PROSPECT CAPITAL CORP
Form 497
September 10, 2012

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Prospect Capital Corporation
Prospect Capital InterNotes®
5.950% Senior Notes due 2019 (the "Notes")

Filed under Rule 497, Registration Statement No. 333-176637

Pricing Supplement No. 17 Dated Monday, September 10, 2012 (To: Prospectus Dated October 21, 2011, and Prospectus Supplement Dated August 27, 2012)

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YAQ4	US74348YAQ44	$5,879,000.00	100.000%	1.750%	$5,776,117.50	Fixed	5.950%	Semi-Annual	09/15/2019	03/15/2013	$30.08	Yes	Senior Unsecured Notes

Redemption Information: Callable at 100.000% on 09/15/2013 and every coupon date thereafter.

Trade Date: Monday, September 10, 2012 @ 12:00 PM ET
Settle Date: Thursday, September 13, 2012
Minimum Denomination/Increments: $1,000.00/$1,000.00
Initial trades settle flat and clear SDFS: DTC Book Entry only

The Notes will be issued pursuant to the Indenture, dated as of February 16, 2012, as amended and supplemented by that certain Seventeenth Supplemental Indenture, dated as of September 13, 2012.

The date from which interest shall accrue on the Notes is Thursday, September 13, 2012. The "Interest Payment Dates" for the Notes shall be March 15 and September 15 of each year, commencing March 15, 2013; the interest payable on any Interest Payment Date, will be paid to the Person in whose name the Note (or one or more predecessor Notes) is registered at the close of business on the Regular Record Date (as defined in the Indenture) for such interest, which shall be March 1 or September 1, as the case may be, next preceding such Interest Payment Date.

The Notes will be redeemable in whole or in part at any time or from time to time, at the option of Prospect Capital Corporation, on or after September 15, 2013 (the "Optional Redemption Date"), at a redemption price of $1,000 per Note plus accrued and unpaid interest payments otherwise payable for the then-current semi-annual interest period accrued to, but excluding, the date fixed for redemption and upon not less than 30 days nor more that 60 days prior notice to the noteholder and the trustee, as described in the prospectus.

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.

This pricing supplement relates only to the securities described in the accompanying prospectus supplement and prospectus, is only a summary of changes and should be read together with the accompanying prospectus supplement and prospectus, including among other things the section entitled "Risk Factors" beginning on page S-7 of such prospectus supplement and page 10 of such prospectus. This pricing supplement and the accompanying prospectus supplement and 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.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this pricing supplement. Any representation to the contrary is a criminal offense. Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

InterNotes® is a registered trademark of Incapital Holdings LLC.

Recent Developments: On August 28, 2012, American Gilsonite repaid the $37.7 million loan receivable to us.

On September 7, 2012, we issued approximately $5.98 million in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of approximately $5.88 million.

Legal Matters: In the opinion of Joseph Ferraro, General Counsel of Prospect Administration, administrator for Prospect Capital Corporation, a Maryland corporation (the "Company"), the certificate evidencing the Notes (the "Note Certificate") constitutes the valid and binding obligation of the Company, entitled to the benefits of the Indenture and enforceable against the Company in accordance with its terms under the laws of the State of New York subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date hereof and is limited to the law of the State of New York as in effect on the date hereof. In addition, this opinion is subject to the same assumptions and qualifications stated in the letter of Skadden, Arps, Slate, Meagher & Flom, LLP dated March 8, 2012, filed as Exhibit (l)(5) to the Company's registration statement on Form N-2 (File No. 333-176637) and to the further assumptions that (i) the Note Certificate has been duly authorized by all requisite corporate action on the part of the Company and duly executed by the Company under Maryland law, and (ii) it was duly authenticated by the Trustee and issued and delivered by the Company against payment therefor in accordance with the terms of the Selling Agent Agreement and the Indenture. Capitalized terms used in this paragraph without definition have the meanings ascribed to them in the accompanying prospectus supplement.

Prospect Capital Corporation
10 East 40th Street, 44th Floor
New York, New York 10016

In the opinion of Venable LLP, as Maryland counsel to the Company, (i) the execution and delivery by the Company of the Indenture, dated as of February 16, 2012, as supplemented through the Seventeenth Supplemental Indenture, between the Company and American Stock Transfer & Trust Company, and the global note representing the Notes issued pursuant to such Supplemental Indenture, and the performance by the Company of its obligations thereunder, have been duly authorized by the Company and (ii) the issuance of the Notes has been duly authorized by the Company. This opinion is given to the Company as of September 10, 2012 and is limited to the laws of the State of Maryland as in effect on September 10, 2012. In addition, this opinion is subject to the same assumptions, qualifications and limitations stated in the opinion letter to the Company of Venable LLP, dated March 8, 2012, filed as Exhibit (l)(4) to the Company's Registration Statement on Form N-2 (File No. 333-176637). Capitalized terms used in this paragraph without definition have the meanings ascribed to them in the accompanying prospectus supplement.

Very truly yours,
/s/ Venable LLP

Filed pursuant to Rule 497
File No. 333-176637

PROSPECTUS SUPPLEMENT
(To Prospectus dated October 21, 2011)

Prospect Capital Corporation

Prospect Capital InterNotes®

We may offer to sell our Prospect Capital InterNotes® from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest. We may offer other debt securities from time to time other than the notes under our Registration Statement or in private placements.

We may offer the notes to or through agents for resale. The applicable pricing supplement will specify the purchase price, agent discounts and net proceeds of any particular offering of notes. The agents are not required to sell any specific amount of notes but will use their reasonable best efforts to sell the notes. We also may offer the notes directly. We have not set a date for termination of our offering.

The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

Investing in the notes involves certain risks, including those described in the "Risk Factors" section beginning on page S-7 of this prospectus supplement and page 10 of the accompanying prospectus.

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.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

We may sell the notes to or through one or more agents or dealers, including the agent listed below.

Incapital LLC

Prospectus Supplement dated August 27, 2012.

®InterNotes is a registered trademark of Incapital Holdings LLC

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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,

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

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

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

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

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

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

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

This prospectus supplement, including any pricing supplement included hereto, supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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PROSPECTUS SUMMARY

This section summarizes the legal and financial terms of the notes that are described in more detail in "Description of Notes" beginning on page S-46. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in "Description of Notes." In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.

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 June 30, 2012, we held investments in 82 portfolio companies. The aggregate fair value as of June 30, 2012 of investments in these portfolio companies held on that date is approximately $2.1 billion. Our portfolio across all our long-term debt had an annualized current yield of 13.6% as of June 30, 2012. The yield includes interest as well as dividends.

Recent Developments

Dividends

On August 21, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.101625 per share for September 2012 to holders of record on September 28, 2012 with a payment date of October 24, 2012; and
- $0.101650 per share for October 2012 to holders of record on October 31, 2012 with a payment date of November 22, 2012.

Recent Investment Activity

On July 5, 2012, we made a senior secured debt investment of $28.0 million to support the acquisition of Material Handling Services, LLC, d/b/a/ Total Fleet Solutions, a provider of forklift and other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC.

On July 16, 2012 we provided $15.0 million of secured second lien financing to Pelican Products, Inc., a leading provider of unbreakable, watertight protective cases and technically advanced professional lighting equipment.

On July 20, 2012, we provided $12.0 million of senior secured financing to EIG Investors Corp., a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses.

On July 20, 2012, we provided $10.0 million of senior secured financing to FPG, LCC a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors.

On July 24, 2012, we issued 205,834 shares of our common stock in connection with the dividend reinvestment plan.

On July 24, 2012, we sold our 3,821 shares of Iron Horse common stock in connection with the exercise of an equity buyout option, receiving $2.0 million of net proceeds and realizing a gain of approximately $1.8 million on the sale.

On July 27, 2012, we provided $85.0 million of senior subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. Capital, LLC ("H.I.G."). The new company, Arctic Glacier Holdings, Inc., will continue to conduct business under the "Arctic Glacier" name and be a leading producer, marketer, and distributor of high-quality packaged ice to consumers in Canada and the United States.

On August 2, 2012, we provided a $27.0 million secured loan to support the acquisition of New Star Metals, Inc., a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company.

On August 3, 2012, we provided $110.0 million senior secured financing to support the acquisition of InterDent, Inc., a leading provider of dental practice management services to dental professional corporations and associations in the United States, by funds managed by H.I.G.

On August 3, 2012, we provided $44.0 million of secured subordinated financing to support the refinancing of New Century Transportation, Inc., a leading transportation and logistics company.

On August 3, 2012, we provided $10.0 million of senior secured financing to Paradigm Geophysical, Ltd., the largest multi-national software company focused on the delivery of analytical and information management solutions for the discovery and extraction of subsurface natural resources.

On August 3, 2012, Pinnacle Treatment Centers, Inc. repaid the $17.5 million loan receivable to us.

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On August 6, 2012, we made an investment of $22.2 million to purchase 62.9% of the subordinated notes in Halcyon Loan Advisors Funding 2012-I.

On August 7, 2012, we made an investment of $36.8 million to purchase 95.0% of the subordinated notes in ING IM CLO 2012-II.

On August 10, 2012, U.S. HealthWorks Holding Company, Inc. repaid the $25.0 million loan receivable to us.

On August 17, 2012, we made a secured second lien investment of $38.5 million to support the recapitalization of American Gilsonite. After the financing we expect to receive a repayment of the loans currently outstanding.

Credit Facility

On July 27, 2012 we closed an increase of $15.0 million to our commitments to our credit facility. The commitments to the credit facility now stand at $507.5 million.

Debt Issuance

During the period from July 6, 2012 to August 23, 2012, we issued approximately $38,473 in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $37,800, as follows (in thousands):

Date of Issuance	Gross Proceeds	Interest Rate	Maturity Date
July 6, 2012	$ 2,778	6.45%	June 15, 2019
July 12, 2012	5,673	6.35%	June 15, 2019
July 19, 2012	6,810	6.30%	June 15, 2019
July 26, 2012	5,667	6.20%	June 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019

On August 14, 2012, we issued $200.0 million in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately $193.6 million. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate of 82.3451 shares of common stock per $1,000 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately $12.14 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2018 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.1016 per share.

Stock Offering

On July 16, 2012, we issued 21,000,000 shares of our common stock at $11.15 per share (or $11.05 per share net proceeds excluding expenses), raising $23.4 million of gross proceeds.

On July 24, 2012 and August 24, 2012, we issued 205,834 shares and 75,543 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

On July 27, 2012, we issued 3,150,000 shares in connection with the exercise of an option granted with the July 12, 2012 offering of 21,000,000 shares which were delivered July 16, 2012, raising an additional $35.1 million of gross proceeds and $34.8 million of net proceeds.

Charter Amendment

On July 30, 2012, we amended our charter to increase the shares of common stock authorized for issuance by us from 200,000,000 to 500,000,000 in the aggregate.

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The Offering

Issuer	Prospect Capital Corporation
Purchasing Agent	Incapital LLC
Agents	From time to time, we may sell the notes to or through additional agents.
Title of Notes	Prospect Capital InterNotes®
Amount	We may issue notes from time to time in various offerings up to $500,000,000, the aggregate principal amount authorized by our board of directors. As of August 24, 2012, $59,111,000 aggregate principal amount of notes has been issued. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act.
Denominations	The notes will be issued and sold in denominations of $1,000 and multiples of $1,000 (unless otherwise stated in the pricing supplement).
Status	The notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.
Maturities	Each note will mature 12 months or more from its date of original issuance.
Interest	Each note will bear interest from its date of original issuance at a fixed rate per year.
	Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repurchased prior to its stated maturity in accordance with its terms.
	Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.
Principal	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.
Redemption and Repayment	Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.
Survivor's Option	Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or

	her estate at least six months prior to the request. This feature is referred to as a "Survivor's Option." Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor's Option. The right to exercise the Survivor's Option is subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes Survivor's Option" on page S-49.
Sale and Clearance	We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.
Trustee	The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as supplemented from time to time. U.S. Bank National Association was appointed as trustee, succeeding American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012.
Selling Group	The agents and dealers comprising the selling group are broker-dealers and securities firms. The Purchasing Agent entered into a Selling Agent Agreement with us dated February 16, 2012. Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at info@incapital.com for a list of selling group members.

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SELECTED CONDENSED FINANCIAL DATA

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, 2012, 2011, 2010, 2009 and 2008 has been derived from the financial statements that were audited by our independent registered public accounting firm. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-11 for more information.

	For the Year/Period Ended June 30,				
	2012	2011	2010	2009	2008
	(in thousands except data relating to shares, per share and number of portfolio companies)				
Performance Data:					
Interest income	$ 219,536	$ 134,454	$ 86,518	$ 62,926	$ 59,033
Dividend income	64,881	15,092	15,366	22,793	12,033
Other income	36,493	19,930	12,675	14,762	8,336
Total investment income	320,910	169,476	114,559	100,481	79,402
Interest and credit facility expenses	(35,836)	(17,598)	(8,382)	(6,161)	(6,318)
Investment advisory expense	(46,671)	(46,051)	(30,727)	(26,705)	(20,199)
Other expenses	(51,719)	(11,606)	(8,260)	(8,452)	(7,772)
Total expenses	(134,226)	(75,255)	(47,369)	(41,318)	(34,289)
Net investment income	186,684	94,221	67,190	59,163	45,113
Realized and unrealized gains (losses)	4,220	24,017	(47,565)	(24,059)	(17,522)
Net increase in net assets from operations	$ 190,904	$ 118,238	$ 19,625	$ 35,104	$ 27,591
Per Share Data:					
Net increase in net assets from operations(1)	$ 1.67	$ 1.38	$ 0.33	$ 1.11	$ 1.17
Distributions declared per share	$ (1.22)	$ (1.21)	$ (1.33)	$ (1.62)	$ (1.59)
Average weighted shares outstanding for the period	114,394,554	85,978,757	59,429,222	31,559,905	23,626,642
Assets and Liabilities Data:					
Investments	$ 2,094,221	$ 1,463,010	$ 748,483	$ 547,168	$ 497,530
Other assets	161,303	86,307	84,212	119,857	44,248
Total assets	2,255,524	1,549,317	832,695	667,025	541,778
Amount drawn on credit facility	96,000	84,200	100,300	124,800	91,167
Senior Convertible Notes	447,500	322,500			
Senior Unsecured Notes	100,000				
InterNotes®	20,638				
Amount owed to related parties	8,571	7,918	9,300	6,713	6,641
Other liabilities	70,571	20,342	11,671	2,916	14,347
Total liabilities	743,280	434,960	121,271	134,429	112,155
Net assets	$ 1,511,974	$ 1,114,357	$ 711,424	$ 532,596	$ 429,623
Investment Activity Data:					
No. of portfolio companies at period end	82	72	58	30	29(2)

Acquisitions	$	1,120,659	$	953,337	$	364,788(3)	$	98,305	$	311,947
Sales, repayments, and other disposals	$	500,952	$	285,562	$	136,221	$	27,007	$	127,212
Weighted-Average Yield at end of period(4)		13.6%		12.8%		16.2%		14.6%		15.5%

(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 acquired from Patriot Capital Funding, LLC.

(4) Excludes equity investments and non-performing loans.

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RISK FACTORS

Your investment in the notes will involve certain risks. This prospectus supplement and the accompanying prospectus do not describe all of those risks.

You should, in consultation with your own financial and legal advisors, carefully consider the following discussion of risks before deciding whether an investment in the notes is suitable for you. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes or financial matters in general. You should not purchase the notes unless you understand, and know that you can bear, these investment risks.

Our amount of debt outstanding will increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

As of August 24, 2012, we and our subsidiary had approximately $806.6 million of senior indebtedness outstanding, none of which was secured indebtedness and $806.6 million of which was unsecured indebtedness.

The use of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the notes and our other outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;
- reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or amended senior credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including any notes sold, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the notes and our other debt.

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The notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries.

The notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness, including without limitation, the $150 million aggregate principal amount of 6.25% Convertible Senior Notes due 2015 (the "2015 Notes"), the $168 million aggregate principal amount of 5.50% Convertible Senior Notes due 2016 (the "2016 Notes"), the $130 million aggregate principal amount of Convertible Senior Notes due 2017 (the "2017 Notes"), the $200 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018 (the "2018 Notes") and the $100 million aggregate principal amount of 6.95% Senior Notes due 2022 (the "2022 Notes"). As a result, the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the notes. As of August 24, 2012, we had no borrowings outstanding under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the notes to the extent of the value of such assets.

Each of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes and the 2022 Notes may be due prior to the notes. We do not currently know whether we will be able to replace any of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes or the 2022 Notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes or the 2022 Notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the Notes and our ability to qualify as a regulated investment company, or "RIC."

The indenture and supplemental indentures under which the notes will be issued will contain limited protection for holders of the notes.

The indenture and supplemental indentures (collectively, the "indenture") under which the notes will be issued offer limited protection to holders of the notes. The terms of the indenture and the notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the notes. In particular, the terms of the indenture and the notes will not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

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- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the notes;
- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the notes do not protect holders of the notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the notes may have important consequences for you as a holder of the notes, including making it more difficult for us to satisfy our obligations with respect to the notes or negatively affecting the trading value of the notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the notes. See in the accompanying prospectus "Risk Factors Risks Relating to Our Business The Notes present other risks to holders of our common stock, including the possibility that the Notes could discourage an acquisition of the Company by a third party and accounting uncertainty" and " In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations." In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the notes.

Our credit ratings may not reflect all risks of your investment in the notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes and our access to the capital markets. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

We may choose to redeem notes when prevailing interest rates are relatively low.

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being

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redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

Survivor's Option may be limited in amount.

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in any calendar year to an amount equal to the greater of $2,000,000 or 2% of the outstanding principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to $250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no assurance can be given that exercise of the Survivor's Option for the desired amount will be permitted in any single calendar year.

We cannot assure that a trading market for your notes will ever develop or be maintained.

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect the trading market for and market value of your notes. Those factors include, without limitation:

- the method of calculating the principal and interest for the notes;
- the time remaining to the stated maturity of the notes;
- the outstanding amount of the notes;
- the redemption or repayment features of the notes; and
- the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

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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 7% of our investment portfolio.

The aggregate value of our portfolio investments was $2,094,221 and $1,463,010 as of June 30, 2012 and June 30, 2011, respectively. During the fiscal year ended June 30, 2012, our net cost of investments increased by $663,579, or 46.2%, as a result of thirty-eight new investments, seventeen follow-on investments and revolver advances of $1,115,012, accrued of payment-in-kind interest of $5,647 and accretion of purchase discount of $7,284, while we received full repayment on seventeen investments, sold five investments and received several partial prepayments and revolver repayments totaling of $500,952, including a net realized gain of $36,588. During the year ended June 30, 2012, Deb Shops, Inc. ("Deb Shops") filed for bankruptcy and a plan for reorganization was proposed. The plan was approved by the bankruptcy court and our debt position was eliminated with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary on September 30, 2011 and recorded a realized loss of $14,607 for the full amount of the amortized cost. The asset was completely written off when the plan of reorganization was approved. This realized loss was primarily offset the sale of our shares in NRG Manufacturing Inc. ("NRG") common stock for which we realized a gain of $36,940. The remaining net realized gain of $14,255 is primarily due to the sale of our equity investments in C&J Cladding, LLC ("C&J"), The Copernicus Group, Inc. ("Copernicus"), Nupla Corporation ("Nupla") and Sport Helmets Holdings, LLC ("Sport Helmets").

Compared to the end of last fiscal year (ended June 30, 2011), net assets increased by $397,617 or 35.7% during the year ended June 30, 2012, from $1,114,357 to $1,511,974. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $337,562, dividend reinvestments of $10,530, and another $190,904 from operations. These increases, in turn, were offset by $141,379 in dividend distributions to our stockholders. The $190,904 increase in net assets resulting from operations is net of the following: net investment income of $186,684, net realized gain on investments of $36,588, and a decrease in net assets due to changes in net unrealized depreciation of investments of $32,368.

The preparation of 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

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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 those differences could be material.

Patriot Acquisition

On December 2, 2009, we acquired the outstanding shares of Patriot Capital Funding, Inc. ("Patriot") common stock for $201,083. Under the terms of the merger agreement, Patriot common shareholders received 0.363992 shares of our common stock for each share of Patriot common stock, resulting in 8,444,068 shares of common stock being issued by us. In connection with the transaction, we repaid all the outstanding borrowings of Patriot, in compliance with the merger agreement.

The fair value of Patriot's investments was determined by the Board of Directors in conjunction with an independent valuation agent. This valuation resulted in a purchase price of $207,126 which was $98,150 below the amortized cost of such investments. During the year ended June 30, 2012, we recognized $6,613 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $6,613 is $3,083 of normal accretion and $3,530 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC ("Mac & Massey"), Nupla, ROM Acquisition Corporation ("ROM") and Sport Helmets.

During the year ended June 30, 2011, we recognized $22,084 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $22,084 is $4,912 of normal accretion, $12,035 of accelerated accretion resulting from the repayment of Impact Products, LLC ("Impact Products"), Label Corp Holdings Inc ("Label Corp") and Prince Mineral Company, Inc. ("Prince") and $4,968 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead General Insurance Agency, Inc. ("Arrowhead"), Copernicus, Fischbein, LLC ("Fischbein") and Northwestern Management Services, LLC ("Northwestern"). The restructured loans for Arrowhead, Copernicus, Fischbein and Northwestern were issued at market terms comparable to other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loan was recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income.

During the period from the acquisition of Patriot on December 2, 2009 to June 30, 2010, we recognized $18,795 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in this amount $4,579 of normal accretion and $14,216 of accelerated accretion resulting from the early repayments of four loans, three revolving lines of credit, sale of one investment position and restructuring of our loans to Aircraft Fasteners International, LLC ("AFI"), EXL Acquisition Corp. ("EXL"), LHC Holdings Corp. ("LHC"), Prince and ROM. The revised terms were more favorable than the original terms and increased the present value of the future cash flows. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income.

Investment Holdings

As of June 30, 2012, we continue to pursue our investment strategy. 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 20% of our investment portfolio.

At June 30 2012, approximately $2,094,221 or 138.5% of our net assets are invested in 82 long-term portfolio investments and 7.8% of our net assets invested in money market funds.

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During the year ended June 30, 2012, we originated $1,115,012 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, and subordinated notes in CLOs, 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's annualized current yield increased from 12.8% as of June 30, 2011 to 13.6% as of June 30, 2012 across all long-term investments. This increase in yield is primarily due to the acquisition of First Tower. Excluding our loans to First Tower, our annualized current yield would have been 12.5% as of June 30, 2012. We expect Prospect's 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 first lien loans issued during our fiscal years ended June 30, 2011 and June 30, 2012 in comparison to the rates in effect at June 30, 2010 along with the effects from reducing the percentage level of second lien loans. 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.

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 June, 2012, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., Energy Solutions Holdings, Inc. ("Energy Solutions"), First Tower, Integrated Contract Services, Inc. ("ICS"), Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. f/k/a Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

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

	June 30, 2012				June 30, 2011			
Level of Control	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Control	$ 518,015	24.7%	$ 564,489	27.0%	$ 262,301	18.3%	$ 310,072	21.2%
Affiliate	44,229	2.1%	46,116	2.2%	56,833	4.0%	72,337	4.9%
Non-control/Non-affiliate	1,537,069	73.2%	1,483,616	70.8%	1,116,600	77.7%	1,080,601	73.9%
Total Portfolio	$ 2,099,313	100.0%	$ 2,094,221	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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The following is our investment portfolio presented by type of investment at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Type of Investment	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Revolving Line of Credit	$ 1,145	0.1%	$ 868	0.0%	$ 7,144	0.5%	$ 7,278	0.5%
Senior Secured Debt	1,138,991	54.3%	1,080,053	51.6%	822,582	57.3%	789,981	54.0%
Subordinated Secured Debt	544,363	25.9%	488,113	23.3%	491,188	34.2%	448,675	30.7%
Subordinated Unsecured Debt	72,617	3.5%	73,195	3.5%	54,687	3.8%	55,336	3.8%
CLO Debt	27,258	1.3%	27,717	1.3%		%		%
CLO Residual Interest	214,559	10.2%	218,009	10.4%		%		%
Preferred Stock	31,323	1.5%	29,155	1.4%	31,979	2.2%	25,454	1.7%
Common Stock	61,459	2.9%	137,198	6.6%	19,865	1.4%	116,076	7.9%
Membership Interests	5,437	0.2%	13,844	0.7%	6,128	0.4%	15,392	1.1%
Overriding Royalty Interests		%	1,623	0.1%		%	2,168	0.1%
Escrows Receivable		%	17,686	0.8%		%		%
Warrants	2,161	0.1%	6,760	0.3%	2,161	0.2%	2,650	0.2%
Total Portfolio	$ 2,099,313	100.0%	$ 2,094,221	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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The following is our investments in debt securities presented by type of security at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Level of Control	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	$ 1,147,599	64.3%	$ 1,088,887	65.2%	$ 902,031	65.6%	$ 854,975	65.7%
Second Lien	536,900	30.1%	480,147	28.7%	418,883	30.5%	390,959	30.0%
Unsecured	72,617	4.1%	73,195	4.4%	54,687	4.0%	55,336	4.3%
CLO Debt	27,258	1.5%	27,717	1.7%		%		%
Total Debt Securities	$ 1,784,374	100.0%	$ 1,669,946	100.0%	$ 1,375,601	100.0%	$ 1,301,270	100.0%

The following is our investment portfolio presented by geographic location of the investment at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Geographic Location	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	$ 15,134	0.7%	$ 17,040	0.8%	$ 74,239	5.2%	$ 75,207	5.1%
Cayman Islands	241,817	11.5%	245,726	11.7%		%		%
Ireland	14,918	0.7%	15,000	0.7%	14,908	1.0%	15,000	1.0%
Midwest US	427,430	20.4%	377,139	18.0%	358,540	25.0%	340,251	23.4%
Northeast US	293,181	14.0%	313,437	15.0%	242,039	16.9%	234,628	16.0%
Southeast US	642,984	30.6%	634,945	30.4%	234,528	16.3%	208,226	14.2%
Southwest US	193,627	9.2%	234,433	11.2%	189,436	13.2%	266,004	18.2%
Western US	270,222	12.9%	256,501	12.2%	322,044	22.4%	323,694	22.1%
Total Portfolio	$ 2,099,313	100.0%	$ 2,094,221	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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The following is our investment portfolio presented by industry sector of the investment at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012				June 30, 2011			
Industry	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	$ 56	0.0%	$	%	$ 56	0.0%	$ 35	0.0%
Automobile / Auto Finance	32,806	1.6%	32,478	1.6%	41,924	2.9%	42,444	2.9%
Biomass Power(1)		%		%	2,540	0.2%		%
Business Services	3,164	0.2%	3,288	0.2%	6,604	0.5%	6,787	0.5%
Chemicals	58,104	2.8%	58,104	2.8%	25,277	1.8%	25,277	1.7%
Commercial Services	80,418	3.8%	80,407	3.8%	34,625	2.4%	34,625	2.4%
Consumer Finance	305,521	14.6%	305,521	14.6%		%		%
Consumer Services	146,335	7.0%	147,809	7.1%	68,286	4.8%	68,286	4.7%
Contracting	15,949	0.8%		%	18,220	1.3%	1,767	0.1%
Diversified Financial Services	260,219	12.3%	264,128	12.6%		%		%
Diversified / Conglomerate Service		%	35	0.0%		%		%
Durable Consumer Products	153,327	7.3%	152,862	7.3%	141,779	9.9%	144,362	9.9%
Ecological	141	0.0%	240	0.0%	141	0.0%	194	0.0%
Electronics		%	144	0.0%	588	0.0%	1,374	0.1%
Energy(1)	63,245	3.0%	126,868	6.1%		%		%
Food Products	101,975	4.9%	96,146	4.5%	144,503	10.1%	146,498	10.0%
Gas Gathering and Processing(1)		%		%	42,003	2.9%	105,406	7.2%
Healthcare	141,990	6.8%	143,561	6.9%	156,396	10.9%	163,657	11.2%
Home and Office Furnishings, Housewares and Durable		%		%	1,916	0.1%	6,109	0.4%
Insurance	83,461	4.0%	83,461	4.0%	86,850	6.0%	87,448	6.0%
Machinery	4,684	0.2%	6,485	0.3%	13,179	0.9%	13,171	0.9%
Manufacturing	95,191	4.5%	127,127	6.1%	114,113	7.9%	136,039	9.3%
Media	165,866	7.9%	161,843	7.7%	121,302	8.4%	121,300	8.3%
Metal Services and Minerals		%		%	580	0.0%	4,699	0.3%
Mining, Steel, Iron and Non-Precious Metals and Coal Production(1)		%		%	1,448	0.1%		%
Oil and Gas Equipment Services	7,188	0.3%	7,391	0.4%		%		%
Oil and Gas Production	130,928	6.2%	38,993	1.9%	124,662	8.7%	70,923	4.8%
Oilfield Fabrication		%		%	23,076	1.6%	23,076	1.6%
Personal and Nondurable Consumer Products	39,351	1.8%	39,968	1.9%	15,147	1.1%	23,403	1.6%
Production Services	268	0.0%	2,040	0.1%	14,387	1.0%	15,357	1.0%
Property Management	51,770	2.5%	47,982	2.2%	52,420	3.7%	51,726	3.5%
Retail	63	0.0%	129	0.0%	14,669	1.0%	145	0.0%
Shipping Vessels(1)		%		%	11,303	0.8%	3,079	0.2%
Software & Computer Services	53,908	2.6%	54,711	2.6%	37,890	2.7%	38,000	2.7%
Specialty Minerals	37,732	1.8%	44,562	2.1%	30,169	2.1%	34,327	2.3%
Textiles and Leather	15,123	0.7%	17,161	0.8%	12,931	0.9%	15,632	1.1%
Transportation	50,530	2.4%	50,777	2.4%	76,750	5.3%	77,864	5.3%
Total Portfolio	$ 2,099,313	100.0%	$ 2,094,221	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

(1) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, Inc. ("CCEHI") and Change Clean Energy, Inc. ("CCEI"), Freedom Marine Holdings, LLC ("Freedom Marine") and Yatesville Coal Holdings, Inc. ("Yatesville") was transferred to Energy Solutions to consolidate all of our energy holdings under one management team.

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Portfolio Investment Activity

During the year ended June 30, 2012, we acquired $1,000,885 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately $112,627, funded $1,500 of revolver advances, and recorded PIK interest of $5,647, resulting in gross investment originations of $1,120,659. The more significant of these investments are described briefly in the following:

On July 1, 2011, we made a senior secured follow-on investment of $2,300 in Boxercraft to support the acquisition of Jones & Mitchell, a supplier of college-licensed apparel. The first lien note bears interest in cash at Libor plus 7.50% and has a final maturity on September 16, 2013.

On July 8, 2011, we made a senior secured investment of $39,000 to support the recapitalization of Totes Isotoner Corporation ("Totes"). The second lien note bears interest in cash at the greater of 10.75% or Libor plus 9.25% and has a final maturity on January 8, 2018.

On August 5, 2011 and September 7, 2011, we made senior secured follow-on investments of $3,850 and $11,800, respectively, in ROM to support the acquisitions of Havis Lighting Solutions, a supplier of products primarily used by emergency response and police vehicles, and the acquisition of a leading manufacturer of personal safety products for the transportation and industrial markets. The first lien notes bear interest in cash at the greater of 10.50% or Libor plus 9.50% and have a final maturity on May 8, 2013.

On August 9, 2011, we provided a $15,000 term loan to support the acquisition of Nobel Learning Communities, Inc., a leading national operator of private schools. The unsecured note bears interest in cash at 11.50% and interest in kind of 1.50% and has a final maturity on August 9, 2017.

On August 9, 2011, we made an investment of $32,116 to purchase 66.2% of the unrated subordinated notes in Babson CLO Ltd 2011-I.

On September 16, 2011, we acted as the facility agent and lead lender of a syndication of lenders that collectively provided $132,000 in senior secured financing to support the financing of Capstone Logistics, LLC ("Capstone"), a leading logistics company. This company provides a broad array of logistics services to a diverse group of blue chip customers in the grocery, food service, retail, and specialty automotive industries. As of June 30, 2012 our investment is $75,418 structured as $33,793 of Term Loan A and $41,625 of Term Loan B first lien notes. After the financing, we received repayment of the loan that was outstanding for Progressive Logistics Services, LLC. The Term Loan A notes bear interest in cash at the greater of 7.50% or Libor plus 5.50% and have a final maturity on September 16, 2016. The Term Loan B notes bear interest in cash at the greater of 13.50% or Libor plus 11.50% and have a final maturity on September 16, 2016.

On September 30, 2011, we provided a $23,000 senior secured loan to support the recapitalization of Anchor Hocking, LLC ("Anchor Hocking"), a leading designer, manufacturer, and marketer of high quality glass products for the retail, food service, and OEM channels. The second lien note bears interest in cash at the greater of 10.50% or Libor plus 9.00% and has a final maturity on September 27, 2016.

On October 13, 2011 and October 19, 2011, we made investments of $9,319 and $1,358, respectively, to purchase 32.9% of the unrated subordinated notes to Apidos CLO VIII, Ltd ("Apidos VIII").

On October 24, 2011, we made a secured second lien investment of $6,000 in Renaissance Learning, Inc., a leading provider of technology based school improvement and student assessment programs. The second lien loan bears interest in cash at the greater of 12.0% or Libor plus 10.50% and has a final maturity on October 19, 2018.

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On October 28, 2011, we made a follow-on investment of $8,200 in Empire Today, LLC. The follow-on first lien note bears interest in cash at 11.375% and has a final maturity on February 1, 2017.

On November 4, 2011, we made a secured second lien investment of $15,000 to support the acquisition of Injured Workers Pharmacy, LLC, a specialty pharmacy services company, in a private equity backed transaction. The secured loan bears interest in cash at the greater of 12.0% or Libor plus 7.50% and has a final maturity on November 4, 2017.

On December 2, 2011, we made a secured second-lien follow-on investment of $7,500 to American Gilsonite Company ("American Gilsonite") for a dividend recapitalization. After the financing, we received a $1,383 dividend as a result of our equity holdings in American Gilsonite. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 2.5% and has a final maturity on March 10, 2016.

On December 22, 2011, we made a secured first lien investment of $31,083 to VanDeMark Chemicals, Inc ("VanDeMark"), a specialty chemical manufacturer. The secured loan bears interest in cash at the greater of 12.2% or Libor plus 10.2% and has a final maturity on December 31, 2014.

On December 22, 2011, we made an investment of $17,900 to purchase 13.2% of the secured Class D Notes and 86.0% of the unsecured Class E Notes in CIFC Funding 2011-I, Ltd ("CIFC"). The $2,500 secured Class D Notes bear interest in cash at Libor plus 5.0% and have a final maturity date on January 19, 2023. The $15,400 unsecured Class E Notes bear interest in cash at Libor plus 7.0% and have a final maturity on January 19, 2023.

On December 28, 2011, we made a secured first-lien follow-on investment of $4,750 in Energy Solutions in order to facilitate the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine. We invested $1,250 of equity in Energy Solutions and $3,500 of debt to Vessel Holdings LLC. The first lien note bears interest in cash at 18.0% and has a final maturity of December 12, 2016.

On December 28, 2011, we made a secured debt investment of $10,000 to support the acquisition of Hoffmaster Group, Inc. After the financing we received a repayment of the loan that was previously outstanding. The $10,000 second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.50% and has a final maturity date of January 3, 2019.

On December 28, 2011, we made a secured debt investment of $37,218 to support the recapitalization of NRG. After the financing, we received repayment of the $13,080 loan that was previously outstanding and a dividend of $6,711 as a result of our equity holdings. In addition, we sold 392 shares of NRG common stock for $13,266, realizing a gain of $12,131. Our remaining 408 shares of NRG common stock held by us were sold back to NRG on February 2, 2012. The secured first lien note bears interest at 15.0% and has a final maturity on December 27, 2016.

On December 30, 2011, we provided $8,000 of senior secured debt to Hi-Tech Testing Service, Inc. and Wilson Inspection X-Ray Services, Inc, a provider of non-destructive testing services to detect leaks and other defects in pipes, vessels, and related equipment for the oil and gas pipeline, chemical and paper and pulp industries. The secured note bears interest in cash at 11.0% and has a final maturity on September 26, 2016.

On January 12, 2012, we made a follow-on investment of $16,500 to purchase 86.8% of the secured Class D Notes in CIFC. The secured Class D Notes bear interest in cash at Libor plus 5.0% and have 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, LLC, a financial services processing company purchased by a leading private

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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 17, 2017.

On February 10, 2012, we provided $15,000 of secured second-lien financing to Rocket Software, Inc., 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., 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 VIII.

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 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., 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 June 30, 2012, our investment is $26,367 structured as $12,686 of Term Loan C and $13,681 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.

On March 27, 2012, we provided $12,500 of senior secured financing to IDQ Holdings, Inc., a manufacturer of a refrigerant refill kit 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 April 2, 2012 we made an investment of $22,000 to purchase 51.2% of the subordinated notes in Galaxy.

On April 16, 2012, we made a senior secured debt investment of $15,000 to support the acquisition of Nixon, a designer and distributor of watches and accessories. The first lien note bears interest in cash at 8.75% and interest in kind of 2.75% and has a final maturity of April 16, 2018.

On April 20, 2012 we made an investment of $43,195 to purchase 71.1% of the LP Certificates in Symphony.

On May 17, 2012, we made an investment of $50,000 in Archipelago, providers of educational software which deliver online curriculum and assessments to the U.S. educational market. The second lien note bears interest in cash at the greater of 11.25% or Libor plus 9.75% and has a final maturity of May 17, 2019.

On May 21, 2012, we made a follow-on investment of $10,500 in Stauber. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 7.5% and has a final maturity of May 21, 2017.

On June 1, 2012, we made a senior secured second lien investment of $17,500 in SMC. The second lien note bears interest in cash at 12.0% and interest in kind of 5.0% and has a final maturity of May 31, 2017.

On June 7, 2012, we provided $51,100 of senior secured financing to Naylor, an outsourced provider of media and communications services to professional, trade and interest associations, of which $48,600 was funded at closing. The first lien notes bear interest in cash at the greater of 11.0% or Libor plus 8.0% and has a final maturity of June 7, 2017.

On June 7, 2012, we made an investment of $27,449 to purchase 73.6% of the unrated subordinated notes in Babson 2012-IIA.

On June 14, 2012, we made an investment of $18,723 to purchase 52.7% of the subordinated notes in Apidos IX.

On June 15, 2012, we completed the acquisition of the businesses of First Tower. We acquired 80.1% of First Tower's businesses for $110,200 in cash and 14,518,207 unregistered shares of our common stock. The first lien note bears interest at the greater of 18.50% or Libor plus 17.0% and has a final maturity of June 30, 2022.

On June 22, 2012, we made an investment of $25,810 to purchase 51.0% of the subordinated notes in Madison IX.

During the year ended June 30, 2012, we closed-out fifteen positions which are briefly described below.

On October 31, 2011, IEC-Systems, LP/Advanced Rig Services, LLC ("IEC/ARS") repaid the $20,909 loan receivable to us.

On November 21, 2011, we received an equity distribution from the sale of our shares of Fairchild Industrial Products, Co. ("Fairchild") common and preferred stock, realizing $1,549 of gross proceeds and a total gain of $960 on settlement of the investment.

On December 29, 2011, Iron Horse Coiled Tubing, Inc ("Iron Horse") repaid the $11,338 loan receivable to us.

On December 30, 2011, we exited our investment in Mac & Massey and received $10,239 for repayment of the $9,323 loan receivable to us and monetization of our equity position, resulting in a realized gain of $820. We recognized $694 of accelerated purchase discount accretion in the quarter ended December 31, 2011.

On January 9, 2012, Arrowhead repaid the $27,000 loan receivable to us.

On January 31, 2012, 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 year ended June 30, 2012. Further, we received a $3,800 advisory fee for the transaction, which was recorded as other income in the year ended June 30, 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

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results for year ended June 30, 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 when and if received.

On March 16, 2012, VPSI, Inc. repaid the $16,958 loan receivable to us.

On March 23, 2012, Anchor Hocking repaid the $20,444 loan receivable to us.

On March 30, 2012, ROM repaid the $31,638 loan receivable to us.

On May 8, 2012, SonicWALL repaid the $23,000 loan receivable to us.

On May 31, 2012, Copernicus repaid the remaining $17,596 loan receivable to us and we received $2,562 for our preferred stock positions, resulting in a realized gain of $2,283.

On June 1, 2012, we sold our membership interests in C&J for $4,000, recognizing a realized gain of $3,420 on the sale, and received an advisory fee of $1,500.

On June 15, 2012, we exited our investment in Nupla for a sales price of $6,850. After payment of expenses, including accumulated managerial assistance of $450 paid to our Administrator and a $1,500 structuring fee paid to us, the proceeds were applied to repayment of the loans receivable to us, resulting in a realized gain of $2,907, as this loan was acquired in the Patriot Capital acquisition at a discount to the par amount outstanding.

On June 29, 2012, Sport Helmets repaid the $17,556 loan receivable to us. We recognized $2,585 of accelerated purchase discount accretion in the quarter ended June 30, 2012.

During the year ended June 30, 2012, we also received principal amortization payments of $23,923 on several loans, and $38,418 of partial prepayments primarily related to AIRMALL, AFI, Ajax, Byrider Systems Acquisition Corp., Copernicus, EXL, Fischbein, Iron Horse, LHC, Nupla, Northwestern, Progrexion Holdings, Inc. ("Progrexion"), ROM, Seaton Corp. and Stauber Performance Ingredients, Inc.

During the year ended June 30, 2012, we recognized $6,613 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $6,613 is $3,083 of normal accretion and $3,530 of accelerated accretion resulting from the repayment of Mac & Massey, Nupla, ROM and Sport Helmets. We expect to recognize $284 of normal accretion during the three months ended September 30, 2012.

During the year ended June 30, 2011, we recognized $22,084 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $22,084 is $4,912 of normal accretion, $12,035 of accelerated accretion resulting from the repayment of Impact Products, Label Corp and Prince, and $4,968 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead, Copernicus, Fischbein and Northwestern. The restructured loans for Arrowhead, Copernicus, Fischbein and Northwestern were issued at market terms comparable to other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayments which were recognized as interest income.

During the period from the acquisition of Patriot on December 2, 2009 to June 30, 2010, we recognized $18,795 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in this amount is $4,579 of normal accretion and $14,216 of accelerated accretion resulting from the early repayments of four loans, three revolving lines of credit, sale of one investment position and restructuring of our loans to AFI, EXL, LHC, Prince and ROM. The revised terms were more favorable than the original terms and increased the present value of the future cash flows. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income.

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

Quarter-End	Acquisitions(1)	Dispositions(2)
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	$ 3,249,313	$ 1,157,677

(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 June 30, 2012 the Audit Committee considered valuations from the independent valuation firm having an aggregate range of $2,018,360 to $2,190,139, excluding money market investments.

In determining the range of value for debt instruments, the independent valuation firm generally shadow rated the investment and then based upon the range of ratings, determined appropriate yields

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to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

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 and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of $2,094,221, excluding money market investments.

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

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

AIRMALL USA, Inc.

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

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

The Board of Directors decreased the fair value of our investment in AIRMALL to $47,982 as of June 30, 2012, a discount of $3,788 from its amortized cost, compared to the $694 unrealized depreciation recorded at June 30, 2011.

Ajax Rolled Ring & Machine, Inc.

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

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded $22,000 of senior secured term debt, $11,500 of subordinated term debt and $6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional $3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid $3,461 of this secured subordinated debt during the quarter ended September 30, 2010. As of June 30, 2012, we control 78.01% of the fully-diluted common

and preferred equity. The principal balance of our senior debt to Ajax was $20,167 and new debt was $15,035 as of June 30, 2012.

The Board of Directors increased the fair value of our investment in Ajax to $52,410 as of June 30, 2012, a premium of $11,151 from its amortized cost, compared to the $7,822 unrealized depreciation recorded at June 30, 2011.

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

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

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. ("GSHI") 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 CCEHI, CCEI, Freedom Marine and 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 will be paid based on the future performance of Gas Solutions. Our loans to and investment in Energy Solutions remain outstanding as Energy Solutions and will continue as a portfolio company of Prospect managing other energy-related subsidiaries. The cash balances of Energy Solutions continue to collateralize our loan positions.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be $126,868 for our debt and equity positions at June 30, 2012 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At June 30, 2012 and June 30, 2011, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at $63,623 and $51,491 above its amortized cost, respectively. We received a distribution of $33,250 from Energy Solutions which was recorded as dividend income during the quarter ended June 30, 2012.

First Tower Holdings of Delaware LLC

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 150 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower's 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 Holdings of 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. We received $8,075 in structuring fee income as part of the acquisition.

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The Board of Directors set the fair value of our investment in First Tower to $287,953 as of June 30, 2012, equal to its amortized cost.

Integrated Contract Services, Inc.

ICS is a company that was created to purchase the assets of ESA Environmental Specialists, Inc. ("ESA") out of bankruptcy in April 2007. ESA was a contract management company with core expertise in construction, environmental and engineering services and competed in the market for government contracts. Prior to January 2009, ICS owned the assets of ESA and 100% of the stock of The Healing Staff ("THS"). THS is a contractor focused on providing outsourced medical staffing solutions primarily to government agencies.

ESA originally defaulted under our contract governing our investment in ESA, prompting us to commence foreclosure actions with respect to certain ESA assets in respect of which we have a priority lien. In response to our actions, ESA filed voluntarily for reorganization under the bankruptcy code on August 1, 2007. On September 20, 2007, the U.S. Bankruptcy Court approved a Section 363 Asset Sale from ESA to us. To complete this transaction, we contributed our ESA debt to a newly-formed entity, ICS, and provided funds for working capital on October 9, 2007. In return for the ESA debt, we received senior secured debt in ICS of equal amount to our ESA debt, preferred stock of ICS, and 49% of the ICS common stock. ICS subsequently ceased operations and assigned the collateral back to us. ICS is in default of both payment and financial covenants. During September and October 2007, we provided $1,170 to THS for working capital.

In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS and certain ESA assets. THS provides outsourced medical staffing and security staffing services to governmental and commercial enterprises. In November 2009, THS was informed that the U.S. Air Force would not exercise its option to renew its contract. THS continues to solicit new contracts to replace the revenue lost when the Air Force contract ended. As part of its strategy to recovery from the loss of the Air Force contract, in 2010 THS started a new business, Vets Securing America, Inc. ("VSA"), to provide out-sourced security guards staffed primarily using retired military veterans. 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. 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. There were no additional fundings during the six months ended June 30, 2012. In October 2011, we sold a building acquired from ESA for $894. In January 2012, we received $2,250 towards an ESA litigation settlement. The proceeds from both of these transactions were used to reduce the outstanding loan balance due to us. In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider we agreed to subordinate our first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

Based upon an analysis of the liquidation value of the ESA assets and the enterprise value of THS/VSA, our Board of Directors determined the fair value of our investment in ICS to be zero at June 30, 2012, a reduction of $15,949 from its amortized cost, compared to the $16,453 unrealized loss recorded at June 30, 2011.

Manx Energy, Inc.

Manx was formed for the purpose of rolling up the assets of two existing Prospect portfolio companies, Coalbed, LLC ("Coalbed") and Appalachian Energy Holdings, LLC ("AEH"), bringing

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

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. The assets of the three companies were combined under new common management. We funded $2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of $750 in Manx to support ongoing operations. On June 30, 2012, Manx assigned the membership interests of Coalbed and AEH to Wolf, a newly-formed, separately owned holding company.

The Board of Directors decreased the fair value of our investment in Manx to zero as of June 30, 2012, a reduction of $11,028 from its amortized cost, compared to the $17,707 unrealized loss recorded at June 30, 2011.

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 merged with and into Wolf, with Wolf surviving. 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.

The Board of Directors set the fair value of our investment in Wolf to zero as of June 30, 2012, a reduction of $7,991 from its amortized cost.

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. Two of our portfolio companies experienced such volatility due to improved operating results and experienced meaningful increases in valuation during the year ended June 30, 2012 Ajax and R-V. The valuation of Ajax increased due to improved operating results and emergent customer base. The value of our equity position in Ajax has increased to $17,191 as of June 30, 2012, a premium of $11,134 to its cost, compared to the $6,057 unrealized loss recorded at June 30, 2011. The valuation of R-V has increased due to improved operating results. The value of our equity position in R-V has increased to $23,856 as of June 30, 2012, a premium of $17,087 to its cost, compared to the $1,348 unrealized gain recorded at June 30, 2011. Six of the other controlled investments have been valued at discounts to the original investment. Four of the control investments are valued at the original investment amounts or higher. Overall, at June 30, 2012, the control investments are valued at $46,474 above their amortized cost.

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We hold three affiliate investments at June 30, 2012. The affiliate investments reported strong operating results with valuations remaining relatively consistent from June 30, 2011. Our equity investment in Biotronic experienced a decrease in valuation as in the prior year we anticipated that the company would be sold at a substantial premium to our cost basis. This sales process was discontinued during the year ended June 30, 2012 as the buyer and Biotronic could not agree to terms acceptable to each party. The value of our equity position in Biotronic has decreased to $2,693 as of June 30, 2012, a discount of $186 to its amortized cost, compared to the $4,127 unrealized gain recorded at June 30, 2011. Overall, at June 30, 2012, affiliate investments are valued $1,887 above their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. The exception to this categorization relates to investments which were acquired in the Patriot Acquisition, many of which were acquired at significant discounts to par value, and any changes in operating results or interest rates can have a significant effect on the value of such investments. During the year ended June 30, 2012, our investment in Stryker Energy, LLC ("Stryker") experienced a decrease in valuation due to declining operating results and lower natural gas prices. The value of our investment in Stryker has decreased to $1,623 as of June 30, 2012, a discount of $31,088 to its amortized cost, compared to the $6,706 unrealized loss recorded at June 30, 2011. The decrease was due primarily to a drop in natural gas prices during the year ended June 30, 2012. During the year ended June 30, 2012, our investment in H&M Oil & Gas, LLC ("H&M") also experienced a significant decrease in valuation due to declining operating results. The value of our investment in H&M has decreased to $35,031 as of June 30, 2012, a discount of $29,418 to its amortized cost, compared to the $21,556 unrealized loss recorded at June 30, 2011. Other Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. Overall, at June 30, 2012, other Non-control/Non-affiliate investments are valued $7,053 above their amortized cost, excluding our investments in H&M and Stryker.

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 and April 2012, 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 InterNotes® amounts and outstanding borrowings at June 30, 2012 and June 30, 2011:

	As of June 30, 2012		As of June 30, 2011	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	$ 492,500	$ 96,000	$ 325,000	$ 84,200
Senior Convertible Notes	$ 447,500	$ 447,500	$ 322,500	$ 322,500
Senior Unsecured Notes	$ 100,000	$ 100,000	$	$
InterNotes®	$ 20,638	$ 20,638	$	$

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The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® at June 30, 2012:

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 Years	3 - 5 Years	After 5 Years
Revolving Credit Facility	$ 96,000	$	$ 96,000	$	$
Senior Convertible Notes	447,500			317,500	130,000
Senior Unsecured Notes	100,000				100,000
InterNotes®	20,638				20,638
Total contractual obligations	$ 664,138	$	$ 96,000	$ 317,500	$ 250,638

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 and preferred stock, 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 and warrants to purchase such securities in an amount up to $465,163 as of June 30, 2012. 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 June 11, 2010, we closed an extension and expansion of our existing credit facility with a syndicate of lenders through PCF (the "2010 Facility"). The 2010 Facility, which had $325,000 total commitments as of June 30, 2011, included an accordion feature which allowed the Syndicated Facility to accept up to an aggregate total of $400,000 of commitments, a limit which was met on September 1, 2011. Interest on borrowings under the 2010 Facility was one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charged a fee on the unused portion of the 2010 Facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

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 $492,500 under the 2012 Facility as of June 30, 2012; which was increased by $507,500 in July 2012 (See *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to $650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At June 30, 2012, 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 June 30, 2012 and June 30, 2011, we had $451,252 and $255,673, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was $96,000 and $84,200, 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 commitment amount of $492,500. At June 30, 2012, the investments used as collateral for the 2012 Facility had an aggregate market value of $783,384, which represents 51.8% of our net assets. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF holds all of these investments at market value as of June 30, 2012. The release of any assets from PCF requires the approval of the facility agent.

Concurrent with the extension of our 2012 Facility, in March 2012, we wrote off $304 of the unamortized debt issue costs associated with the previous credit facility, in accordance with ASC 470-50, *Debt Modifications and Extinguishments.* In connection with the origination and amendments of the 2012 Facility, we incurred $8,428 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 $8,722 remains to be amortized.

During the years ended June 30, 2012, June 30, 2011 and June 30, 2010, we recorded $14,883, $8,507 and $8,382 of interest costs, unused fees and amortization of financing costs on our credit facility as interest expense, respectively.

Senior Convertible Notes

On December 21, 2010, we issued $150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds following underwriting expenses of approximately $145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 88.0902 and 88.1030 shares of common stock, respectively, per $1 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately $11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (December 21, 2010) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes will be increased if monthly cash dividends paid to common shares exceed the rate of $0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued $172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately $167,325. Interest on the 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 78.3699 and 78.3835 shares, respectively, of common stock per $1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately $12.76 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (February 18, 2011) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes will be increased when monthly cash dividends paid to common shares exceed the rate of $0.101150 per share.

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On April 16, 2012, we issued $130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds following underwriting expenses of approximately $126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 85.8442 shares of common stock per $1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately $11.65 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (April 16, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.10150 per share.

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

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate of the 2015 Notes 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 Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

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

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In connection with the issuance of the Senior Convertible Notes, we incurred $14,527 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments,* of which $11,713 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the year ended June 30, 2012, we recorded $22,197 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 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for net proceeds net of offering expenses of $97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

In connection with the issuance of the 2022 Notes, we incurred $3,200 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments,* of which $3,180 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the year ended June 30, 2012, we recorded $1,178 of interest costs and amortization of financing costs on the 2022 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"). Additional agents appointed by the Company from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement.

These notes will be our direct unsecured senior obligations and will rank equally with all of our unsecured senior indebtedness from time to time 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.

In connection with the issuance of the Prospect Capital InterNotes®, we incurred $812 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, Debt Modifications and Extinguishments, of which $800 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the year ended June 30, 2012, we issued $20,638 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately $20,202. These notes were issued with stated interest rates ranging from 6.50% to 7.00% with an average rate of 6.78%. These notes mature between June 15, 2019 and June 15, 2022. We issued an additional $38,473 in aggregate principal amount of our Prospect Capital InterNotes® subsequent to June 30, 2012. (See *Recent Developments*.)

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The following table shows our issuances to date:

Date of Issuance	Amount	Interest Rate	Maturity Date
March 1, 2012	$ 4,000	7.00%	March 15, 2022
March 8, 2012	1,465	6.90%	March 15, 2022
April 5, 2012	4,000	6.85%	April 15, 2022
April 12, 2012	2,462	6.70%	April 15, 2022
April 26, 2012	2,054	6.50%	April 15, 2022
June 14, 2012	2,657	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	June 15, 2019
July 6, 2012	2,778	6.45%	June 15, 2019
July 12, 2012	5,673	6.35%	June 15, 2019
July 19, 2012	6,810	6.30%	June 15, 2019
July 26, 2012	5,667	6.20%	June 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019

Net Asset Value

During the year ended June 30, 2012, we raised $337,562 of additional equity, net of offering costs, by issuing 30,970,696 shares of our common stock. The following table shows the calculation of net asset value per share as of June 30, 2012 and June 30, 2011:

	As of June 30, 2012	As of June 30, 2011
Net Assets	$ 1,511,974	$ 1,114,357
Shares of common stock outstanding	139,633,870	107,606,690
Net asset value per share	$ 10.83	$ 10.36

At June 30, 2012, we had 139,633,870 of our common stock issued and outstanding.

Results of Operations

Net increase in net assets resulting from operations for the years ended June 30, 2012, 2011 and 2010 was $190,904, $118,238 and $19,625, respectively, representing $1.67, $1.38 and $0.33 per weighted average share, respectively. During the year ended June 30, 2012, we experienced net unrealized and realized gains of $4,220 or approximately $0.04 per weighted average share primarily from significant write-ups of our investments in Ajax, Energy Solutions and R-V, and our sale of NRG for which we realized a gain of $36,940. These instances of appreciation were partially offset by unrealized depreciation in Biotronic, H&M, New Meatco Provisions, LLC ("Meatco"), NMMB, Stryker and Wind River Resources Corp. and Wind River II Corp. ("Wind River"). Net investment income increased on a weighted average per share basis from $1.10 to $1.63 for the years ended June 30, 2011 and 2012, respectively. This increase is primarily due to the sale of NRG, for which we received a $26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the year ended June 30, 2012, and an increase in dividend income received from Energy Solutions and NRG. These increases were partially offset by a $15,471 decline in interest income from purchase discount accretion from the assets acquired from Patriot.

During the year ended June 30, 2011, we experienced net unrealized and realized gains of $24,017, or approximately $0.28 per weighted average share, primarily from significant write-ups of our investments in Ajax, Biotronic, GSHI, Iron Horse, NRG and Sport Helmets, and our sale of our

common equity in Fischbein and Miller Petroleum, Inc. ("Miller"), for which we realized gains of $9,893 and $7,977, respectively. These instances of realized and unrealized appreciation were partially offset by unrealized depreciation in H&M, Shearer's Food's Inc. ("Shearer's") and Stryker. During the year ended June 30, 2010, we experienced net unrealized and realized losses of $47,565 or approximately $0.80 per weighted average share due primarily due to the impairment of Yatesville (See Investment Valuations for further discussion.). The $51,228 realized loss for Yatesville was partially offset by write-ups of our investments in Ajax, Freedom Marine, H&M, Manx, NRG, and R-V. Net investment income decreased on a weighted average per share basis from $1.13 to $1.10 for the years ended June 30, 2010 and 2011, respectively. The per share decrease for the year ended June 30, 2011 is primarily due to a decrease in dividends from existing equity investments along with new equity investments in the portfolio which have not yet declared any dividends and the non-recurring nature of the gain from the Patriot Acquisition during the year ended June 30, 2010 offset by an increase in structuring fees collected in the fiscal year ended June 30, 2011.

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was $320,910, $169,476, and $114,559 for the years ended June 30, 2012, June 30, 2011 and June 30, 2010, respectively. During the year ended June 30, 2012, the primary driver of the increase in investment income is primarily the result of a larger income producing portfolio and the deployment of additional capital in revenue-producing assets through increased origination and increased dividends and other income received from Energy Solutions, First Tower and NRG. We received dividends from NRG of $15,011 and $3,600 during the years ended June 30, 2012 and June 30, 2011, respectively. We received dividends from Energy Solutions of $47,850 and $9,850 during the years ended June 30, 2012 and June 30, 2011, respectively. In conjunction with the sale of NRG, we also received a $26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income during the year ended June 30, 2012. We recognized $22,212 of structuring and advisory fees during the year ended June 30, 2012 form our investments in Energy Solutions, First Tower and NRG. During the year ended June 30, 2011, the primary driver of the increase in investment income is the deployment of additional capital in revenue-producing assets through increased origination, for which we recognized an increase of $16,107 in structuring fee income, and $44,685 in cash and payment-in-kind interest income. This $44,685 of interest income excludes purchase discount accretion from the assets acquired from Patriot and is the result of a larger income producing investment portfolio. These increases were partially offset by a

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$4,650 decline in dividend income from GSHI as well as a decline, year over year, related to the one-time gain of $8,632 in the fiscal year ended June 30, 2010, recorded upon acquiring Patriot.

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

	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010
Interest income	$ 219,536	$ 134,454	$ 86,518
Dividend income	64,881	15,092	15,366
Other income	36,493	19,930	12,675
Total investment income	$ 320,910	$ 169,476	$ 114,559
Average debt principal of investments	$ 1,391,588	$ 871,400	$ 507,907
Weighted-average interest rate earned	15.6%	15.2%	16.8%

Average interest income producing assets have increased from $871,400 for the year ended June 30, 2011 to $1,391,588 for the year ended June 30, 2012. The increase in annual returns is primarily the result of the sale of our investment in NRG for which we received a $26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the year ended June 30, 2012. Without this adjustment, the weighted average interest rate earned on debt investments would have been 13.7% for the year ended June 30, 2012. The remaining decrease in annual returns is primarily the result of accretion on the assets acquired from Patriot on which we recognized $6,613 and $22,084 during the years ended June 30, 2012 and June 30, 2011, respectively. Without these adjustments, the weighted average interest rates earned on debt investments would have been 13.2% and 12.7% for the year ended June 30, 2012 and 2011, respectively.

Average interest income producing assets have increased from $507,907 for the year ended June 30, 2010 and $871,400 for the year ended June 30, 2011. The decrease in annual returns is primarily the accretion on the assets acquired from Patriot on which we recognized $22,084 and $18,794 during the years ended June 30, 2011 and June 30, 2010, respectively. Without these adjustments, the weighted average interest rates earned on debt investments would have been 12.7% and 13.2% for the years ended June 30, 2011 and 2010, respectively.

Investment income is also generated from dividends and other income. Dividend income increased from $15,092 for the year ended June 30, 2011 to $64,881 for the year ended June 30, 2012. This $49,789 increase in dividend income is primarily attributed to an increase in the dividends received from our investments in Energy Solutions and NRG due to increased profits generated by the portfolio companies. We received dividends from NRG of $15,011 and $3,600 during the years ended June 30, 2012 and June 30, 2011, respectively. We received dividends from Energy Solutions of $47,850 and $9,850 during the years ended June 30, 2012 and June 30, 2011, respectively. 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.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Comparing the year ended June 30, 2011 to the year ended June 30, 2012, income from other sources increased from $19,930 to $36,493. This $16,563 increase is primarily due to $14,137 of structuring and advisory fees recognized during the year ended June 30, 2012 from our investments in Energy Solutions and NRG. The remaining $2,426 increase is primarily due to $21,088 of structuring fees recognized, excluding those received from our investments in Energy Solutions and

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NRG, during the year ended June 30, 2012 primarily from the Capstone, First Tower, Naylor and Totes originations, in comparison to $18,494 of structuring fees recognized during the year ended June 30, 2011.

Comparing the year ended June 30, 2010 to the year ended June 30, 2011, income from other sources, excluding the $8,632 gain on the Patriot acquisition, increased from $4,043 to $19,930. This $15,887 increase is primarily due to $18,494 of structuring fees recognized during the year ended June 30, 2011 primarily from the AIRMALL, Cargo Airport Services USA, LLC, CRT MIDCO, LLC, Progrexion, Safe-Guard, Springs Window Fashion, LLC, and NMMB originations, in comparison to $2,388 of structuring fees recognized during the year ended June 30, 2010.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate Prospect Capital Management (the "Investment Adviser") for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions in accordance with our Administration Agreement with Prospect Administration. Operating expenses were $134,226, $75,255 and $47,369 for the years ended June 30, 2012, June 30, 2011 and June 30, 2010, respectively.

The base investment advisory expenses were $35,836, $22,496 and $13,929 for the years ended June 30, 2012, June 30, 2011 and June 30, 2010, respectively. These increases are directly related to our growth in total assets. For the years ended June 30, 2012, June 30, 2011 and June 30, 2010, income incentive fees earned were $46,761, $23,555 and $16,798, respectively. The $23,116 increase in the income incentive fee for the year ended June 30, 2012 is driven by an increase in pre-incentive fee net investment income of $115,279 primarily due to an increase in interest income from a larger asset base and increased interest, dividend and other income generated by our investments in Energy Solutions, First Tower and NRG. In conjunction with the sale of NRG, we received a $26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income during the year ended June 30, 2012. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the years ended June 30, 2012, June 30, 2011 and June 30, 2010, we incurred $38,534, $17,598 and $8,382, respectively, of expenses related to our Syndicated Facility, 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 Syndicated Facility, InterNotes®, Senior Unsecured Notes and Senior Convertible Notes and the related indicators of leveraging capacity and indebtedness during these years.

	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010
Interest expense	$ 27,346	$ 9,861	$ 1,338
Amortization of deferred financing costs	8,510	5,366	5,297
Commitment and other fees	2,678	2,371	1,747
Total	$ 38,534	$ 17,598	$ 8,382
Weighted average debt outstanding	$ 502,038	$ 176,277	$ 23,910
Weighted average interest rate	5.45%	5.59%	5.60%
Facility amount at beginning of year	$ 325,000	$ 210,000	$ 175,000

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The increase in interest expense for the years ended June 30, 2012 and June 30, 2011 is due to the issuance of Senior Convertible Notes on December 21, 2010, February 18, 2011 and April 16, 2012 for which we incurred $20,234 and $8,374 of interest expense, respectively.

As our asset base has grown and we have added complexity to our capital raising activities, we have commensurately increased the size of our administrative and financial staff, accounting for a significant increase in the overhead allocation from Prospect Administration. Over the last two years, Prospect Administration has increased staffing levels along with costs passed through. The allocation of overhead expense from Prospect Administration was $6,848, $4,979 and $3,361 for the years ended June 30, 2012, 2011 and 2010, respectively. As our portfolio continues to grow, we expect to continue to increase the size of our administrative and financial staff on a basis that provides increasing returns to scale. Other allocated expenses from Prospect Administration will continue to increase along with the increase in staffing and asset base.

Total operating expenses, net of management fees, interest costs and allocation of overhead from Prospect Administration ("Other Operating Expenses"), were $6,337, $6,627 and $4,899 for the years ended June 30, 2012, 2011 and 2010, respectively. The decrease in Other Operating Expenses during the year ended June 30, 2012 when compared to the year ended June 30, 2011 is primarily the result of a $1,000 insurance claim settlement for legal fees expensed in previous periods that was received during the year ended June 30, 2012. The increase in Other Operating Expenses during the year ended June 30, 2011 when compared to the year ended June 30, 2010 is primarily the result of a $1,058 increase in costs expensed in connection with abandoned originations and portfolio company acquisitions, an $818 increase in administrative expenses incurred to support of our portfolio and a $589 increase in unreimbursed legal and consulting fees incurred related to the management of loans. These increases were offset by the non-recurrence of the costs incurred in connection with the merger discussions with Allied Capital Corporation expensed in the 2010 period.

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Our net investment income was $186,684, $94,221 and $67,190 for the years ended June 30, 2012, June 30, 2011 and June 30, 2010, respectively, or $1.63 per share, $1.10 per share and $1.13 per share, respectively. The $92,463 increase for the year ended June 30, 2012 is primarily due to a $151,434 increase in investment income offset by an increase in operating expenses of $58,971. The $151,434 increase in investment income is due to increases of $85,082, $49,789 and $16,563 in interest income, dividend income and other income, respectively, due to the increased size of our portfolio for which we have recognized additional interest income, dividends, structuring fees and advisory fees recognized primarily from our investments in Energy Solutions, First Tower and NRG. In conjunction with the sale of NRG we also received a $26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the year ended June 30, 2012. The offsetting $58,971 increase in operating expenses is primarily due to a $36,456 increase in advisory fees due to the growing size of our portfolio and related income, $20,936 of additional interest and credit facility expenses and a $1,869 increase in overhead allocated from Prospect Administration.

The $27,031 increase for the year ended June 30, 2011 in comparison to the year ended June 30, 2010 is due to an increase of $54,917 in investment income primarily due to increases of $47,936 and $7,255 in interest income and other income, respectively, due to the increased size of our portfolio for which we have recognized additional interest income and structuring fees. The $54,917 increase in investment income is offset by an increase in operating expenses of $27,886, primarily due to a $15,324 increase in advisory fees due to the growing size of our portfolio and related income, and $9,216 of additional interest and credit facility expenses. The per share decrease for the year ended June 30, 2011 is primarily due to a decrease in dividends from existing equity investments along with new equity investments in the portfolio which have not yet declared any dividends and the non-recurring nature of

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the gain from the Patriot Acquisition during the year ended June 30, 2010 offset by an increase in structuring fees collected in the fiscal year ended June 30, 2011.

Net Realized Gains (Losses), Increase (Decrease) in Net Assets from Net Changes in Unrealized Appreciation/Depreciation

Net realized gains (losses) were $36,588, $16,465 and ($51,545) for the years ended June 30, 2012, June 30, 2011 and June 30, 2010, respectively. The net realized gain for the year ended June 30, 2012 was due primarily to the sale of NRG common stock for which we realized a gain of $36,940 and the sale of our equity interests in Copernicus, C&J, Fairchild, Fischbein, Mac & Massey, Nupla and Sport Helmets for which we realized a total gain of $14,317. These gains were offset by our impairment of Deb Shops. During the year ended June 30, 2012, Deb Shops filed for bankruptcy and a plan for reorganization was proposed. The plan was approved by the bankruptcy court and our debt position was eliminated with no payment to us. We determined that the impairment of Deb Shops was other-than-temporary on September 30, 2011 and recorded a realized loss of $14,607 for the full amount of the amortized cost. The asset was completely written off when the plan of reorganization was approved. The net realized gain for the year ended June 30, 2011 was due primarily to gains from the sales of our common equity in Fischbein and Miller of $9,893 and $7,977, respectively. The net realized loss of $51,545 for the year ended June 30, 2010 was due primarily to the impairment of Yatesville. (See *Investment Valuations* for further discussion.)

Net (decrease) increase in net assets from changes in unrealized appreciation (depreciation) was ($32,368), $7,552 and $3,980 for the years ended June 30, 2012, June 30, 2011 and June 30, 2010, respectively, or ($0.28) per share, $0.09 per share and $0.07 per share, respectively. For the year ended June 30, 2012, the $32,368 decrease in net assets from the net change in unrealized appreciation/depreciation was driven by write-downs of $68,197 related to our investments in H&M, Meatco and Stryker, as well as the elimination of the unrealized appreciation resulting from the sale of NRG mentioned above. The unrealized depreciation was partially offset by unrealized appreciation of approximately $34,712 related to our investments in Ajax and R-V. For the year ended June 30, 2011, the $7,552 increase in net assets from the net change in unrealized appreciation was driven by significant write-ups of $54,916 related to our investments in Ajax, Biotronic, GSHI, Iron Horse, NRG and Sport Helmets. The unrealized appreciation were partially offset by unrealized depreciation of approximately $35,689 related to our investments in H&M, ICS, Manx, Shearer's, Stryker, and $10,840 related to the repayment of Prince. For the year ended June 30, 2010, the net unrealized appreciation was driven by $25,184 of write-ups in our investments in Fischbein, GSHI, Prince, Shearer's, and Regional Management Corporation, and by the disposition of previously written-down investment in Yatesville mentioned above with an unrealized net appreciation of $35,471, which, in turn, were offset by $56,954 of write-downs in our investments in Deb Shops, Freedom Marine, H&M, Manx, NRG, R-V and Wind River.

Financial Condition, Liquidity and Capital Resources

For the years ended June 30, 2012, June 30, 2011 and Jun 30, 2010, our operating activities (used)/provided ($448,452), ($581,609) and $54,838 of cash, respectively. Investing activities used $106,586 for the acquisition of Patriot for the year ended June 30, 2010. There were no investing activities for the years ended June 30, 2012 and June 30, 2011. Financing activities provided cash flows of $449,785, $582,020 and $42,887 for the years ended June 30, 2012, June 30, 2011 and June 30, 2010, respectively. Dividends paid were $127,564, $91,247 and $82,908 for the years ended June 30, 2012, June 30, 2011 and June 30, 2010, respectively.

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

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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 year ended June 30, 2012, we borrowed $726,800 and made repayments totaling $715,000 under our revolving credit facility. As of June 30, 2012, we had $96,000 outstanding borrowings on our revolving credit facility, $447,500 outstanding on our Senior Convertible Notes, $100,000 outstanding on our Senior Unsecured Notes and $20,638 outstanding on InterNotes®. (See Note 5, Note 6 and Note 7 to our consolidated financial statements).

On October 21, 2011, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration, we can issue up to $465,163 of additional equity securities as of June 30, 2012.

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

On July 18, 2011, we issued 1,500,000 shares in connection with the exercise of an overallotment option granted with the June 21, 2011 offering of 10,000,000 shares which were delivered June 24, 2011, raising an additional $15,225 of gross proceeds and $14,895 of net proceeds.

On February 28, 2012, we issued 12,000,000 shares of our common stock, raising an additional $131,400 of gross proceeds and $129,480 of net proceeds.

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"). Through the ATM Program, we anticipate generating an aggregate of approximately $100,000 in net proceeds after deducting the estimated commissions and estimated offering expenses. We expect to use proceeds from the ATM Program initially to maintain balance sheet liquidity, involving repayment of all or a portion of the amounts outstanding under the our credit facility, if any, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. During the period from June 7, 2012 to June 30, 2012, we sold 2,952,489 shares of our common stock at an average price of $11.22 per share, and raised $33,130 of gross proceeds, under the ATM Program. Net proceeds were $32,799 after 1% commission to the broker-dealer on shares sold.

Our Board of Directors, pursuant to the Maryland General Corporation Law, executed Articles of Amendment to increase the number of shares authorized for issuance from 200,000,000 to 500,000,000 in the aggregate. The amendment became effective July 30, 2012.

Off-Balance Sheet Arrangements

At June 30, 2012, 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

On July 5, 2012, we made a senior secured debt investment of $28,000 to support the acquisition of Material Handling Services, LLC, d/b/a/ Total Fleet Solutions, a provider of forklift and other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC.

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During the period from July 6, 2012 to August 23, 2012, we issued approximately $38,473 in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of $37,800 as follows:

Date of Issuance	Gross Proceeds	Interest Rate	Maturity Date
July 6, 2012	$ 2,778	6.45%	June 15, 2019
July 12, 2012	5,673	6.35%	June 15, 2019
July 19, 2012	6,810	6.30%	June 15, 2019
July 26, 2012	5,667	6.20%	June 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019

On July 16, 2012, we issued 21,000,000 shares of our common stock at $11.15 per share (or $11.05 per share net proceeds excluding expenses), raising $234,150 of gross proceeds.

On July 16, 2012 we provided $15,000 of secured second lien financing to Pelican Products, Inc., a leading provider of unbreakable, watertight protective cases and technically advanced professional lighting equipment.

On July 20, 2012, we provided $12,000 of senior secured financing to EIG Investors Corp., a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses.

On July 20, 2012, we provided $10,000 of senior secured financing to FPG, LCC a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors.

On July 24, 2012 and August 24, 2012, we issued 205,834 shares and 75,543 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

On July 24, 2012, we sold our 3,821 shares of Iron Horse common stock in connection with the exercise of an equity buyout option, receiving $2,040 of net proceeds and realizing a gain of approximately $1,772 on the sale.

On July 27, 2012, we issued 3,150,000 shares in connection with the exercise of an option granted with the July 12, 2012 offering of 21,000,000 shares which were delivered July 16, 2012, raising an additional $35,123 of gross proceeds and $34,808 of net proceeds.

On July 27, 2012 we closed an increase of $15,000 to our commitments to our credit facility. The commitments to the credit facility now stand at $507,500.

On July 27, 2012, we provided $85,000 of senior subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. Capital, LLC ("H.I.G."). The new company, Arctic Glacier Holdings, Inc., will continue to conduct business under the "Arctic Glacier" name and be a leading producer, marketer, and distributor of high-quality packaged ice to consumers in Canada and the United States.

On July 30, 2012, we amended our charter to increase the shares of common stock authorized for issuance by us from 200,000,000 to 500,000,000 in the aggregate.

On August 2, 2012, we provided a $27,000 secured loan to support the acquisition of New Star Metals, Inc., a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company.

On August 3, 2012, we provided $110,000 senior secured financing to support the acquisition of InterDent, Inc., a leading provider of dental practice management services to dental professional corporations and associations in the United States, by funds managed by H.I.G.

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On August 3, 2012, we provided $44,000 of secured subordinated financing to support the refinancing of New Century Transportation, Inc., a leading transportation and logistics company.

On August 3, 2012, we provided $10,000 of senior secured financing to Paradigm Geophysical, Ltd., the largest multi-national software company focused on the delivery of analytical and information management solutions for the discovery and extraction of subsurface natural resources.

On August 3, 2012, Pinnacle Treatment Centers, Inc. repaid the $17,450 loan receivable to us.

On August 6, 2012, we made an investment of $22,210 to purchase 62.9% of the subordinated notes in Halcyon Loan Advisors Funding 2012-I.

On August 7, 2012, we made an investment of $36,798 to purchase 95.0% of the subordinated notes in ING IM CLO 2012-II.

On August 10, 2012, U.S. HealthWorks Holding Company, Inc. repaid the $25,000 loan receivable to us.

On August 14, 2012, we issued $200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately $193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate of 82.3451 shares of common stock per $1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately $12.14 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2018 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.1016 per share.

On August 17, 2012, we made a secured second lien investment of $38,500 to support the recapitalization of American Gilsonite. After the financing we expect to receive a repayment of the loans currently outstanding.

On August 21, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.101625 per share for September 2012 to holders of record on September 28, 2012 with a payment date of October 24, 2012; and

- $0.101650 per share for October 2012 to holders of record on October 31, 2012 with a payment date of November 22, 2012.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ materially. In addition to the discussion below, our critical accounting policies are further described in the notes to the financial statements.

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X, and the American Institute of Certified Public Accountants' Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or

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an operating company which provides substantially all of its services and benefits to us. Our June 30, 2012 and June 30, 2011 financial statements include our accounts and the accounts of Prospect Capital Funding, LLC, 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, 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.

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. Investments in other, non-security financial instruments are recorded on the basis of subscription date or redemption date, as applicable. 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 Valuation

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 the independent valuation firms engaged by our Board of Directors;

2) the independent valuation firms conduct independent appraisals and make their own independent assessment;

3) the audit committee of our Board of Directors reviews and discusses the preliminary valuation of our Investment Adviser and that of the independent valuation firms; and

4) the Board of Directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the independent valuation firms and the audit committee.

Effective July 1, 2008, we adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification") 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements.

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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.

In April 2009, the FASB issued ASC 820-10-65, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"* ("ASC 820-10-65"). This update provides further clarification for ASC 820 in markets that are not active and provides additional guidance for determining when the volume of trading level of activity for an asset or liability has significantly decreased and for identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 820-10-65 did not have any effect on our net asset value, financial position or results of operations as there was no change to the fair value measurement principles set forth in ASC 820.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASC 2010-06"). ASU 2010-06 amends ASC 820-10 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective December 15, 2009, except for the disclosure about purchase, sales, issuances and settlements in the roll forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 (or July 1, 2011 for us) and for interim periods within those fiscal years. The adoption of ASC 2010-06 for the year ended June 30, 2012, did not have any effect on our financial statements.

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 of 1986 (the "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 at least 98% of our annual 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 exceeds 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

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earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate for taxable years beginning before 2013 (but not for taxable years beginning thereafter, unless the relevant provisions are extended by legislation) 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 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 adopted FASB ASC 740, *Income Taxes* ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the 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. Adoption of ASC 740 was applied to all open tax years as of July 1, 2007. The adoption of ASC 740 did not have an effect on our net asset value, financial condition or results of operations as there was no liability for unrecognized tax benefits and no change to our beginning net asset value. As of June 30, 2012 and for the year 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.

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. 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.

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

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Loans are placed on non-accrual status when principal or interest payments are past due 90 days or more or 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 June 30, 2012, approximately 2.9% of our net assets are in non-accrual status.

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.

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 dividend or distribution is approved by our Board of Directors each quarter 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 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.

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of Securities and Exchange Commission ("SEC") registration fees, legal fees and accounting fees incurred. These prepaid assets will be charged to capital upon the receipt of an equity offering proceeds or charged to expense if no offering 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 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 are calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, *Financial Services Investment Companies*, convertible securities are not considered in the calculation of net assets per share.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASC 2010-06"). ASU 2010-06 amends ASC 820-10 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective December 15, 2009, except for the

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disclosure about purchase, sales, issuances and settlements in the roll forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 (or July 1, 2011 for us) and for interim periods within those fiscal years. The adoption of amended guidance in ASU 2010-06 did not have a significant effect on our financial statements.

In February 2011, the FASB issued Accounting Standards Update 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* ("ASU 2011-02"). ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 provides guidance to clarify whether the creditor has granted a concession and whether a debtor is experiencing financial difficulties. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption or July 1, 2011 for us. The adoption of the amended guidance in ASU 2011-02 did not have a significant effect on our financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 amends Accounting Standards Codification Topic 820, "Fair Value Measurements" ("ASC 820") by: (1) clarifying that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of non-financial assets; (2) allowing a reporting entity to measure the fair value of the net asset or net liability position in a manner consistent with how market participants would price the net risk position, if certain criteria are met; (3) providing a framework for considering whether a premium or discount can be applied in a fair value measurement; (4) providing that the fair value of an instrument classified in a reporting entity's shareholders' equity is estimated from the perspective of a market participant that holds the identical item as an asset; and (5) expanding the qualitative and quantitative fair value disclosure requirements. The expanded disclosures include, for Level 3 items, a description of the valuation process and a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs if a change in those inputs would result in a significantly different fair value measurement. ASU 2011-4 also requires disclosures about the highest-and-best-use of a non-financial asset when this use differs from the asset's current use and the reasons for such a difference. In addition, this ASU amends Accounting Standards Codification 820, "Fair Value Measurements," to require disclosures to include any transfers between Level 1 and Level 2 of the fair value hierarchy. These amendments are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The amendments of ASU 2011-04, when adopted, are not expected to have a material impact on our consolidated financial statements.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended June 30, 2012, we did not engage in hedging activities.

DESCRIPTION OF NOTES

The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or to the extent otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the debt securities set forth under the heading "Description of Our Debt Securities" in the accompanying prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the accompanying prospectus and in the indenture relating to the notes.

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an indenture, dated as of February 16, 2012, as amended and as supplemented from time to time. U.S. Bank National Association was appointed as trustee, as successor to American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 9, 2012. The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. From time to time we may offer other debt securities either publicly or through private placement having maturities, interest rates, covenants and other terms that may differ materially from the terms of the notes described herein and in any pricing supplement.

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the notes from time to time in various offerings up to an aggregate principal amount of $500,000,000. As of August 24, 2012, $59,111,000 aggregate principal amount of notes has been issued.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

- the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;
- the notes may be offered from time to time by us through the Purchasing Agent and each note will mature on a day that is at least 12 months from its date of original issuance;
- each note will bear interest from its date of original issuance at a fixed rate per year;
- the notes will not be subject to any sinking fund; and
- the minimum denomination of the notes will be $1,000 (unless otherwise stated in the pricing supplement).

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In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including:

- the price, which may be expressed as a percentage of the aggregate initial public offering price of the notes, at which the notes will be issued to the public;
- the date on which the notes will be issued to the public;
- the stated maturity date of the notes;
- the rate per year at which the notes will bear interest;
- the interest payment frequency;
- the purchase price, Purchasing Agent's discount and net proceeds to us;
- whether the authorized representative of the holder of a beneficial interest in the notes will have the right to seek repayment upon the death of the holder as described under "Description of Notes Survivor's Option" on page S-49;
- if the notes may be redeemed at our option or repaid at the option of the holder prior to its stated maturity date, the provisions relating to any such redemption or repayment;
- any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and
- any other significant terms of the notes not inconsistent with the provisions of the indenture.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

Payment of Principal and Interest

Principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as "DTC") and its participants as described under "Registration and Settlement The Depository Trust Company" on page S-52. Payments in respect of any notes in certificated form will be made as described under "Registration and Settlement Registration, Transfer and Payment of Certificated Notes" on page S-54.

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note's stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note's stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

Interest and Interest Rates

Each note will accrue interest from its date of original issuance until its stated maturity or earlier redemption or repayment. The applicable pricing supplement will specify a fixed interest rate per year payable monthly, quarterly, semi-annually or annually. Interest on the notes will be computed on the

basis of a 360-day year of twelve 30-day months. If the stated maturity date, date of earlier redemption or repayment or interest payment date for any note is not a business day, principal and interest for that note will be paid on the next business day, and no interest will accrue on the amount payable from, and after, the stated maturity date, date of earlier redemption or repayment or interest payment date.

Payment of Interest

Interest on the notes will be paid as follows:

Interest Payment Frequency	Interest Payment Dates
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note's stated maturity date or date of earlier redemption or repayment will be that particular date.

Interest on a note will be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date.

"Business day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

Redemption and Repayment

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than 30 nor more than 60 days' written notice to the holder of those notes.

If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in the pricing supplement. We also must receive the completed form entitled "Option to Elect Repayment." Exercise of the repayment option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See "Registration and Settlement" on page S-52.

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To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption or repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the n