

PROSPECT CAPITAL CORP
Form 497
July 10, 2012

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The information in this preliminary prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Filed pursuant to Rule 497
File No. 333-176637**

Subject to Completion, dated July 10, 2012

**PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated October 21, 2011)**

21,000,000 Shares

Prospect Capital Corporation

Common Stock

This is an offering of 21,000,000 shares of the common stock of Prospect Capital Corporation. Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

Our common stock is traded on the NASDAQ Global Select Market under the symbol "PSEC." The last reported closing sales price for our common stock on July 9, 2012 was \$11.82 per share and our most recently determined net asset value per share was \$10.82 as of March 31, 2012 (\$10.58 on an as adjusted basis solely to give effect to our distribution with record dates of April 30, 2012, May 31, 2012 and June 29, 2012, our issuance of common stock on April 20, 2012, May 24, 2012 and June 22, 2012 in connection with our dividend reinvestment plan, the issuance of 14,518,207 shares of common stock issued in conjunction with the acquisition of First Tower and our sale of 5,199,764 shares of common stock during the period from June 7, 2012 through July 9, 2012 (with settlement dates of June 12, 2012 through July 12, 2012)).

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-9 of this prospectus supplement and on page 10 of the accompanying prospectus.

	Per Share	Total
Price to the public	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to Prospect Capital Corporation (before expenses)	\$	\$

The underwriter has an option for a period of 30 days from the date of this prospectus supplement to purchase up to an aggregate of 3,150,000 additional shares of our common stock at \$ _____ per share.

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

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

Barclays

Prospectus Supplement dated July , 2012

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FORWARD-LOOKING STATEMENTS

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

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

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

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

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

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

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

This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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PROSPECTUS SUMMARY

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

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

The Company

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. 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.

Typically, we concentrate on making investments in companies with annual revenues of less than \$500 million and enterprise values of less than \$250 million. Our typical investment involves a secured loan of less than \$50 million with some form of equity participation. From time to time, we acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as "target" or "middle market" companies and these investments as "middle market investments."

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. Many of our investments to date have been in energy-related industries. We have made no investments to date in the real estate or mortgage industries, and we do not intend currently to focus on such investments.

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of March 31, 2012, we held investments in 78 portfolio companies. The aggregate fair value as of March 31, 2012 of investments in these portfolio companies held on that date is approximately \$1.692 billion. Our portfolio across all our long-term debt had an annualized current yield of 12.6% as of March 31, 2012. The yield includes interest as well as dividends.

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Recent Developments

Dividends

On May 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101525 per share for May 2012 to holders of record on May 31, 2012 with a payment date of June 22, 2012;

\$0.101550 per share for June 2012 to holders of record on June 29, 2012 with a payment date of July 24, 2012;

\$0.101575 per share for July 2012 to holders of record on July 31, 2012 with a payment date of August 24, 2012; and

\$0.101600 per share for August 2012 to holders of record on August 31, 2012 with a payment date of September 21, 2012.

Recent Investment Activity

On April 2, 2012 we made an investment of \$22 million to purchase 51.2% of the subordinated notes in Galaxy XII CLO, Ltd.

On April 16, 2012, we made a senior secured debt investment of \$15 million to support the acquisition of Nixon, Inc., a designer and distributor of watches and accessories.

On April 20, 2012 we made an investment of \$43.195 million to purchase 71.1% of the subordinated notes in Symphony CLO IX, Ltd.

On May 8, 2012, SonicWALL, Inc. repaid the \$23 million loan receivable to us.

On May 17, 2012, we made an investment of \$50 million in Plato Learning, Inc., providers of educational software which deliver online curriculum and assessments to the U.S. educational market.

On May 21, 2012, we made a follow-on investment of \$10.5 million in Stauber Performance Ingredients, Inc.

On May 31, 2012, The Copernicus Group, Inc. repaid the remaining \$17.6 million loan receivable to us and we received \$2.6 million for our preferred stock positions, resulting in a realized gain of \$2.3 million.

On June 1, 2012, we made a senior secured second lien investment of \$17.5 million in an installment lender.

On June 1, 2012, we sold our membership interests in C&J Cladding for \$4.0 million, recognizing a realized gain of \$3.4 million on the sale, and received an advisory fee of \$1.5 million.

On June 14, 2012, we made an investment of \$18.7 million to purchase 52.7% of the subordinated notes in Apidos CLO IX.

On June 15, 2012, we exited our investment in Nupla Corporation for a sales price of \$6.85 million. After payment of expenses, including accumulated managerial assistance of \$450,000 paid to our Administrator and a \$1.5 million structuring fee paid to us, the proceeds were applied to repayment of the loans receivable to us, resulting in a realized gain of \$2.9 million, as this loan was acquired in the Patriot Capital acquisition at a discount to the par amount outstanding.

On June 22, 2012, we made an investment of \$25.8 million to purchase 51.0% of the subordinated notes in Madison Park Funding IX, Ltd.

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On June 29, 2012, Sport Helmets Holdings, LLC repaid the \$17.6 million loan receivable to us. We recognized \$2.6 million of accelerated purchase discount accretion in the quarter ended June 30, 2012.

On July 5, 2012, we made a senior secured debt investment of \$28.0 million to support the acquisition of a provider of forklift and other material handling equipment fleet services.

Credit Facility

On April 4, 2012, April 17, 2012, June 8, 2012 and June 13, 2012 we closed increases to our commitments to our credit facility of \$15 million, \$57.5 million, \$5 million and \$5 million respectively. The commitments to the credit facility now stand at \$492.5 million.

Debt Issuance

Since March 31, 2012, we issued approximately \$23.62 million in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of approximately \$23.16 million.

On April 16, 2012, we issued \$130 million in aggregate principal amount of 5.375% senior convertible notes due 2017 (the "2017 Notes") for net proceeds following underwriting expenses of approximately \$126 million. Other than the coupon and maturity date, the 2017 Notes have terms that are substantially similar to the terms of our 5.50% senior convertible notes due 2016 (the "2016 Notes") (See "Management's Discussion and Analysis of Financial Condition and Results of Operations Senior Convertible Notes")

On May 1, 2012, we issued \$100 million in aggregate principal amount of 6.95% senior unsecured notes due 2022 for net proceeds net of offering expenses of approximately \$96.8 million (the "2022 Notes").

Stock Issuance in Connection with Dividend Reinvestment Plan

On April 20, 2012, May 24, 2012 and June 22, 2012, we issued 85,063, 81,773 and 72,407 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

ATM Offering

On June 1, 2012, we and KeyBanc Capital Markets Inc. entered into an equity distribution agreement relating to sales by us through KeyBanc Capital Markets, by means of at-the-market offerings from time to time, of up to 9,500,000 shares of our common stock (the "ATM Program"). During the period from June 7, 2012 to July 9, 2012, we sold 5,199,764 shares of our common stock at an average price of \$11.38 per share, and raised \$59.2 million of gross proceeds, under the ATM Program. Net proceeds were \$58.6 million after commissions to the broker-dealer on shares sold.

First Tower Acquisition

On June 15, 2012, we completed the acquisition of the businesses of First Tower Corp. ("First Tower"). We acquired 80.1% of First Tower's businesses for \$110.2 million in cash and 14,518,207 million unregistered shares of our common stock.

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The Offering

Common stock offered by us, excluding the underwriter's option to purchase additional shares	21,000,000 shares.
Common stock outstanding prior to this offering	141,881,145 shares.
Common stock outstanding after this offering, excluding the underwriter's option to purchase additional shares	162,881,145 shares.
Use of proceeds	We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See "Use of Proceeds" in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current distribution rate	On May 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates: <p style="margin-left: 40px;">\$0.101525 per share for May 2012 to holders of record on May 31, 2012 with a payment date of June 22, 2012;</p> <p style="margin-left: 40px;">\$0.101550 per share for June 2012 to holders of record on June 29, 2012 with a payment date of July 24, 2012;</p> <p style="margin-left: 40px;">\$0.101575 per share for July 2012 to holders of record on July 31, 2012 with a payment date of August 24, 2012; and</p> <p style="margin-left: 40px;">\$0.101600 per share for August 2012 to holders of record on August 31, 2012 with a payment date of September 21, 2012, representing an annualized yield (based on the June 2012 distribution) of approximately 10.31% based on our July 9, 2012 closing stock price of \$11.82 per share. Such distributions are expected to be payable out of earnings. Our distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.</p>

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The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$1.069 billion. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)(1)	%
Offering expenses borne by us (as a percentage of offering price)(2)	%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Management Fees(5)	3.70%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	3.09%
Interest payments on the credit facility	1.12%
Interest payments on the 2015 Notes(7)	0.71%
Interest payments on the 2016 Notes(8)	0.70%
Interest payments on the 2017 Notes(9)	0.53%
Interest payments on the 2022 Notes(10)	0.53%
Interest payments on the Prospect Capital InterNotes®(11)	0.14%
Acquired Fund Fees and Expenses(12)	0.01%
Other expenses(13)	1.82%
Total annual expenses(6)(13)	12.35%

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed \$1.069 billion and that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

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

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

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

- (1) The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one time fee, is the only sales load paid in connection with this offering.
- (2) The offering expenses of this offering are estimated to be approximately \$300,000.
- (3) The expenses of the dividend reinvestment plan are included in "other expenses."
- (4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at March 31, 2012. See "Capitalization" in this prospectus supplement.
- (5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed \$492.5 million, the 2% management fee of gross assets equals approximately 3.70% of net assets. See "Business Management Services Investment Advisory Agreement" in the accompanying prospectus and footnote 6 below.
- (6) Based on an annualized level of incentive fee paid during our third fiscal quarter ended March 31, 2012, all of which consisted of an income incentive fee. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services Investment Advisory Agreement" in the accompanying prospectus.
- (7) On December 21, 2010, the Company issued \$150 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the 2015 Notes. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2015 Notes.
- (8) On February 18, 2011, the Company issued \$172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the 2016 Notes. Between January 30, 2012 and February 2, 2012, we repurchased \$5.0 million of our 2016 Notes at a price of 97.5% of par, including commissions. The transactions will result in our recognizing \$10,000 of loss in the quarter ended March 31, 2012. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2016 Notes. The 2016 Notes and the 2015 Notes are referred to collectively as the Senior Convertible Notes.
- (9) On April 16, 2012 the Company issued \$130 million in aggregate principal amount of 5.375% Convertible Senior Notes due 2017, which we refer to as the 2017 Notes.
- (10) On May 1, 2012 the Company issued \$100 million in aggregate principal amount of 6.95% Senior Notes due 2022, which we refer to as the 2022 Notes.
- (11) Since February 2012, the Company issued \$29.09 million in aggregate principal amount of our Prospect Capital InterNotes®.
- (12) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of March 31, 2012. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be

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substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately \$1,319 million as of March 31, 2012.

- (13) "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended March 31, 2012 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement" in the accompanying prospectus.

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You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2011, 2010, 2009, 2008 and 2007 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and nine months ended March 31, 2012 and 2011 has been derived from unaudited financial data. Interim results for the three and nine months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2012. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-14 for more information.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,			For the Year/Period Ended June 30,				
	2012	2011	2012	2011	2011	2010	2009	2008	2007	
(in thousands except data relating to shares, per share and number of portfolio companies)										
Performance Data:										
Interest income	\$ 72,946	\$ 34,504	\$ 160,361	\$ 90,787	\$ 134,454	\$ 86,518	\$ 62,926	\$ 59,033	\$ 30,084	
Dividend income	7,477	2,763	34,664	8,328	15,092	15,366	22,793	12,033	6,153	
Other income	15,200	7,306	23,203	13,970	19,930	12,675	14,762	8,336	4,444	
Total investment income	95,623	44,573	218,228	113,085	169,476	114,559	100,481	79,402	40,681	
Interest and credit facility expenses	(9,655)	(5,660)	(28,374)	(10,182)	(17,598)	(8,382)	(6,161)	(6,318)	(1,903)	
Investment advisory expense	(23,467)	(12,034)	(56,599)	(31,231)	(46,051)	(30,727)	(26,705)	(20,199)	(11,226)	
Other expenses	(4,429)	(2,923)	(10,798)	(7,641)	(11,606)	(8,260)	(8,452)	(7,772)	(4,421)	
Total expenses	(37,551)	(20,617)	(95,771)	(49,054)	(75,255)	(47,369)	(41,318)	(34,289)	(17,550)	
Net investment income	58,072	23,956	122,457	64,031	94,221	67,190	59,163	45,113	23,131	
Realized and unrealized gains (losses)	(7,863)	9,803	32,144	27,248	24,017	(47,565)	(24,059)	(17,522)	(6,403)	
Net increase in net assets from operations	\$ 50,209	\$ 33,759	\$ 154,601	\$ 91,279	\$ 118,238	\$ 19,625	\$ 35,104	\$ 27,591	\$ 16,728	
Per Share Data:										
Net increase in net assets from operations(1)	\$ 0.44	\$ 0.38	\$ 1.39	\$ 1.11	\$ 1.38	\$ 0.33	\$ 1.11	\$ 1.17	\$ 1.06	
Distributions declared per share	\$ 0.30	\$ 0.30	\$ 0.91	\$ 0.91	\$ (1.21)	\$ (1.33)	\$ (1.62)	\$ (1.59)	\$ (1.54)	
Average weighted shares outstanding for the period	114,146,939	88,200,916	110,868,177	82,112,300	85,978,757	59,429,222	31,559,905	23,626,642	15,724,095	
Assets and Liabilities Data:										

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Investments	\$ 1,691,580	\$ 1,213,517	\$ 1,691,580	\$ 1,213,517	\$ 1,463,010	\$ 748,483	\$ 547,168	\$ 497,530	\$ 328,222
Other assets	124,429	125,345	124,429	125,345	86,307	84,212	119,857	44,248	48,280
Total assets	1,816,009	1,338,862	1,816,009	1,338,862	1,549,317	832,695	667,025	541,778	376,502
Amount drawn on credit facility	121,000	47,500	121,000	47,500	84,200	100,300	124,800	91,167	
2010 Notes	150,000	150,000	150,000	150,000	150,000				
2011 Notes	167,500	172,500	167,500	172,500	172,500				
Prospect Capital InterNotes®	5,465		5,465						
Amount owed to related parties	4,677	7,809	4,677	7,809	7,918	9,300	6,713	6,641	4,838
Other liabilities	48,561	48,132	48,561	48,132	20,342	11,671	2,916	14,347	71,616
Total liabilities	497,203	425,941	497,203	425,941	434,960	121,271	134,429	112,155	76,454
Net assets	\$ 1,318,806	\$ 912,921	\$ 1,318,806	\$ 912,921	\$ 1,114,357	\$ 711,424	\$ 532,596	\$ 429,623	\$ 300,048

Investment

Activity Data:

No. of portfolio companies at period end	78	64	78	64	72	58	30	29(2)	24(2)
Acquisitions	\$ 170,073	\$ 359,152	\$ 547,345	\$ 641,036	\$ 953,337	\$ 364,788(3)	\$ 98,305	\$ 311,947	\$ 167,255
Sales, repayments, and other disposals	\$ 188,399	\$ 76,494	\$ 354,660	\$ 207,030	\$ 285,562	\$ 136,221	\$ 27,007	\$ 127,212	\$ 38,407
Annualized current yield at end of period for performing debt investments(4)	12.6%	15.0%	12.6%	15.0%	12.3%	16.2%	14.6%	15.5%	17.3%

- (1) Per share data is based on average weighted shares for the period.
- (2) Includes a net profits interest in Charlevoix Energy Trading LLC ("Charlevoix"), remaining after loan was paid.
- (3) Includes \$207,126 of acquired portfolio investments from Patriot Acquisition.
- (4) Excludes equity investments and non-performing loans.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and in the accompanying prospectus on page 10, together with all of the other information included in this prospectus supplement and in the accompanying prospectus, before you decide whether to make an investment in our common stock. The risks set forth below and in the accompanying prospectus are not the only risks we face. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV and the trading price of our common stock could decline, we could reduce or eliminate our dividend and you could lose all or part of your investment.

Capital markets have recently been in a period of disruption and instability. These market conditions have materially and adversely affected debt and equity capital markets in the United States and abroad, which have had, and may in the future have, a negative impact on our business and operations.

The U.S. and foreign capital markets have recently been in a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While these conditions appear to be improving, they could continue for a prolonged period of time or worsen in the future. In addition, while these conditions persist, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because subject to some limited exceptions, as a business development company, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our annual meeting of stockholders held on December 8, 2011, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. In addition, our ability to incur indebtedness or issue other senior securities (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness or issue other senior securities. The debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Moreover, recent market conditions have made, and may in the future make, it difficult to extend the maturity of or refinance our existing indebtedness for borrowed money and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the recent extreme volatility and dislocation in the capital markets, many business development companies have faced, and may in the future face, a challenging environment in which to raise capital. Recent significant changes in the capital markets affecting our ability to raise capital have affected the pace of our investment activity. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our

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investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

The instability in the financial markets has led the U.S. federal government to take a number of unprecedented actions and pass legislation designed to regulate and support certain financial institutions and numerous segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity.

On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act, among other things, grants regulatory authorities such as the Commodity Futures Trading Commission ("CFTC") and SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives market. The regulations adopted to date by these regulators have not had a material adverse effect on our business. However, several significant rulemaking initiatives have not been completed and these could have the effect of reducing liquidity or otherwise adversely affecting us or our investments. There can be no assurance that future regulatory actions authorized by the Dodd-Frank Act will not significantly reduce our profitability. The implementation of the Dodd-Frank Act could also adversely affect us by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase our exposure to potential liabilities. Increased regulatory oversight can also impose administrative burdens on us and on PCM, including, without limitation, responding to examinations or investigations and implementing new policies and procedures.

Additionally, federal, state, foreign and other governments, their regulatory agencies or self regulatory organizations may take actions that affect the regulation of the securities in which we invest, or the issuers of such securities, in ways that are unforeseeable. Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of our portfolio companies. Furthermore, volatile financial markets can expose us to greater market and liquidity risk and potential difficulty in valuing securities.

At any time after the date of this prospectus, legislation may be enacted that could negatively affect us or our portfolio companies. Changing approaches to regulation may have a negative impact on the entities in which we invest. Legislation or regulation may also change the way in which we are regulated. There can be no assurance that the Dodd-Frank Act or any future legislation, regulation or deregulation will not have a material adverse effect on us or will not impair our ability to achieve our investment objective.

The recent downgrade of the U.S. credit rating and uncertainty about the financial stability of several countries in the European Union ("EU") could have a significant adverse effect on our business, results of operations and financial condition.

Due to long-term federal budget deficit concerns, on August 5, 2011 S&P downgraded the federal government's credit rating from AAA to AA+ for the first time in history. This downgrade could lead to subsequent downgrades by S&P, as well as to downgrades by the other two major credit rating agencies, Moody's and Fitch Ratings. These developments, and the government's credit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our stock price and our financial performance.

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In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these EU "peripheral nations" to continue to service their sovereign debt obligations. Despite assistance packages to Greece, Ireland and Portugal, the creation of a joint EU-IMF European Financial Stability Facility in May 2010, and a recently announced plan to expand financial assistance to Greece, uncertainty over the outcome of the EU governments' financial support programs and worries about sovereign finances persist. Risks and ongoing concerns about the debt crisis in Europe could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may continue to affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. There can be no assurance that the market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely affected.

Our most recent NAV was calculated on March 31, 2012 and our NAV when calculated effective June 30, 2012 may be higher or lower.

Our most recently estimated NAV per share is \$10.58 on an as adjusted basis solely to give effect to our distributions with record dates of April 30, 2012, May 31, 2012 and June 29, 2012, our issuance of common stock on April 20, 2012, May 24, 2012 and June 22, 2012 in connection with our dividend reinvestment plan, the issuance of 14,518,207 shares of common stock issued in conjunction with the acquisition of First Tower and our sale of 5,199,764 shares of common stock during the period from June 7, 2012 through July 9, 2012 (with settlement dates of June 12, 2012 through July 12, 2012), versus \$10.82 determined by us as of March 31, 2012. NAV per share as of June 30, 2012, may be higher or lower than \$10.58 based on potential changes in valuations, issuances of securities and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to March 31, 2012. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from an independent valuation firm, our Investment Advisor and the audit committee of our Board of Directors.

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

We have obtained approval from our stockholders for us to be able to sell, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending on December 9, 2012, as described in this prospectus supplement and in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such

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sales may adversely affect the price at which our common stock trades. For additional information about recent sales below NAV per share, see "Recent Sales of Common Stock Below Net Asset Value" in this prospectus supplement and for additional information and hypothetical examples of these risks, see "Sales of Common Stock Below Net Asset Value" in the accompanying prospectus.

We may in the future choose to pay dividends in our own stock, in which case our stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock. Under IRS Revenue Procedure 2010-12, up to 90% of any such taxable dividend could be payable in our stock for dividends paid on or before December 31, 2012 with respect to any taxable year ending on or before December 31, 2011. The IRS has also issued private letter rulings on cash/stock dividends paid by regulated investment companies and real estate investment trusts if certain requirements are satisfied, and we have received such a ruling permitting us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2012 and August 31, 2013. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock (whether pursuant to Revenue Procedure 2010-12, a private letter ruling, or otherwise).

Senior securities, including debt, expose us to additional risks, including the typical risks associated with leverage.

We currently use our revolving credit facility to leverage our portfolio and we expect in the future to borrow from and issue senior debt securities to banks and other lenders and may securitize certain of our portfolio investments.

With certain limited exceptions, as a BDC we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. The amount of leverage that we employ will depend on our Investment Adviser's and our Board of Directors' assessment of market conditions and other factors at the time of any proposed borrowing. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for stockholders, including:

A likelihood of greater volatility in the net asset value and market price of our common stock;

Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;

The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;

Increased operating expenses due to the cost of leverage, including issuance and servicing costs;

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Convertible or exchangeable securities issued in the future may have rights, preferences and privileges more favorable than those of our common stock; and

Subordination to lenders' superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds will be distributed to our stockholders.

For example, the amount we may borrow under our revolving credit facility is determined, in part, by the fair value of our investments. If the fair value of our investments declines, we may be forced to sell investments at a loss to maintain compliance with our borrowing limits. Other debt facilities we may enter into in the future may contain similar provisions. Any such forced sales would reduce our net asset value and also make it difficult for the net asset value to recover. Our Investment Adviser and our Board of Directors in their best judgment nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$2.0 billion in total assets, (ii) an average cost of funds of 4.72%, (iii) \$700 million in debt outstanding and (iv) \$1.3 billion of shareholders' equity.

Assumed Return on Our Portfolio (net of expenses)	(10)%	(5)%	0%	5%	10%
Corresponding Return to Stockholder	(17.9)%	(10.2)%	(2.5)%	5.2%	12.8%

The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table.

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

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

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

Overview

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

We seek to be a long-term investor with our portfolio companies. From our July 27, 2004 inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy. Since then, we have widened our strategy to focus in other sectors of the economy and continue to reduce our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 10% of our investment portfolio.

The aggregate value of our portfolio investments was \$1,691,580, and \$1,463,010 as of March 31, 2012 and June 30, 2011, respectively. During the nine months ended March 31, 2012, our net cost of investments increased by \$220,129, or 15.3%, as a result of nineteen new investments, several follow-on investments and a revolver advance, totaling \$542,846, accrued payment-in-kind interest of \$4,499 and accretion of purchase discount of \$3,741, while we received full repayment on twelve investments, sold one investment, received several partial prepayments, amortization payments and a revolver repayment, totaling \$354,660, including a net realized gain of \$23,703. During the nine months ended March 31, 2012, Deb Shops, Inc. ("Deb Shops") filed for bankruptcy and a plan for reorganization was proposed. The plan, which is expected to be approved by the bankruptcy court, will eliminate our debt position with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of \$14,607 for the full amount of the amortized cost. This realized loss was primarily offset by our sale of 392 shares of NRG Manufacturing, Inc. ("NRG") common stock for which we realized a gain of \$36,940.

Compared to the end of last fiscal year (ended June 30, 2011), net assets increased by \$204,449 or 18.3% during the nine months ended March 31, 2012, from \$1,114,357 to \$1,318,806. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$144,376, dividend reinvestments of \$7,893, and another \$154,601 from operations. These increases, in turn, were offset by \$102,421 in dividend distributions to our stockholders. The \$154,601 increase in net assets resulting from operations is net of the following: net investment income of \$122,457, net realized gain on investments of \$23,703 and an increase in net assets due to changes in net unrealized appreciation of investments of \$8,441.

Third Quarter Highlights

Investment Transactions

On January 4, 2012, Energy Solutions Holdings, Inc. ("Energy Solutions") sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working

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capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$148,687 in cash and an additional \$10,000 is being held in escrow. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has 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 will be required to be recognized as dividend income, in accordance with ASC 946, *Financial Services Investment Companies*, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition.

On January 9, 2012, Arrowhead General Insurance Agency, Inc. ("Arrowhead") repaid the \$27,000 loan receivable to us.

On January 12, 2012, we made a follow-on investment of \$16,500 to purchase 86.8% of the secured Class D Notes in CIFIC Funding 2011-I, Ltd ("CIFIC"). The secured Class D Notes bear interest in cash at Libor plus 5.0% and has a final maturity date on January 19, 2023.

On January 17, 2012, we provided \$18,332 of secured second-lien financing to National Bankruptcy Solutions ("NBS"), a financial services processing company purchased by a leading private equity sponsor. The second lien note bears interest in cash at the greater of 12.00% or Libor plus 9.0% and interest in kind of 1.50% and has a final maturity of July 16, 2017.

On January 31, 2012, Aircraft Fasteners International, LLC ("AFI") repaid the \$7,441 loan receivable to us.

On February 2, 2012, NRG was sold to an outside buyer for \$123,258. In conjunction with the sale, the \$37,218 loan that was outstanding was repaid. We also received a \$26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the quarter ending March 31, 2012. Further, we received a \$3,800 advisory fee for the transaction, which was recorded as other income in the quarter ending March 31, 2012. After expenses, including the make whole and advisory fees discussed above, \$40,886 was available to be distributed to stockholders. While our 408 shares of NRG common stock represented 67.1% of the ownership, we received net proceeds of \$25,991 as our contribution to the escrow amount was proportionately higher than the other shareholders. In connection with the sales, we recognized a realized gain of \$24,810 in the results for the quarter ended March 31, 2012. In total, we received proceeds of \$93,977 at closing. In addition, there is \$11,125 being held in escrow of which 80% is due to us upon release of the escrowed amounts. This will be recognized as additional gain if and when received.

On February 10, 2012, we provided \$15,000 of secured second-lien financing to Rocket Software, Inc. ("Rocket Software"), a leading global infrastructure software company. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On February 15, 2012, we provided \$25,000 of secured second-lien financing to Blue Coat Systems, Inc. ("Blue Coat"), a leading provider of Web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 11.50% or Libor plus 10.0% and has a final maturity of August 15, 2018.

On February 24, 2012, we made a follow-on investment of \$7,856 to purchase 23.9% of the unrated subordinated notes to Apidos CLO VIII, Ltd ("Apidos").

On February 28, 2012, we made a senior secured follow-on investment of \$9,500 in Clearwater Seafoods LP ("Clearwater") to finance the repayment of a senior secured note due to mature in 2012

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and settle outstanding claims senior to our own investment. The second lien note bears interest in cash at 12.00% and has a final maturity of February 4, 2016.

On February 29, 2012, we provided \$15,000 of secured second-lien financing to Focus Brands, Inc. ("Focus"), a leading franchiser and operator of restaurants, cafes, ice cream stores and retail bakeries. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.00% and has a final maturity on August 21, 2018.

On March 1, 2012, we made a senior secured follow-on investment of \$27,500 in SG Acquisition Inc. ("Safe-Guard") to support a recapitalization. As of March 31, 2012, our investment is \$26,470 structured as \$12,720 of Term Loan C and \$13,750 of Term Loan D first lien notes. The Term Loan C note bears interest in cash at the greater of 8.50% or Libor plus 6.50% and has a final maturity of March 18, 2016. The Term Loan D notes bears interest in cash at the greater of 14.50% or Libor plus 12.50% and has a final maturity of March 18, 2016.

On March 14, 2012, we made an investment of \$26,569 to purchase 74.4% of the unrated subordinated notes in Babson CLO Ltd 2012-I ("Babson 2012").

On March 16, 2012, VPSI, Inc. ("VPSI") repaid the \$16,598 loan receivable to us.

On March 19, 2012, we entered into a definitive agreement to provide debt and equity for the acquisition of the businesses of First Tower Corp. ("First Tower"), a private multiline specialty finance company based in Flowood, Mississippi with over 150 branch offices. We are acquiring 80.1% of First Tower for \$110,200 of cash and 14,518,207 of our shares of common stock. We have the option, at our sole discretion, to substitute up to 100% cash in lieu of such 14,518,207 shares of our common stock at a price per share based on average trading prices prior to the closing date. The acquisition (the "First Tower Acquisition") was completed on June 15, 2012.

On March 23, 2012, Anchor Hocking, LLC ("Anchor Hocking") repaid the \$20,444 loan receivable to us.

On March 27, 2012, we provided \$12,500 of senior secured financing to IDQ Holdings, Inc. ("IDQ"), a manufacturer of a refrigerant refill kits for automobile air conditioners. The senior secured note bears interest in cash at 11.50% and has a final maturity of April 1, 2017.

On March 30, 2012, ROM Acquisition Corporation ("ROM") repaid the \$31,638 loan receivable to us.

Revolving Credit Facility

On March 27, 2012, we renegotiated the Syndicated Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$410,000 under the 2012 Facility as of March 31, 2012; which was increased to \$492,500 since March 31, 2012 (See *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 in the aggregate.

Senior Convertible Notes

Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 5.50% senior convertible notes due 2016 ("2016 Notes") at a price of 97.5% of par, including commissions. The transactions will result in our recognizing \$10 of loss in the quarter ended March 31, 2012.

Prospect Capital InterNotes®

During the three months ended March 31, 2012, we issued \$5,465 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$5,001.

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Equity Issuance

On October 21, 2011, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$618,600 of additional debt and equity securities in the public market as of March 31, 2012.

On January 25, 2012, February 17, 2012 and March 23, 2012, we issued shares of our common stock in connection with the dividend reinvestment plan of 85,252, 69,864 and 77,764, respectively.

On February 28, 2012, we completed a public stock offering of 12,000,000 shares of our common stock at \$10.95 per share, raising \$131,400 of gross proceeds and \$129,480 of net proceeds.

Dividend

On February 6, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101450 per share for February 2012 to holders of record on February 29, 2012 with a payment date of March 23, 2012;

\$0.101475 per share for March 2012 to holders of record on March 30, 2012 with a payment date of April 20, 2012; and

\$0.101500 per share for April 2012 to holders of record on April 30, 2012 with a payment date of May 24, 2012.

Investment Holdings

As of March 31, 2012, we continue to pursue our investment strategy and continue to diversify the portfolio. In May 2007, we changed our name to "Prospect Capital Corporation" and terminated our policy to invest at least 80% of our net assets in energy companies. Since that time, we have reduced our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 10% of our investment portfolio.

At March 31, 2012, approximately \$1,691,580 or 128.3% of our net assets are invested in 78 long-term portfolio investments and 4.4% of our net assets are invested in money market funds.

During the nine months ended March 31, 2012, we originated \$547,345 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our performing loan portfolio's annualized current yield increased from 12.3% as of June 30, 2011 to 12.6% as of March 31, 2012 across all long-term debt investments. We expect our current asset yield may continue to decline modestly as we continue to reduce credit risk. Generally, we have seen a decrease in interest rates on loans issued during our fiscal year ended June 30, 2011 and the nine months ending March 31, 2012 in comparison to the rates in effect prior to June 30, 2010 as we continue to reduce the risk profile of the portfolio. Monetization of other equity positions that we hold is 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.

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

As of March 31, 2012, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., C&J Cladding LLC, Energy Solutions, Integrated Contract Services, Inc. ("ICS"), Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), Nupla Corporation ("Nupla") and R-V Industries, Inc. ("R-V"). We also own an affiliated interest in BNN Holdings Corp. f/k/a Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft"), Smart, LLC, and Sport Helmets Holdings, LLC ("Sport Helmets").

The following is a summary of our investment portfolio by level of control at March 31, 2012 and June 30, 2011, respectively:

Level of Control	March 31, 2012				June 30, 2011			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 232,459	14.0%	\$ 323,786	19.1%	\$ 262,301	18.3%	\$ 310,072	21.2%
Affiliate	59,606	3.6%	67,581	4.0%	56,833	4.0%	72,337	4.9%
Non-control/Non-affiliate	1,363,798	82.4%	1,300,213	76.9%	1,116,600	77.7%	1,080,601	73.9%