|------------------|-----------------------------|-------------------------------|
| AIRMALL USA, Inc.                        | \$                | \$ (600)           | \$                | \$ 5,822          | \$               | \$               | \$                          | \$ 7,266                      |
| Ajax Rolled Ring & Machine, Inc.         | 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)                       |
| <b>Total</b>                             | <b>\$ 387,866</b> | <b>\$ (48,503)</b> | <b>\$ (7,169)</b> | <b>\$ 106,425</b> | <b>\$ 78,282</b> | <b>\$ 16,821</b> | <b>\$ (9,688)</b>           | <b>\$ (64,992)</b>            |

(45) As defined in the 1940 Act, we are deemed to be an Affiliated Company of these portfolio companies because we own more than 5% of the portfolio company's outstanding voting securities and we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Our transactions with these portfolio companies during the year ended June 30, 2013 are as follows:

| 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                        |
| Boxercraft Incorporated                           |                  |                    |           | 3,356           |                 |               |                             | (9,413)                       |
| Smart, LLC  |                  |                    |           |                 | 728             |               |                             | 108                           |
| <b>Total</b>                                      | <b>\$ 30,000</b> | <b>\$ (26,677)</b> | <b>\$</b> | <b>\$ 6,515</b> | <b>\$ 728</b>   | <b>\$ 623</b> | <b>\$</b>                   | <b>\$ (8,633)</b>             |



**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2013**

**(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 subsidiary 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 credit facility at PCF.

**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 six months ended December 31, 2013.

*Use of Estimates*

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

*Basis of Consolidation*

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

*Investment Classification*

We are a non-diversified company within the meaning of the 1940 Act. We classify our investments by level of control. As defined in the 1940 Act, controlled investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or

individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee company. Under the 1940 Act, Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person.

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

#### *Investment Risks*

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

#### *Market Risk*

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

#### *Credit Risk*

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

#### *Liquidity Risk*

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

#### *Interest Rate Risk*

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

*Prepayment Risk*

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

*Investment Valuation*

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

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

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

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

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

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



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

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

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

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

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

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

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

risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

*Valuation of Other Financial Assets and Financial Liabilities*

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

*Senior Convertible Notes*

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

*Revenue Recognition*

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

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

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.

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

*Federal and State Income Taxes*

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

#### *Dividends and Distributions*

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

#### *Financing Costs*

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

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

#### *Guarantees and Indemnification Agreements*

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

*Per Share Information*

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

*Recent Accounting Pronouncements*

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

**Note 3. Portfolio Investments**

At December 31, 2013, we had investments in 130 long-term portfolio investments, which had an amortized cost of \$4,976,354 and a fair value of \$4,886,020 and 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 \$1,164,500 and \$1,520,062 during the six months ended December 31, 2013 and December 31, 2012, respectively. Debt repayments and proceeds from sales of equity securities of approximately \$419,405 and \$507,392 were received during the six months ended December 31, 2013 and December 31, 2012, respectively.

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

The composition of our investments and money market funds as of December 31, 2013 and June 30, 2013 at cost and fair value was as follows:

|                             | December 31, 2013 |            | June 30, 2013 |            |
|-----------------------------|-------------------|------------|---------------|------------|
|                             | Cost              | Fair Value | Cost          | Fair Value |
| Revolving Line of Credit    | \$ 12,595         | \$ 11,974  | \$ 9,238      | \$ 8,729   |
| Senior Secured Debt         | 2,746,971         | 2,682,361  | 2,262,327     | 2,207,091  |
| Subordinated Secured Debt   | 1,012,293         | 980,206    | 1,062,386     | 1,024,901  |
| Subordinated Unsecured Debt | 99,933            | 100,000    | 88,470        | 88,827     |
| CLO Debt                    | 27,889            | 33,466     | 27,667        | 28,589     |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| CLO Residual Interest                    | 821,653      | 864,618      | 660,619      | 658,086      |
| Equity                                   | 255,020      | 213,395      | 145,071      | 156,629      |
| Total Investments                        | 4,976,354    | 4,886,020    | 4,255,778    | 4,172,852    |
| Money Market Funds                       | 220,850      | 220,850      | 143,262      | 143,262      |
| Total Investments and Money Market Funds | \$ 5,197,204 | \$ 5,106,870 | \$ 4,399,040 | \$ 4,316,114 |



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

The fair values of our investments and money market funds as of December 31, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

|  | Quoted Prices in<br>Active Markets for<br>Identical Securities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total        |
|--|---|---|--|--------------|
| Investments at fair value                |   |   |  |              |
| Revolving Line of Credit                 | \$  | \$  | \$ 11,974  | \$ 11,974    |
| Senior Secured Debt                      |   |   | 2,682,361  | 2,682,361    |
| Subordinated Secured Debt                |   |   | 980,206  | 980,206      |
| Subordinated Unsecured Debt              |   |   | 100,000  | 100,000      |
| CLO Debt                                 |   |   | 33,466   | 33,466       |
| CLO Residual Interest                    |   |   | 864,618  | 864,618      |
| Equity                                   | 166   |   | 213,229  | 213,395      |
| Total Investments                        | 166   |   | 4,885,854  | 4,886,020    |
| Money Market Funds                       |   | 220,850   |  | 220,850      |
| Total Investments and Money Market Funds | \$ 166  | \$ 220,850  | \$ 4,885,854                                       | \$ 5,106,870 |

**Fair Value Hierarchy**

|  | Level 1 | Level 2    | Level 3      | Total        |
|--|---------|------------|--------------|--------------|
| Investments at fair value                |         |            |              |              |
| Control investments                      | \$      | \$         | \$ 1,163,300 | \$ 1,163,300 |
| Affiliate investments                    |         |            | 38,880       | 38,880       |
| Non-control/non-affiliate investments    | 166     |            | 3,683,674    | 3,683,840    |
| Total Investments                        | 166     |            | 4,885,854    | 4,886,020    |
| Money Market Funds                       |         | 220,850    |              | 220,850      |
| Total Investments and Money Market Funds | \$ 166  | \$ 220,850 | \$ 4,885,854 | \$ 5,106,870 |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

The fair values of our investments and money market funds as of June 30, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

|  | Quoted Prices in<br>Active Markets for<br>Identical Securities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total        |
|--|---|---|--|--------------|
| Investments at fair value                |   |   |  |              |
| 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    |
| Money Market Funds                       |   | 143,262   |  | 143,262      |
| Total Investments and Money Market Funds | \$  | 112 \$  | 143,262 \$   | \$ 4,316,114 |

**Fair Value Hierarchy**

|  | Level 1 | Level 2 | Level 3    | Total        |
|--|---------|---------|------------|--------------|
| Investments at fair value                |         |         |            |              |
| Control investments                      | \$      | \$      | \$ 811,634 | \$ 811,634   |
| Affiliate investments                    |         |         | 42,443     | 42,443       |
| Non-control/non-affiliate investments    | 112     |         | 3,318,663  | 3,318,775    |
| Total Investments                        | 112     |         | 4,172,740  | 4,172,852    |
| Money Market Funds                       |         | 143,262 |            | 143,262      |
| Total Investments and Money Market Funds | \$      | 112 \$  | 143,262 \$ | \$ 4,316,114 |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

The aggregate values of Level 3 portfolio investments changed during the six months ended December 31, 2013 as follows:

**Fair Value Measurements Using Unobservable Inputs (Level 3)**

|  | <b>Control<br/>Investments</b> | <b>Affiliate<br/>Investments</b> | <b>Non-Control/<br/>Non-Affiliate<br/>Investments</b> | <b>Total</b> |
|--|--------------------------------|----------------------------------|---|--------------|
| Fair value as of June 30, 2013                     | \$ 811,634                     | \$ 42,443                        | \$ 3,318,663  | \$ 4,172,740 |
| Total realized gain (loss), net                    | 496                            |                                  | (2,404)   | (1,908)      |
| Change in unrealized (depreciation) appreciation   | (26,254)                       | (3,652)                          | 22,443  | (7,463)      |
| Net realized and unrealized (loss) gain            | (25,758)                       | (3,652)                          | 20,039  | (9,371)      |
| Purchases of portfolio investments                 | 423,202                        |                                  | 731,950   | 1,155,152    |
| Payment-in-kind interest                           | 6,699                          | 89                               | 3,057   | 9,845        |
| Accretion (amortization) of discounts and premiums |                                | 400                              | (23,533)  | (23,133)     |
| Repayments and sales of portfolio investments      | (65,475)                       | (400)                            | (353,504)   | (419,379)    |
| Transfers within Level 3(1)                        | 12,998                         |                                  | (12,998)  |              |
| Transfers in (out) of Level 3(1)                   |                                |                                  |   |              |
| Fair value as of December 31, 2013                 | \$ 1,163,300                   | \$ 38,880                        | \$ 3,683,674  | \$ 4,885,854 |

**Fair Value Measurements Using Unobservable Inputs (Level 3)**

|  | <b>Revolver</b> | <b>Senior<br/>Secured Debt</b> | <b>Subordinated<br/>Secured Debt</b> | <b>Subordinated<br/>Unsecured<br/>Debt</b> | <b>CLO Debt</b> | <b>CLO Residual<br/>Interest</b> | <b>Equity</b> | <b>Total</b> |
|--|-----------------|--------------------------------|--------------------------------------|--|-----------------|----------------------------------|---------------|--------------|
| 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                    | -               | 93                             | (7,062)                              | -  | -               | 1,183                            | 3,878         | (1,908)      |
| Change in unrealized (depreciation) appreciation   | (112)           | (9,375)                        | 5,402                                | (290)                                      | 4,656           | 45,494                           | (53,238)      | (7,463)      |
| Net realized and unrealized (loss) gain            | (112)           | (9,282)                        | (1,660)                              | (290)                                      | 4,656           | 46,677                           | (49,360)      | (9,371)      |
| Purchases of portfolio investments                 | 9,500           | 688,071                        | 141,719                              | -  | -               | 205,720                          | 110,142       | 1,155,152    |
| Payment-in-kind interest                           | -               | 7,889                          | 1,619                                | 336  | -               | 1                                | -             | 9,845        |
| Accretion (amortization) of discounts and premiums | -               | 524                            | 912                                  | 6  | 221             | (24,796)                         | -             | (23,133)     |
| Repayments and sales of portfolio investments      | (6,143)         | (211,932)                      | (117,285)                            | (58,879)                                   | -               | (21,070)                         | (4,070)       | (419,379)    |
| Transfers within Level 3(1)                        | -               | -                              | (70,000)                             | 70,000                                     | -               | -                                | -             | -            |
| Transfers in (out) of Level 3(1)                   | -               | -                              | -                                    | -  | -               | -                                | -             | -            |
| Fair value as of December 31, 2013                 | \$ 11,974       | \$ 2,682,361                   | \$ 980,206                           | \$ 100,000                                 | \$ 33,466       | \$ 864,618                       | \$ 213,229    | \$ 4,885,854 |

- (1) Transfers are assumed to have occurred at the beginning of the period.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

The aggregate values of Level 3 portfolio investments changed during the six months ended December 31, 2012 as follows:

**Fair Value Measurements Using Unobservable Inputs (Level 3)**

|   | <b>Control<br/>Investments</b> | <b>Affiliate<br/>Investments</b> | <b>Non-Control/<br/>Non-Affiliate<br/>Investments</b> | <b>Total</b> |
|---|--------------------------------|----------------------------------|---|--------------|
| Fair value as of June 30, 2012                | \$ 564,489                     | \$ 46,116                        | \$ 1,483,487  | \$ 2,094,092 |
| Total realized (loss) gain, net               | (12,198)                       |                                  | 5,727   | (6,471)      |
| Change in unrealized depreciation             | (63,454)                       | (2,279)                          | (7,400)   | (73,133)     |
| Net realized and unrealized loss              | (75,652)                       | (2,279)                          | (1,673)   | (79,604)     |
| Purchases of portfolio investments            | 184,343                        | 30,000                           | 1,301,671   | 1,516,014    |
| Payment-in-kind interest                      | 44                             | 360                              | 3,644   | 4,048        |
| Amortization of discounts and premiums        |                                | 446                              | 10,976  | 11,422       |
| Repayments and sales of portfolio investments | (23,844)                       | (26,377)                         | (457,048)   | (507,269)    |
| Transfers within Level 3(1)                   |                                |                                  |   |              |
| Transfers in (out) of Level 3(1)              |                                |                                  |   |              |
| Fair value as of December 31, 2012            | \$ 649,380                     | \$ 48,266                        | \$ 2,341,057  | \$ 3,038,703 |

**Fair Value Measurements Using Unobservable Inputs (Level 3)**

|  | <b>Revolver</b> | <b>Senior<br/>Secured Debt</b> | <b>Subordinated<br/>Secured Debt</b> | <b>Subordinated<br/>Unsecured<br/>Debt</b> | <b>CLO Debt</b> | <b>CLO<br/>Residual<br/>Interest</b> | <b>Equity</b> | <b>Total</b> |
|--|-----------------|--------------------------------|--------------------------------------|--|-----------------|--------------------------------------|---------------|--------------|
| 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 (loss) gain, net                  | -               | -                              | (11,520)                             | -  | -               | -                                    | 5,049         | (6,471)      |
| Change in unrealized (depreciation) appreciation | (46)            | (8,215)                        | 10,816                               | (39)                                       | 1,470           | (702)                                | (76,417)      | (73,133)     |
| Net realized and unrealized (loss) gain          | (46)            | (8,215)                        | (704)                                | (39)                                       | 1,470           | (702)                                | (71,368)      | (79,604)     |
| Purchases of portfolio investments               | 7,150           | 734,016                        | 460,610                              | 99,000                                     | -               | 182,522                              | 32,716        | 1,516,014    |
| Payment-in-kind interest                         | -               | 618                            | 1,843                                | 1,587                                      | -               | -                                    | -             | 4,048        |
| Amortization of discounts and premiums           | -               | 1,169                          | 1,792                                | 38   | 202             | 8,221                                | -             | 11,422       |
| Repayments and sales of portfolio investments    | (1,100)         | (312,476)                      | (182,857)                            | -  | -               | -                                    | (10,836)      | (507,269)    |
| Transfers within Level 3(1)                      | -               | -                              | -                                    | -  | -               | -                                    | -             | -            |
| Transfers in (out) of Level 3(1)                 | -               | -                              | -                                    | -  | -               | -                                    | -             | -            |
| Fair value as of December 31, 2012               | \$ 6,872        | \$ 1,508,131                   | \$ 755,831                           | \$ 173,781                                 | \$ 29,389       | \$ 408,050                           | \$ 156,649    | \$ 3,038,703 |

(1) Transfers are assumed to have occurred at the beginning of the period.

For the six months ended December 31, 2013 and 2012, the net change in unrealized depreciation on the investments that use Level 3 inputs was \$29,324 and \$67,286 for assets still held as of December 31, 2013 and 2012, respectively.



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of December 31, 2013 were as follows:

| <b>Unobservable Input</b> |                     |                                    |                     |              |                         |
|---------------------------|---------------------|------------------------------------|---------------------|--------------|-------------------------|
| <b>Asset Category</b>     | <b>Fair Value</b>   | <b>Primary Valuation Technique</b> | <b>Input</b>        | <b>Range</b> | <b>Weighted Average</b> |
| Senior Secured            | \$ 1,779,254        | Yield Analysis                     | Market Yield        | 5.7%-22.7%   | 10.7%                   |
| Senior Secured            | 641,938             | EV Analysis                        | EBITDA Multiple     | 3.0x-9.6x    | 6.4x                    |
| Senior Secured            | 268,626             | Net Asset Value Analysis           | Capitalization Rate | 4.9%-10.1%   | 7.0%                    |
| Senior Secured            | 4,517               | Liquidation Analysis               | N/A                 | N/A          | N/A                     |
| Subordinated Secured      | 927,758             | Yield Analysis                     | Market Yield        | 8.1%-20.0%   | 11.7%                   |
| Subordinated Secured      | 52,448              | EV Analysis                        | EBITDA Multiple     | 4.7x-7.0x    | 5.9x                    |
| Subordinated Unsecured    | 100,000             | Yield Analysis                     | Market Yield        | 6.1%-15.2%   | 12.7%                   |
| CLO Debt                  | 33,466              | Discounted Cash Flow               | Discount Rate       | 4.0%-6.0%    | 4.9%                    |
| CLO Residual Interest     | 864,618             | Discounted Cash Flow               | Discount Rate       | 9.0%-24.0%   | 17.0%                   |
| Equity                    | 211,287             | EV Analysis                        | EBITDA Multiple     | 0.0x-9.6x    | 4.1x                    |
| Escrow                    | 1,942               | Discounted Cash Flow               | Discount Rate       | 6.8%-7.9%    | 7.4%                    |
| <b>Total</b>              | <b>\$ 4,885,854</b> |                                    |                     |              |                         |

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

| <b>Unobservable Input</b> |                     |                                    |                     |              |                         |
|---------------------------|---------------------|------------------------------------|---------------------|--------------|-------------------------|
| <b>Asset Category</b>     | <b>Fair Value</b>   | <b>Primary Valuation Technique</b> | <b>Input</b>        | <b>Range</b> | <b>Weighted Average</b> |
| Senior Secured            | \$ 1,616,485        | Yield Analysis                     | Market Yield        | 5.7%-20.8%   | 10.8%                   |
| Senior Secured            | 468,082             | EV Analysis                        | EBITDA Multiple     | 3.3x-8.8x    | 6.7x                    |
| Senior Secured            | 5,361               | Liquidation Analysis               | N/A                 | N/A          | N/A                     |
| Senior Secured            | 125,892             | Net Asset Value Analysis           | Capitalization Rate | 5.0%-10.0%   | 7.5%                    |
| Subordinated Secured      | 962,702             | Yield Analysis                     | Market Yield        | 7.7%-19.8%   | 11.6%                   |
| Subordinated Secured      | 62,199              | EV Analysis                        | EBITDA Multiple     | 3.3x-7.0x    | 4.4x                    |
| Subordinated Unsecured    | 69,127              | Yield Analysis                     | Market Yield        | 6.1%-14.6%   | 10.7%                   |
| Subordinated Unsecured    | 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%                   |
| CLO Residual Interest     | 658,086             | Discounted Cash Flow               | Discount Rate       | 11.3%-19.8%  | 15.3%                   |
| Equity                    | 151,855             | EV Analysis                        | EBITDA Multiple     | 0.1x-8.8x    | 3.9x                    |
| Escrow                    | 4,662               | Discounted Cash Flow               | Discount Rate       | 6.5%-7.0%    | 6.8%                    |
| <b>Total</b>              | <b>\$ 4,172,740</b> |                                    |                     |              |                         |

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

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





payment priorities, and discount them back using proper discount rates to the various cash flows along each simulation path.

The 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 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 enterprise value 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 enterprise value 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 enterprise value 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 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 six months ended December 31, 2013, the valuation methodology for Gulf Coast changed to incorporate an enterprise value analysis in place of the yield analysis used in previous periods. Management adopted the enterprise value 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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

\$12,414 as of December 31, 2013, a discount of \$31,036 to its amortized cost, compared to the \$9,241 unrealized depreciation recorded at June 30, 2013.

During the six months ended December 31, 2013, the valuation methodology for ICON Health & Fitness, Inc. ( ICON ) changed to incorporate weighted broker quotes in addition to the yield analysis and enterprise value analysis used in previous periods. Management considered weighted broker quotes because they are representative of sufficient liquidity to provide an indication of value. As a result of this change, and in recognition of recent company performance and current market conditions, we increased the fair value of our investment in ICON to \$38,790 as of December 31, 2013, a discount of \$4,493 to its amortized cost, compared to the \$9,381 unrealized depreciation recorded at 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 six months ended December 31, 2013, we provided

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

\$129,850 and \$25,614 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 ); and six to United Property Holdings Corp. ( UPHC ), two newly formed REIT holding companies which are discussed below. The investments transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

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

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

(1) These properties comprise the Gulf Coast Portfolio.

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

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

| No. | Property Name      | City                  | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|--------------------|-----------------------|------------------|----------------|----------------------|
| 1   | 146 Forest Parkway | Forest Park, GA       | 10/24/2012       | \$ 7,400       | \$ 22,497            |
| 2   | Bexley             | Marietta, GA          | 11/1/2013        | 30,600         | 53,863               |
| 3   | St. Marin(1)       | Coppell, TX           | 11/19/2013       | 73,078         | 36,148               |
| 4   | Mission Gate(1)    | Plano, TX             | 11/19/2013       | 47,621         | 26,640               |
| 5   | Vinings Corner(1)  | Smyrna, GA            | 11/19/2013       | 35,691         | 27,471               |
| 6   | Central Park(1)    | Altamonte Springs, FL | 11/19/2013       | 36,590         | 18,533               |
| 7   | City West(1)       | Orlando, FL           | 11/19/2013       | 23,562         |                      |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|   |                     |                  |            |        |         |        |         |
|---|---------------------|------------------|------------|--------|---------|--------|---------|
| 8 | Matthews Reserve(1) | Matthews, NC     | 11/19/2013 | 22,063 |         | 17,571 |         |
| 9 | Indigo              | Jacksonville, FL | 12/31/2013 | 38,000 |         | 28,500 |         |
|   |                     |                  |            | \$     | 314,605 | \$     | 231,223 |

---

(1) These properties comprise the Oxford Portfolio.

The 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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

| No. | Property Name        | City             | Acquisition<br>Date | Purchase<br>Price | Mortgage<br>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 December 31, 2013, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as cash distributions were received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the three and six months ended December 31, 2012, we received distributions of \$20,570 and \$53,820 from Energy Solutions which were recorded as dividend income, respectively. No such dividends were received during the three or six months ended December 31, 2013.

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

On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Freedom Marine 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 six months ended December 31, 2013.

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 December 31, 2013 and continues to provide staffing solutions for health care facilities and security staffing.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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 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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

During the six months ended December 31, 2013, we provided an additional \$7,600 of subordinated secured financing to AIRMALL. During the three and six months ended December 31, 2013, we received distributions of \$5,000 and \$12,000, respectively, from AIRMALL which were recorded as dividend income. No dividends were received from AIRMALL during the three and six months ended December 31, 2012.

During the six months ended December 31, 2013, 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.

During the three and six months ended December 31, 2013, we recognized \$160 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 six months ended December 31, 2013.

During the three and six months ended December 31, 2012, we recognized \$655 and \$939 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$655 recorded during the three months ended December 31, 2012 is \$285 of normal accretion and \$370 of accelerated accretion resulting from the repayment of Hudson Products Holdings, Inc. ( Hudson ). Included in the \$939 recorded during the six months ended December 31, 2012 is \$569 of normal accretion and \$370 of accelerated accretion resulting from the repayment of Hudson.

As of December 31, 2013, \$141 of purchase discount from the assets acquired from Patriot remains to be accreted as interest income, which is expected to be amortized during the three months ending March 31, 2014.

As of December 31, 2013, \$3,465,228 of our loans, at fair value, bear interest at floating rates and \$3,431,762 of those loans have Libor floors ranging from 1.25% to 6.00%.

At December 31, 2013, eight loan investments were on non-accrual status: 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 \$113,708 and \$106,395 as of December 31, 2013 and June 30, 2013, respectively. The fair value of these loans amounted to \$16,965 and \$13,810 as of December 31, 2013 and June 30, 2013, respectively. The fair values of these investments represent approximately 0.3% of our total assets as of December 31, 2013 and June 30, 2013. For the three months ended December 31, 2013 and December 31, 2012, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$5,086 and \$6,629, respectively. For the six months ended December 31, 2013 and December 31, 2012, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$10,656 and \$13,756, respectively.

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

### **Note 4. Revolving Credit Agreements**

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

On March 27, 2012, we closed on an expanded five-year \$650,000 revolving credit facility with a syndicate of lenders through PCF (the 2012 Facility ). The lenders have extended commitments of \$650,000 under the 2012 Facility as of December 31, 2013, which was increased to \$712,500 in January 2014 (see Note 17). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$1,000,000 in the aggregate after the 2012 Facility accordion feature was increased from \$650,000 in January 2014 (see Note 17). The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At December 31, 2013, we were in compliance with the applicable covenants.



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

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

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

#### **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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

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

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

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

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

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

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

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

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

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

#### **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 \$6,732 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of December 31, 2013.

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

#### **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.

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.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

| Tenor at Origination (in years) | Principal Amount  | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                 |
|---------------------------------|-------------------|---------------------|--------------------------------|-------------------------------------|
| 3                               | \$ 5,710          | 4.00%               | 4.00%                          | October 15, 2016                    |
| 3.5                             | 3,149             | 4.00%               | 4.00%                          | April 15, 2017                      |
| 4                               | 16,545            | 4.00%               | 4.00%                          | November 15, 2017 December 15, 2017 |
| 5                               | 125,580           | 4.75% 5.00%         | 4.99%                          | July 15, 2018 December 15, 2018     |
| 5.5                             | 3,820             | 5.00%               | 5.00%                          | February 15, 2019                   |
| 6.5                             | 1,800             | 5.50%               | 5.50%                          | February 15, 2020                   |
| 7                               | 229,220           | 4.00% 6.55%         | 5.40%                          | June 15, 2019 December 15, 2020     |
| 7.5                             | 1,996             | 5.75%               | 5.75%                          | February 15, 2021                   |
| 10                              | 18,102            | 3.24% 7.00%         | 6.55%                          | March 15, 2022 April 15, 2023       |
| 12                              | 2,978             | 6.00%               | 6.00%                          | November 15, 2025 December 15, 2025 |
| 15                              | 17,495            | 5.00% 6.00%         | 5.14%                          | May 15, 2028 November 15, 2028      |
| 18                              | 26,099            | 4.125% 6.25%        | 5.48%                          | December 15, 2030 August 15, 2031   |
| 20                              | 5,897             | 5.625% 6.00%        | 5.84%                          | November 15, 2032 October 15, 2033  |
| 25                              | 13,266            | 6.50%               | 6.50%                          | August 15, 2038 December 15, 2038   |
| 30                              | 129,250           | 5.50% 6.75%         | 6.22%                          | November 15, 2042 October 15, 2043  |
|                                 | <b>\$ 600,907</b> |                     |                                |                                     |

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





Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

**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® amounts and outstanding borrowings at December 31, 2013 and June 30, 2013:

|                              | As of December 31, 2013 |                     | As of June 30, 2013 |                     |
|------------------------------|-------------------------|---------------------|---------------------|---------------------|
|                              | Maximum Draw Amount     | Amount Outstanding  | Maximum Draw Amount | Amount Outstanding  |
| Revolving Credit Facility    | \$ 650,000              | \$                  | \$ 552,500          | \$ 124,000          |
| Senior Convertible Notes     | 847,500                 | 847,500             | 847,500             | 847,500             |
| Senior Unsecured Notes       | 347,814                 | 347,814             | 347,725             | 347,725             |
| Prospect Capital InterNotes® | 600,907                 | 600,907             | 363,777             | 363,777             |
| <b>Total</b>                 | <b>\$ 2,446,221</b>     | <b>\$ 1,796,221</b> | <b>\$ 2,111,502</b> | <b>\$ 1,683,002</b> |

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

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

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

|                                      | Total               | Payments Due by Period |                   |                   |                     |
|--------------------------------------|---------------------|------------------------|-------------------|-------------------|---------------------|
|                                      |                     | 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             |
| <b>Total Contractual Obligations</b> | <b>\$ 1,683,002</b> | <b>\$</b>              | <b>\$ 150,000</b> | <b>\$ 421,500</b> | <b>\$ 1,111,502</b> |



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

The fair values of our financial liabilities disclosed, but not carried, at fair value as of December 31, 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       | \$                   | \$                  | \$        | \$                  |
| Senior Convertible Notes(1)     |                      | 899,713             |           | 899,713             |
| Senior Unsecured Notes(1)       | 102,680              | 248,038             |           | 350,718             |
| Prospect Capital InterNotes®(2) |                      | 594,906             |           | 594,906             |
| <b>Total</b>                    | <b>\$ 102,680</b>    | <b>\$ 1,742,657</b> | <b>\$</b> | <b>\$ 1,845,337</b> |

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

(2) 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             |
| <b>Total</b>                    | <b>\$ 101,800</b>    | <b>\$ 1,588,278</b> | <b>\$</b> | <b>\$ 1,690,078</b> |

(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 52,618,409 and 74,915,013 shares of our common stock during the six months ended December 31, 2013 and December 31, 2012, 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 six months ended December 31, 2013: |                         |                |                   |                   |                        |
| 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 December 31, 2013(4)         | 16,753,918              | 189,237        | 1,893             | 436               | \$ 11.30               |
| During the six months ended December 31, 2012: |                         |                |                   |                   |                        |
| July 2, 2012 July 12, 2012(5)                  | 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(6)          | 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               |

- (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, and August 2, 2013, we issued 467,928, 897,906, 4,141,547 and 1,918,342 shares of our common stock, respectively, in conjunction with investments in CCPI, Credit Central, Valley Electric and CP Holdings 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 16,753,918 shares of our common stock at an average price of \$11.30 per share, raising \$189,237 of gross proceeds, from November 12, 2013 through December 31, 2013.
- (5) 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.
- (6) 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.

Our shareholders' equity accounts at December 31, 2013 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 December 31, 2013 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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

On 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.

During the six months ended December 31, 2013 and December 31, 2012, we issued 804,062 and 624,527 shares of our common stock, respectively, in connection with the dividend reinvestment plan.

At December 31, 2013, we have reserved 70,507,990 shares of our common stock for issuance upon conversion of the Senior Convertible Notes (see Note 5).

### Note 10. Other Investment Income

Other investment income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests, deal deposits, administrative agent fee, and other miscellaneous and sundry cash receipts. Income from such sources for the three and six months ended December 31, 2013 and December 31, 2012 were as follows:

| Income Source  | For The Three Months Ended<br>December 31, |           | For The Six Months Ended<br>December 31, |           |
|--|--|-----------|--|-----------|
|  | 2013                                       | 2012      | 2013                                     | 2012      |
| Structuring, advisory and amendment fees (Note 3)                | \$ 20,721                                  | \$ 15,697 | \$ 29,799                                | \$ 24,657 |
| Recovery of legal costs from prior periods from legal settlement |  |           | 5,000                                    |           |
| Overriding royalty interests                                     | 1,273                                      | 1,326     | 2,612                                    | 1,340     |
| Administrative agent fee   | 101  | 191       | 208                                      | 335       |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                         |           |           |           |           |
|-------------------------|-----------|-----------|-----------|-----------|
| Other Investment Income | \$ 22,095 | \$ 17,214 | \$ 37,619 | \$ 26,332 |
|-------------------------|-----------|-----------|-----------|-----------|

**Note 11. Net Increase in Net Assets per Common Share**

The following information sets forth the computation of net increase in net assets resulting from operations per common share for the three and six months ended December 31, 2013 and December 31, 2012, respectively.

|   |           |           |            |           |
|---|-----------|-----------|------------|-----------|
| Net increase in net assets resulting from operations                  | \$ 85,362 | \$ 46,489 | \$ 165,262 | \$ 93,738 |
| Net increase in net assets resulting from operations per common share | \$ 0.30   | \$ 0.24   | \$ 0.61    | \$ 0.52   |

**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 December 31, 2013 and December 31, 2012 were \$25,075 and \$16,306, respectively. The fees incurred for the six months ended December 31, 2013 and December 31, 2012 were \$48,120 and \$29,534, 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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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 December 31, 2013 and December 31, 2012, \$23,054 and \$24,804, respectively, of income incentive fees were incurred. For the six months ended December 31, 2013 and December 31, 2012, \$43,638 and \$43,311, respectively, were incurred. No capital gains incentive fees were incurred for the three or six months ended December 31, 2013 and December 31, 2012, 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 December 31, 2013 and 2012, the reimbursement was approximately \$3,986 and \$2,139, respectively. For the six months ended December 31, 2013 and 2012, the reimbursement was approximately \$7,972 and \$4,323, 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 December 31, 2013 and June 30, 2013, \$1,632 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 six months ended December 31, 2013, we received \$5,000 of legal cost reimbursement from a litigation settlement, which had been expensed in prior quarters, and 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. Subject to certain conditions, the transaction is currently contemplated to close in April 2014, although this timing could be earlier or later depending on the time required to obtain the requisite approvals.

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

**Note 15. Financial Highlights (Unaudited)**

|   | For The Three Months Ended<br>December 31, |              | For The Six Months Ended<br>December 31, |              |
|---|--|--------------|--|--------------|
|   | 2013                                       | 2012         | 2013                                     | 2012         |
| <b>Per Share Data(1):</b>                                       |  |              |  |              |
| Net asset value at beginning of period                          | \$ 10.72                                   | \$ 10.88     | \$ 10.72                                 | \$ 10.83     |
| Net investment income   | 0.32                                       | 0.51         | 0.64                                     | 0.97         |
| Net realized loss   | (0.02)                                     | (0.04)       | (0.01)                                   | (0.04)       |
| Net unrealized depreciation                                     |  | (0.23)       | (0.03)                                   | (0.41)       |
| Net increase in net assets as a result of public offerings      | 0.04                                       |              | 0.07                                     | 0.08         |
| Dividends declared and paid                                     | (0.33)                                     | (0.31)       | (0.66)                                   | (0.62)       |
| Net asset value at end of period                                | \$ 10.73                                   | \$ 10.81     | \$ 10.73                                 | \$ 10.81     |
| Per share market value at end of period                         | \$ 11.22                                   | \$ 10.87     | \$ 11.22                                 | \$ 10.87     |
| Total return based on market value(2)                           | 3.41%                                      | (2.99%)      | 10.12%                                   | 0.71%        |
| Total return based on net asset value(2)                        | 3.04%                                      | 2.14%        | 6.09%                                    | 5.33%        |
| Shares outstanding at end of period                             | 301,259,436                                | 215,173,410  | 301,259,436                              | 215,173,410  |
| Average weighted shares outstanding for period                  | 287,016,433                                | 195,585,502  | 272,550,293                              | 179,039,198  |
| <b>Ratio / Supplemental Data:</b>                               |  |              |  |              |
| Net assets at end of period                                     | \$ 3,231,099                               | \$ 2,326,635 | \$ 3,231,099                             | \$ 2,326,625 |
| Portfolio turnover rate   | 8.89%                                      | 17.79%       | 9.24%                                    | 19.52%       |
| Annualized ratio of operating expenses to average net assets    | 11.22%                                     | 12.06%       | 11.24%                                   | 11.97%       |
| Annualized ratio of net investment income to average net assets | 11.98%                                     | 19.49%       | 11.89%                                   | 18.40%       |

|   | Year Ended June 30, |              |              |            |            |
|---|---------------------|--------------|--------------|------------|------------|
|   | 2013                | 2012         | 2011         | 2010       | 2009       |
| <b>Per Share Data(1):</b>   |                     |              |              |            |            |
| 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(2)   | 6.24%               | 27.21%       | 17.22%       | 17.66%     | (18.60%)   |
| Total return based on net asset value(2)  | 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 |
| <b>Ratio / Supplemental Data:</b>   |                     |              |              |            |            |
| 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%      |
| 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).



(2) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

#### 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, 2010 | \$ 35,212         | \$ 0.47       | \$ 20,995             | \$ 0.28       | \$ 4,585                                   | \$ 0.06       | \$ 25,580                                  | \$ 0.34       |
| December 31, 2010  | 33,300            | 0.40          | 19,080                | 0.23          | 12,860                                     | 0.16          | 31,940                                     | 0.38          |
| March 31, 2011     | 44,573            | 0.51          | 23,956                | 0.27          | 9,803                                      | 0.11          | 33,759                                     | 0.38          |
| June 30, 2011      | 56,391            | 0.58          | 30,190                | 0.31          | (3,231)                                    | (0.03)        | 26,959                                     | 0.28          |
| 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          |

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

#### Note 17. Subsequent Events

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

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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

On January 7, 2014, we made a \$2,000 investment in NPH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in NPH.

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

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

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

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

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

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

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

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

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

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

**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 subsidiary unless the context specifically requires otherwise.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this 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 filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

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

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

We seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was \$4,886,020 and \$4,172,852 as of December 31, 2013 and June 30, 2013, respectively. During the six months ended December 31, 2013, our net cost of investments increased by \$720,576, or 16.9%, as a result of twenty-three new

investments, two revolver advances and several follow-on investments of \$1,154,655, accrued of payment-in-kind interest of \$9,845, structuring fees of \$15,533 and net amortization of discounts and premiums of \$23,133, while we received full repayments on twelve investments, sold eight investments and restructured one investment, for which we realized a net loss of \$5,373, received \$3,466 from the release of escrow amounts which was recognized as a capital gain, and received several partial prepayments, amortization payments and a revolver repayment totaling \$419,405.

Compared to the end of last fiscal year (ended June 30, 2013), net assets increased by \$574,605 or 21.6% during the six months ended December 31, 2013, from \$2,656,494 to \$3,231,099. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$583,565, dividend reinvestments of \$9,093, and another \$165,262 from operations. These increases, in turn, were offset by \$183,315 in dividend distributions to our stockholders. The \$165,262 increase in net assets resulting from operations is net of the following: net investment income of \$174,552, net realized loss on investments of \$1,882, and a decrease in net assets due to changes in net unrealized depreciation on investments of \$7,408.

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

## **Second Quarter Highlights**

### *Investment Transactions*

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

### *Proposed Investment Transactions*

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

If the arrangement is completed, each outstanding 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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

multiplying (x) the number of Common Shares of Nicholas Financial-Canada underlying such option by (y) \$16.00 exceeds (ii) the aggregate exercise price payable under such option. As of January 31, 2014, the last reported sales price for Prospect common stock was \$10.87.

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



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

#### *Equity Issuance*

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

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

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

#### *Dividend*

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

- \$0.110400 per share for April 2014 to holders of record on April 30, 2014 with a payment date of May 22, 2014;
- \$0.110425 per share for May 2014 to holders of record on May 30, 2014 with a payment date of June 19, 2014; and
- \$0.110450 per share for June 2014 to holders of record on June 30, 2014 with a payment date of July 24, 2014.

#### *Credit Facility*

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

*Debt Issuance*

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

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

## Investment Holdings

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

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

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

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

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

| Level of Control | December 31, 2013 |                      |              |                      | June 30, 2013 |                      |            |                      |
|------------------|-------------------|----------------------|--------------|----------------------|---------------|----------------------|------------|----------------------|
|                  | Cost              | Percent of Portfolio | Fair Value   | Percent of Portfolio | Cost          | Percent of Portfolio | Fair Value | Percent of Portfolio |
| Control          | \$ 1,236,286      | 24.8%                | \$ 1,163,300 | 23.8%                | \$ 830,151    | 19.5%                | \$ 811,634 | 19.5%                |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|                           |              |        |              |        |              |        |              |        |
|---------------------------|--------------|--------|--------------|--------|--------------|--------|--------------|--------|
| Affiliate                 | 49,278       | 1.0%   | 38,880       | 0.8%   | 49,189       | 1.2%   | 42,443       | 1.0%   |
| Non-control/Non-affiliate | 3,690,790    | 74.2%  | 3,683,840    | 75.4%  | 3,376,438    | 79.3%  | 3,318,775    | 79.5%  |
| Total Portfolio           | \$ 4,976,354 | 100.0% | \$ 4,886,020 | 100.0% | \$ 4,255,778 | 100.0% | \$ 4,172,852 | 100.0% |

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

| Type of Investment           | December 31, 2013   |                      |                     |                      | June 30, 2013       |                      |                     |                      |
|------------------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
|                              | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio |
| First Lien                   | \$ 2,759,566        | 58.5%                | \$ 2,694,335        | 57.7%                | \$ 2,271,565        | 55.3%                | \$ 2,215,820        | 55.2%                |
| Second Lien                  | 1,012,293           | 21.4%                | 980,206             | 21.0%                | 1,062,386           | 25.8%                | 1,024,901           | 25.5%                |
| Unsecured                    | 99,933              | 2.1%                 | 100,000             | 2.1%                 | 88,470              | 2.2%                 | 88,827              | 2.2%                 |
| CLO Residual Interest        | 821,653             | 17.4%                | 864,618             | 18.5%                | 660,619             | 16.0%                | 658,086             | 16.4%                |
| CLO Debt                     | 27,889              | 0.6%                 | 33,466              | 0.7%                 | 27,667              | 0.7%                 | 28,589              | 0.7%                 |
| <b>Total Debt Securities</b> | <b>\$ 4,721,334</b> | <b>100.0%</b>        | <b>\$ 4,672,625</b> | <b>100.0%</b>        | <b>\$ 4,110,707</b> | <b>100.0%</b>        | <b>\$ 4,016,223</b> | <b>100.0%</b>        |

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

| Geographic Location | December 31, 2013 |            |            |            | June 30, 2013 |            |            |            |
|---------------------|-------------------|------------|------------|------------|---------------|------------|------------|------------|
|                     | Cost              | Percent of | Fair Value | Percent of | Cost          | Percent of | Fair Value | Percent of |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

| Industry                                  | December 31, 2013   |                      |                     |                      | June 30, 2013       |                      |                     |                      |
|---|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
|   | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio |
| Aerospace and Defense                     | \$ 10,203           | 0.2%                 | \$ 10,203           | 0.2%                 | \$ 56               | 0.0%                 | \$                  | %                    |
| Automobile / Auto Finance                 | 23,349              | 0.5%                 | 23,472              | 0.5%                 | 23,214              | 0.6%                 | 22,917              | 0.5%                 |
| Biotechnology                             |                     | %                    | 15                  | 0.0%                 |                     | %                    | 14                  | 0.0%                 |
| Business Services                         | 207,918             | 4.2%                 | 207,918             | 4.3%                 | 180,793             | 4.2%                 | 179,544             | 4.3%                 |
| Chemicals                                 | 19,619              | 0.4%                 | 19,619              | 0.4%                 | 28,364              | 0.7%                 | 28,648              | 0.7%                 |
| Commercial Services                       | 239,307             | 4.8%                 | 239,307             | 4.9%                 | 252,073             | 5.9%                 | 252,073             | 6.0%                 |
| Construction and Engineering              | 55,228              | 1.1%                 | 38,941              | 0.8%                 | 53,615              | 1.3%                 | 53,615              | 1.3%                 |
| Consumer Finance                          | 417,505             | 8.4%                 | 427,617             | 8.8%                 | 413,332             | 9.7%                 | 406,964             | 9.8%                 |
| Consumer Services                         | 374,139             | 7.5%                 | 376,060             | 7.7%                 | 330,343             | 7.8%                 | 332,394             | 8.0%                 |
| Contracting                               | 3,831               | 0.1%                 |                     | %                    | 2,145               | 0.1%                 |                     | %                    |
| Diversified Financial Services            | 887,878             | 17.8%                | 936,420             | 19.2%                | 745,705             | 17.5%                | 742,434             | 17.8%                |
| Diversified / Conglomerate Service        |                     | %                    | 1,745               | 0.0%                 |                     | %                    | 143                 | 0.0%                 |
| Durable Consumer Products                 | 397,298             | 7.9%                 | 393,143             | 8.1%                 | 380,225             | 8.9%                 | 370,207             | 8.9%                 |
| Ecological                                |                     | %                    |                     | %                    | 141                 | 0.0%                 | 335                 | 0.0%                 |
| Electronics                               |                     | %                    |                     | %                    |                     | %                    | 149                 | 0.0%                 |
| Energy                                    | 78,492              | 1.6%                 | 69,776              | 1.4%                 | 63,895              | 1.5%                 | 56,321              | 1.3%                 |
| Food Products                             | 174,148             | 3.5%                 | 174,153             | 3.6%                 | 177,423             | 4.2%                 | 177,428             | 4.3%                 |
| Healthcare                                | 280,640             | 5.6%                 | 274,019             | 5.6%                 | 275,124             | 6.5%                 | 273,838             | 6.6%                 |
| Hotel, Restaurant & Leisure               | 99,178              | 2.0%                 | 99,400              | 2.0%                 | 11,764              | 0.3%                 | 12,000              | 0.3%                 |
| Machinery                                 | 396                 | 0.0%                 | 804                 | 0.0%                 | 396                 | 0.0%                 | 790                 | 0.0%                 |
| Manufacturing                             | 210,958             | 4.2%                 | 176,035             | 3.6%                 | 163,431             | 3.8%                 | 167,584             | 4.0%                 |
| Media                                     | 124,618             | 2.5%                 | 111,926             | 2.3%                 | 171,290             | 4.0%                 | 161,325             | 3.9%                 |
| Metal Services and Minerals               | 60,429              | 1.2%                 | 59,481              | 1.2%                 | 60,162              | 1.4%                 | 60,274              | 1.4%                 |
| Oil and Gas Production                    | 169,128             | 3.4%                 | 123,691             | 2.5%                 | 75,126              | 1.8%                 | 24,420              | 0.6%                 |
| Personal and Nondurable Consumer Products | 84,254              | 1.7%                 | 84,865              | 1.7%                 | 39,000              | 0.9%                 | 39,630              | 0.9%                 |
| Pharmaceuticals                           | 79,062              | 1.6%                 | 77,057              | 1.6%                 |                     | %                    |                     | %                    |
| Property Management                       | 57,499              | 1.2%                 | 49,467              | 1.0%                 | 51,170              | 1.2%                 | 54,648              | 1.3%                 |
| Real Estate                               | 322,708             | 6.5%                 | 322,708             | 6.6%                 | 152,540             | 3.6%                 | 152,540             | 3.7%                 |
| Retail                                    | 14,209              | 0.3%                 | 14,622              | 0.3%                 | 14,190              | 0.3%                 | 14,569              | 0.3%                 |
| Software & Computer Services              | 262,300             | 5.3%                 | 263,255             | 5.4%                 | 307,734             | 7.2%                 | 309,308             | 7.4%                 |
| Specialty Minerals                        | 38,500              | 0.8%                 | 40,488              | 0.8%                 | 38,500              | 0.9%                 | 42,558              | 1.0%                 |
| Telecommunications                        | 75,000              | 1.5%                 | 75,000              | 1.5%                 | 99,500              | 2.3%                 | 99,323              | 2.4%                 |
| Textiles, Apparel & Luxury Goods          | 115,649             | 2.3%                 | 104,111             | 2.1%                 | 16,760              | 0.4%                 | 9,385               | 0.2%                 |
| Transportation                            | 92,911              | 1.9%                 | 90,702              | 1.9%                 | 127,767             | 3.0%                 | 127,474             | 3.1%                 |
| <b>Total Portfolio</b>                    | <b>\$ 4,976,354</b> | <b>100.0%</b>        | <b>\$ 4,886,020</b> | <b>100.0%</b>        | <b>\$ 4,255,778</b> | <b>100.0%</b>        | <b>\$ 4,172,852</b> | <b>100.0%</b>        |

### Portfolio Investment Activity

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

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

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

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

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

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

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

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

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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

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

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

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

\$15,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.0% or Libor plus 9.5% and has a final maturity of June 23, 2014.

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

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

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

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

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

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

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.



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

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

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

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

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

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

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

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

In addition to the repayments noted above, during the six months ended December 31, 2013, we received principal amortization payments of \$16,582 on several loans, and \$14,105 of partial prepayments primarily related to Energy Solutions, Stauber Performance Ingredients, Inc., and Cinedigm DC Holdings, LLC.



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

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

**Investment Valuation**

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

In determining the range of value for debt instruments except CLOs, management and the independent valuation firms generally estimate corporate and security credit ratings and identify corresponding yields to maturity for each loan from

relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine ranges of value. For non-traded equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

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

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

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

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

*AIRMALL USA, Inc.*

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

### *APH Property Holdings, LLC*

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

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various real estate properties. During the six months ended December 31, 2013, we provided \$129,850 and \$25,614 of debt and equity financing, respectively, to APH for the acquisition of certain properties. In December 2013, APHC, a wholly-owned subsidiary of APH, distributed its investments in fourteen properties: eight to National Property Holdings Corp. ( NPHC ); and six to United Property Holdings Corp. ( UPHC ), two newly formed REIT holding companies which are discussed below. The investments transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

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

| No. | Property Name            | City               | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|--------------------------|--------------------|------------------|----------------|----------------------|
| 1   | Abbington 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               |



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

|    |                             |                 |            |        |         |        |         |
|----|-----------------------------|-----------------|------------|--------|---------|--------|---------|
| 10 | Plantations at Pine Lake(1) | Tallahassee, FL | 11/15/2013 | 18,000 |         | 11,817 |         |
| 11 | Cordova Regency(1)          | Pensacola, FL   | 11/15/2013 | 13,750 |         | 9,026  |         |
| 12 | Verandas at Rocky Ridge(1)  | Birmingham, AL  | 11/15/2013 | 15,600 |         | 10,205 |         |
|    |                             |                 |            | \$     | 494,950 | \$     | 332,098 |

---

(1) These properties comprise the Gulf Coast Portfolio.

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

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

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

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

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ( Gas Solutions ) for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Through December 31, 2013, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as cash distributions were received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the three and six months ended December 31, 2012, we received distributions of \$20,570 and \$53,820 from Energy Solutions which were recorded as dividend income, respectively. No such dividends were received during the three or six months ended December 31, 2013.

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

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

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

*First Tower Holdings of Delaware, LLC*

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

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

fee income. During the three months ended December 31, 2013, we funded an additional \$10,000 to again support seasonal demand. We received \$8,000 of structuring fees related to the renegotiation and expansion of First Tower's revolver with a third party which was recognized as other income during the six months ended December 31, 2013. As of October 31, 2013, First Tower had total assets of approximately \$630,325 including \$402,475 of finance receivables net of unearned charges. As of December 31, 2013, First Tower's total debt outstanding to parties senior to us was \$273,260.

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

#### *NPH Property Holdings, LLC*

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

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

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

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

(1) These properties comprise the Oxford Portfolio.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

### *The Healing Staff, Inc.*

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

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

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

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

*UPH Property Holdings, LLC*

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

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

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

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

(1) These properties comprise the Stonemark Portfolio.

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

*Valley Electric Holdings I, Inc.*

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

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

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

*Wolf Energy Holdings, Inc.*

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

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

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

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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments

in this category have not experienced a significant change in value, as they were previously valued at or near par value.

Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. Two of our Non-control/Non-affiliate investments, Stryker Energy, LLC ( Stryker ) and Wind River Resources Corporation ( Wind River ), are valued at a discount to amortized cost due to a decline in the operating results of the operating companies from those originally underwritten. Overall, at December 31, 2013, other non-control/non-affiliate investments are valued at \$40,511 above their amortized cost, excluding our investments in Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

## Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012 and December 2012, Senior Unsecured Notes, and Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® amounts and outstanding borrowings at December 31, 2013 and June 30, 2013:

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

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

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

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

*Revolving Credit Facility*

On March 27, 2012, we closed on an expanded five-year \$650,000 revolving credit facility with a syndicate of lenders through PCF (the 2012 Facility ). The lenders have extended commitments of \$650,000 under the 2012 Facility as of December 31, 2013, which was increased to \$712,500 in January 2014 (see *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$1,000,000 in the aggregate after the 2012 Facility accordion feature was increased from \$650,000 in January 2014 (see *Recent Developments*). The revolving

period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At December 31, 2013, we were in compliance with the applicable covenants.

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

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

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

#### *Senior Convertible Notes*

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

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

2012.

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

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

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

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

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

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

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

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

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

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

#### *Senior Unsecured Notes*

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

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

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

In connection with the issuance of the Senior Unsecured Notes, we incurred \$7,364 of fees which are being amortized over the term of the notes, of which \$6,732 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of December 31, 2013.

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



*Prospect Capital InterNotes®*

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

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

| Tenor at Origination (in years) | Principal Amount  | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range                 |
|---------------------------------|-------------------|---------------------|--------------------------------|-------------------------------------|
| 3                               | \$ 5,710          | 4.00%               | 4.00%                          | October 15, 2016                    |
| 3.5                             | 3,149             | 4.00%               | 4.00%                          | April 15, 2017                      |
| 4                               | 16,545            | 4.00%               | 4.00%                          | November 15, 2017 December 15, 2017 |
| 5                               | 125,580           | 4.75% 5.00%         | 4.99%                          | July 15, 2018 December 15, 2018     |
| 5.5                             | 3,820             | 5.00%               | 5.00%                          | February 15, 2019                   |
| 6.5                             | 1,800             | 5.50%               | 5.50%                          | February 15, 2020                   |
| 7                               | 229,220           | 4.00% 6.55%         | 5.40%                          | June 15, 2019 December 15, 2020     |
| 7.5                             | 1,996             | 5.75%               | 5.75%                          | February 15, 2021                   |
| 10                              | 18,102            | 3.24% 7.00%         | 6.55%                          | March 15, 2022 April 15, 2023       |
| 12                              | 2,978             | 6.00%               | 6.00%                          | November 15, 2025 December 15, 2025 |
| 15                              | 17,495            | 5.00% 6.00%         | 5.14%                          | May 15, 2028 November 15, 2028      |
| 18                              | 26,099            | 4.125% 6.25%        | 5.48%                          | December 15, 2030 August 15, 2031   |
| 20                              | 5,897             | 5.625% 6.00%        | 5.84%                          | November 15, 2032 October 15, 2033  |
| 25                              | 13,266            | 6.50%               | 6.50%                          | August 15, 2038 December 15, 2038   |
| 30                              | 129,250           | 5.50% 6.75%         | 6.22%                          | November 15, 2042 October 15, 2043  |
|                                 | <b>\$ 600,907</b> |                     |                                |                                     |

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



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

#### Net Asset Value

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

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

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

#### Results of Operations

Net increase in net assets resulting from operations for the three months ended December 31, 2013 and December 31, 2012 was \$85,362 and \$46,489, respectively, representing \$0.30 and \$0.24 per weighted average share, respectively. The increase is primarily due to a \$45,874, or \$0.25 per weighted average share, favorable decrease in our net realized losses and net change in unrealized depreciation on investments. (See *Net Realized Losses* and *Increase in Net Assets from Changes in Unrealized Depreciation*.) The favorable decrease in realized losses and unrealized depreciation is partially offset by a \$7,001, or \$0.19 per weighted average share, decline in net investment income primarily due to a decrease in dividend income from our investments in Energy Solutions and R-V, a decrease in the average rate of interest earned on investments, and an increase in interest expense due to additional debt financing.

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

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

portfolio company.

### **Investment Income**

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

and structuring fees, was \$178,090 and \$166,035 for the three months ended December 31, 2013 and December 31, 2012, respectively. Investment income was \$339,124 and \$289,671 for the six months ended December 31, 2013 and December 31, 2012, respectively. During the three and six months ended December 31, 2013, the increase in investment income is primarily the result of a larger income producing portfolio.

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

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

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

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

Dividend income decreased from \$68,163 for the six months ended December 31, 2012 to \$15,981 for the six months ended December 31, 2013. The decrease in dividend income is primarily attributed to a \$53,820 decrease in the level of dividends received from our investment in Energy Solutions. As described above, the sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, we received dividends from Energy Solutions of \$53,820 during the six months ended December 31, 2012. No such dividends were received during the six months ended December 31, 2013 related to our

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

investment in Energy Solutions. The decrease in dividend income is also attributed to a \$10,195 decrease in the level of dividends received from our investment in R-V. We received dividends from R-V of \$952 and \$11,147 during the six months ended December 31, 2013 and December 31, 2012, respectively. The \$11,147 of dividends received from R-V during the six months ended December 31, 2012 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The decrease in dividend

income is further attributed to a \$2,945 decrease in dividends received from our investment in AGC. We received dividends of \$2,945 from AGC during the six months ended December 31, 2012. No such dividends were received during the six months ended December 31, 2013 related to our investment in AGC. The decrease in dividend income was partially offset by dividends of \$12,000 and \$3,000 received from our investments in AIRMALL and Credit Central, respectively, during the six months ended December 31, 2013. No dividends were received from AIRMALL or Credit Central during the six months ended December 31, 2012.

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

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

## Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate Prospect Capital Management (the Investment Adviser) for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$85,875 and \$66,819 for the three months ended December 31, 2013 and December 31, 2012, respectively, or approximately \$0.30 and \$0.34 per weighted average share outstanding, respectively. Operating expenses were \$164,572 and \$116,428 for the six months ended December 31, 2013 and December 31, 2012, respectively, or approximately \$0.60 and \$0.65 per weighted average share outstanding, respectively.

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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

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

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

**Net Investment Income**

Net investment income represents the difference between investment income and operating expenses. Our net investment income was \$92,215 and \$99,216 for the three months ended December 31, 2013 and December 31, 2012, respectively, or \$0.32 per weighted average share and \$0.51 per weighted average share, respectively. The \$7,001 decrease in net

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

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

#### **Net Realized Losses**

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

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

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

Net decrease in net assets from changes in unrealized depreciation was \$1,182 and \$44,604 for the three months ended December 31, 2013 and December 31, 2012, respectively. The variability in results is primarily due to the valuation of equity positions in our portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the three months ended December 31, 2013, the

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

\$1,182 net change in unrealized depreciation was driven by significant write-downs of our equity investments in AIRMALL, Ajax, Gulf Coast and Valley Electric. These instances of unrealized depreciation were partially offset by unrealized appreciation related to NBS and our CLO equity investments. During the three months ended December 31, 2013, we sold our debt investment in NBS at a discount and realized a loss of \$7,853, reducing the amount previously recorded unrealized depreciation. Included within the change in net unrealized appreciation of \$1,182 for the three months ended December 31, 2013 is \$7,751 of unrealized appreciation resulting from the sale of NBS.

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

### **Financial Condition, Liquidity and Capital Resources**

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

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

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

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

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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 December 31, 2013, we sold 16,753,918 shares of our common stock at an average price of \$11.30 per share, and raised \$189,237 of gross proceeds, under the ATM Program. Net proceeds were \$186,908 after commissions to the broker-dealer on shares sold

and offering costs. See *Recent Developments* for issuances under the ATM Program subsequent to December 31, 2013.

### **Off-Balance Sheet Arrangements**

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

### **Recent Developments**

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

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

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

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

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

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

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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

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

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

## **Critical Accounting Policies and Estimates**

### *Basis of Presentation*

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

### *Reclassifications*

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

### *Use of Estimates*

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

### *Basis of Consolidation*

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

### *Investment Classification*

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

### *Investment Risks*

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

### *Market Risk*

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

*Credit Risk*

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

*Liquidity Risk*

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

*Interest Rate Risk*

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

*Prepayment Risk*

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

*Investment Valuation*

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

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.

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

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

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

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

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

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

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

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

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

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

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

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

#### *Senior Convertible Notes*

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

#### *Revenue Recognition*

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

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

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

Dividend income is recorded on the ex-dividend date.

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

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

#### *Federal and State Income Taxes*

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

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

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



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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

December 31, 2013 and for the three and six months then ended, we did not have a liability for any unrecognized tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2009 remain subject to examination by the Internal Revenue Service.

#### *Dividends and Distributions*

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

#### *Financing Costs*

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

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

#### *Guarantees and Indemnification Agreements*

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

#### *Per Share Information*

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

*Recent Accounting Pronouncements*

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

**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 December 31, 2013, 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 December 31, 2013 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 December 31, 2013.

**Item 1A. Risk Factors**

There have been no material changes to our risk factors as previously disclosed in our most recent 10-K filing.

**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 Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(1)
- 4.2 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(2)
- 4.3 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(3)
- 4.4 One Hundred Sixty-First Supplemental Indenture dated as of September 26, 2013, 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(4)
- 4.5 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.4)(4)
- 4.6 One Hundred Sixty-Second Supplemental Indenture dated as of September 26, 2013, 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(4)

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

- 4.7 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.6)(4)
- 4.8 One Hundred Sixty-Third Supplemental Indenture dated as of September 26, 2013, 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(4)
- 4.9 Form of 6.000% Prospect Capital InterNote® due 2033 (included as part of Exhibit 4.8)(4)
- 4.10 One Hundred Sixty-Fourth Supplemental Indenture dated as of September 26, 2013, 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(4)
- 4.11 Form of 6.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 4.10)(4)
- 4.12 One Hundred Sixty-Fifth Supplemental Indenture dated as of October 3, 2013, 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(5)
- 4.13 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.12)(5)
- 4.14 One Hundred Sixty-Sixth Supplemental Indenture dated as of October 3, 2013, 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(5)
- 4.15 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.14)(5)
- 4.16 One Hundred Sixty-Seventh Supplemental Indenture dated as of October 3, 2013, 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(5)
- 4.17 Form of 6.000% Prospect Capital InterNote® due 2033 (included as part of Exhibit 4.16)(5)
- 4.18 One Hundred Sixty-Eighth Supplemental Indenture dated as of October 3, 2013, 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(5)
- 4.19 Form of 6.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 4.18)(5)
- 4.20 One Hundred Sixty-Ninth Supplemental Indenture dated as of October 10, 2013, 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)
- 4.21 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.20)(6)
- 4.22 One Hundred Seventieth Supplemental Indenture dated as of October 10, 2013, 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)
- 4.23 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.22)(6)





## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

- 4.24 One Hundred Seventy-First Supplemental Indenture dated as of October 10, 2013, 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)
- 4.25 Form of 6.000% Prospect Capital InterNote® due 2033 (included as part of Exhibit 4.24)(6)
- 4.26 One Hundred Seventy-Second Supplemental Indenture dated as of October 10, 2013, 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)
- 4.27 Form of 6.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 4.26)(6)
- 4.28 One Hundred Seventy-Third Supplemental Indenture dated as of October 18, 2013, 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)
- 4.29 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.28)(7)
- 4.30 One Hundred Seventy-Fourth Supplemental Indenture dated as of October 18, 2013, 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)
- 4.31 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.30)(7)
- 4.32 One Hundred Seventy-Fifth Supplemental Indenture dated as of October 18, 2013, 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)
- 4.33 Form of 6.000% Prospect Capital InterNote® due 2033 (included as part of Exhibit 4.32)(7)
- 4.34 One Hundred Seventy-Sixth Supplemental Indenture dated as of October 18, 2013, 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)
- 4.35 Form of 6.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 4.34)(7)
- 4.36 One Hundred Seventy-Seventh Supplemental Indenture dated as of October 24, 2013, 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)
- 4.37 Form of 4.000% Prospect Capital InterNote® due 2016 (included as part of Exhibit 4.36)(8)
- 4.38 One Hundred Seventy-Eighth Supplemental Indenture dated as of October 24, 2013, 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)
- 4.39 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.38)(8)

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

- 4.40 One Hundred Seventy-Ninth Supplemental Indenture dated as of October 24, 2013, 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)
- 4.41 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.40)(8)
- 4.42 One Hundred Eightieth Supplemental Indenture dated as of October 24, 2013, 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)
- 4.43 Form of 6.000% Prospect Capital InterNote® due 2033 (included as part of Exhibit 4.42)(8)
- 4.44 One Hundred Eighty-First Supplemental Indenture dated as of October 24, 2013, 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)
- 4.45 Form of 6.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 4.44)(8)
- 4.46 One Hundred Eighty-Second Supplemental Indenture dated as of October 31, 2013, 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)
- 4.47 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit 4.46)(9)
- 4.48 One Hundred Eighty-Third Supplemental Indenture dated as of October 31, 2013, 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)
- 4.49 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.48)(9)
- 4.50 One Hundred Eighty-Fourth Supplemental Indenture dated as of October 31, 2013, 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)
- 4.51 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.50)(9)
- 4.52 One Hundred Eighty-Fifth Supplemental Indenture dated as of October 31, 2013, 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)
- 4.53 Form of 6.000% Prospect Capital InterNote® due 2028 (included as part of Exhibit 4.52)(9)
- 4.54 One Hundred Eighty-Sixth Supplemental Indenture dated as of October 31, 2013, 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)
- 4.55 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.54)(9)

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

- 4.56 One Hundred Eighty-Seventh Supplemental Indenture dated as of November 7, 2013, 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)
- 4.57 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit 4.56)(10)
- 4.58 One Hundred Eighty-Eighth Supplemental Indenture dated as of November 7, 2013, 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)
- 4.59 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.58)(10)
- 4.60 One Hundred Eighty-Ninth Supplemental Indenture dated as of November 7, 2013, 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)
- 4.61 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.60)(10)
- 4.62 One Hundred Ninetieth Supplemental Indenture dated as of November 7, 2013, 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)
- 4.63 Form of 6.000% Prospect Capital InterNote® due 2028 (included as part of Exhibit 4.62)(10)
- 4.64 One Hundred Ninety-First Supplemental Indenture dated as of November 7, 2013, 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)
- 4.65 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.64)(10)
- 4.66 One Hundred Ninety-Second Supplemental Indenture dated as of November 15, 2013, 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)
- 4.67 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit (4.66)(11)
- 4.68 One Hundred Ninety-Third Supplemental Indenture dated as of November 15, 2013, 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)
- 4.69 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.68)(11)
- 4.70 One Hundred Ninety-Fourth Supplemental Indenture dated as of November 15, 2013, 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)
- 4.71 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.70)(11)

- 4.72 One Hundred Ninety-Fifth Supplemental Indenture dated as of November 15, 2013, 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)
- 4.73 Form of 6.000% Prospect Capital InterNote® due 2028 (included as part of Exhibit 4.72)(11)
- 4.74 One Hundred Ninety-Sixth Supplemental Indenture dated as of November 15, 2013, 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)
- 4.75 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.74)(11)
- 4.76 One Hundred Ninety-Seventh Supplemental Indenture dated as of November 21, 2013, 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)
- 4.77 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit 4.76)(12)
- 4.78 One Hundred Ninety-Eighth Supplemental Indenture dated as of November 21, 2013, 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)
- 4.79 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.78)(12)
- 4.80 One Hundred Ninety-Ninth Supplemental Indenture dated as of November 21, 2013, 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)
- 4.81 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.80)(12)
- 4.82 Two Hundredth Supplemental Indenture dated as of November 21, 2013, 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)
- 4.83 Form of 6.000% Prospect Capital InterNote® due 2028 (included as part of Exhibit 4.82)(12)
- 4.84 Two Hundred First Supplemental Indenture dated as of November 21, 2013, 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)
- 4.85 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.84)(12)
- 4.86 Two Hundred Second Supplemental Indenture dated as of November 29, 2013, 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)
- 4.87 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit 4.86)(13)

## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

- 4.88 Two Hundred Third Supplemental Indenture dated as of November 29, 2013, 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)
- 4.89 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.88)(13)
- 4.90 Two Hundred Fourth Supplemental Indenture dated as of November 29, 2013, 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)
- 4.91 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.90)(13)
- 4.92 Two Hundred Fifth Supplemental Indenture dated as of November 29, 2013, 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)
- 4.93 Form of 6.000% Prospect Capital InterNote® due 2025 (included as part of Exhibit 4.92)(13)
- 4.94 Two Hundred Sixth Supplemental Indenture dated as of November 29, 2013, 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)
- 4.95 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.94)(13)
- 4.96 Two Hundred Seventh Supplemental Indenture dated as of December 5, 2013, 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(14)
- 4.97 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit 4.96)(14)
- 4.98 Two Hundred Eighth Supplemental Indenture dated as of December 5, 2013, 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(14)
- 4.99 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.98)(14)
- 4.100 Two Hundred Ninth Supplemental Indenture dated as of December 5, 2013, 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(14)
- 4.101 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.100)(14)
- 4.102 Two Hundred Tenth Supplemental Indenture dated as of December 5, 2013, 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(14)
- 4.103 Form of 6.000% Prospect Capital InterNote® due 2025 (included as part of Exhibit 4.102)(14)
- 4.104 Two Hundred Eleventh Supplemental Indenture dated as of December 5, 2013, 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,



## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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)

- 4.105 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.104)(14)
- 4.106 Two Hundred Twelfth Supplemental Indenture dated as of December 12, 2013, 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(15)
- 4.107 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit 4.106)(15)
- 4.108 Two Hundred Thirteenth Supplemental Indenture dated as of December 12, 2013, 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(15)
- 4.109 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.108)(15)
- 4.110 Two Hundred Fourteenth Supplemental Indenture dated as of December 12, 2013, 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(15)
- 4.111 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.110)(15)
- 4.112 Two Hundred Fifteenth Supplemental Indenture dated as of December 12, 2013, 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(15)
- 4.113 Form of 6.000% Prospect Capital InterNote® due 2025 (included as part of Exhibit 4.112)(15)
- 4.114 Two Hundred Sixteenth Supplemental Indenture dated as of December 12, 2013, 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(15)
- 4.115 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.114)(15)
- 4.116 Two Hundred Seventeenth Supplemental Indenture dated as of December 19, 2013, 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(16)
- 4.117 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit 4.116)(16)
- 4.118 Two Hundred Eighteenth Supplemental Indenture dated as of December 19, 2013, 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(16)
- 4.119 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.118)(16)
- 4.120 Two Hundred Nineteenth Supplemental Indenture dated as of December 19, 2013, 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(16)





## Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

- 4.121 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.120)(6)
- 4.122 Two Hundred Twentieth Supplemental Indenture dated as of December 19, 2013, 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(16)
- 4.123 Form of 6.000% Prospect Capital InterNote® due 2025 (included as part of Exhibit 4.122)(16)
- 4.124 Two Hundred Twenty-First Supplemental Indenture dated as of December 19, 2013, 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(16)
- 4.125 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.124)(16)
- 4.126 Two Hundred Twenty-Second Supplemental Indenture dated as of December 27, 2013, 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(17)
- 4.127 Form of 4.000% Prospect Capital InterNote® due 2017 (included as part of Exhibit 4.126)(17)
- 4.128 Two Hundred Twenty-Third Supplemental Indenture dated as of December 27, 2013, 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(17)
- 4.129 Form of 5.000% Prospect Capital InterNote® due 2018 (included as part of Exhibit 4.128)(17)
- 4.130 Two Hundred Twenty-Fourth Supplemental Indenture dated as of December 27, 2013, 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(17)
- 4.131 Form of 5.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 4.130)(17)
- 4.132 Two Hundred Twenty-Fifth Supplemental Indenture dated as of December 27, 2013, 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(17)
- 4.133 Form of 6.000% Prospect Capital InterNote® due 2025 (included as part of Exhibit 4.132)(17)
- 4.134 Two Hundred Twenty-Sixth Supplemental Indenture dated as of December 27, 2013, 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(17)
- 4.135 Form of 6.500% Prospect Capital InterNote® due 2038 (included as part of Exhibit 4.134)(17)
- 4.136 Custody Agreement, dated as of October 28, 2013, by and between the Registrant and Fifth Third Bank(18)
- 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 Post-Effective Amendment No. 1 to the Registrant's Registration Statement, filed on March 1, 2012.
- (2) Incorporated by reference from Post-Effective Amendment No. 2 to the Registrant's Registration Statement, filed on March 8, 2012.
- (3) Incorporated by reference from Post-Effective Amendment No. 3 to the Registrant's Registration Statement, filed on March 14, 2012.
- (4) Incorporated by reference from Post-Effective Amendment No. 48 to the Registrant's Registration Statement, filed on September 26, 2013.
- (5) Incorporated by reference from Post-Effective Amendment No. 49 to the Registrant's Registration Statement, filed on October 3, 2013.
- (6) Incorporated by reference from Post-Effective Amendment No. 50 to the Registrant's Registration Statement, filed on October 10, 2013.
- (7) Incorporated by reference from Post-Effective Amendment No. 51 to the Registrant's Registration Statement, filed on October 18, 2013.
- (8) Incorporated by reference from Post-Effective Amendment No. 3 to the Registrant's Registration Statement, filed on October 24, 2013.
- (9) Incorporated by reference from Post-Effective Amendment No. 4 to the Registrant's Registration Statement, filed on October 31, 2013.
- (10) Incorporated by reference from Post-Effective Amendment No. 6 to the Registrant's Registration Statement, filed on November 7, 2013.
- (11) Incorporated by reference from Post-Effective Amendment No. 7 to the Registrant's Registration Statement, filed on November 15, 2013.
- (12) Incorporated by reference from Post-Effective Amendment No. 8 to the Registrant's Registration Statement, filed on November 21, 2013.
- (13) Incorporated by reference from Post-Effective Amendment No. 9 to the Registrant's Registration Statement, filed on November 29, 2013.
- (14) Incorporated by reference from Post-Effective Amendment No. 10 to the Registrant's Registration Statement, filed on December 5, 2013.
- (15) Incorporated by reference from Post-Effective Amendment No. 11 to the Registrant's Registration Statement, filed on December 12, 2013.
- (16) Incorporated by reference from Post-Effective Amendment No. 12 to the Registrant's Registration Statement, filed on December 19, 2013.
- (17) Incorporated by reference from Post-Effective Amendment No. 13 to the Registrant's Registration Statement, filed on December 27, 2013.
- (18) Incorporated by referenced from Post-Effective Amendment No. 15 to the Registrant's Registration Statement, filed on January 9, 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 February 3, 2014.

**PROSPECT CAPITAL CORPORATION**

**By:**

*/s/ John F. Barry III*

John F. Barry III

Chief Executive Officer and Chairman of the Board