

PROSPECT CAPITAL CORP  
 Form 497  
 June 10, 2013

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion  
 Preliminary Pricing Supplement dated

June 10, 2013

**Prospect Capital Corporation**  
**Prospect Capital InterNotes®**  
**5.000% Senior Notes due 2020 (the "2020 Notes")**  
**5.750% Senior Notes due 2031 (the "2031 Notes")**  
**6.250% Senior Notes due 2043 (the "2043 Notes")**  
**and together with the 2020 Notes and the 2031 Notes, the "Notes")**

Filed under Rule 497, Registration Statement No. 333-183530

Preliminary Pricing Supplement Nos. 111, 112 and 113 Dated Monday, June 10, 2013  
 (To: Prospectus Dated October 29, 2012, and Prospectus Supplement Dated May 8, 2013)

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concessions	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YEN7	US74348YEN76	\$ 100.000%		1.750%	\$	Fixed	5.000%	Semi-Annual	6/15/2020	12/15/2013	\$ 24.31	Yes	Senior Unsecured Notes
<b>Redemption Information: Callable at 100.000% on 6/15/2014 and every coupon date thereafter.</b>													

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concessions	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YEP2	US74348YEP25	\$ 100.000%		3.400%	\$	Fixed	5.750%	Semi-Annual	6/15/2031	12/15/2013	\$ 27.95	Yes	Senior Unsecured Notes
<b>Redemption Information: Callable at 100.000% on 6/15/2015 and every coupon date thereafter.</b>													

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concessions	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YEQ0	US74348YEQ08	\$ 100.000%		3.800%	\$	Fixed	6.250%	Semi-Annual	6/15/2043	12/15/2013	\$ 30.38	Yes	Senior Unsecured Notes
<b>Redemption Information: Callable at 100.000% on 6/15/2016 and every coupon date thereafter.</b>													

Trade Date: Monday, June 17, 2013 @ 12:00 PM ET  
 Settle Date: Thursday, June 20, 2013  
 Minimum Denomination/Increments: \$1,000.00/\$1,000.00

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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 One Hundred-Eleventh Supplemental Indenture, One Hundred-Twelfth Supplemental Indenture and One Hundred-Thirteenth Supplemental Indenture, respectively, each dated as of June 20, 2013.

The date from which interest shall accrue on the Notes is Thursday, June 20, 2013. The "Interest Payment Dates" for the Notes shall be June 15 and December 15 of each year, commencing December 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 June 1 or December 1, as the case may be, next preceding such Interest Payment Date.

The 2020 Notes, the 2031 Notes, and the 2043 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 June 15, 2014, June 15, 2015 and June 15, 2016, respectively, 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 than 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 preliminary 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 11 of such prospectus. This preliminary 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](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this preliminary 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 May 14, 2013, we provided \$4.0 million of senior secured financing to SourceHOV, LLC, a leading provider of business and knowledge process outsourcing.

On May 16, 2013, Out Rage, LLC repaid the \$11.8 million loan receivable to us.

On May 23, 2013, Snacks Holding Corporation repaid the \$15.8 million loan receivable to us.

On May 31, 2013, we made a follow-on senior secured second-lien debt investment of \$7.2 million in Injured Workers Pharmacy LLC, a specialty pharmacy services company.

On June 3, 2013, Nobel Learning Communities, Inc. repaid the \$15.2 million loan receivable to us.

On June 4, 2013, Springs Window Fashions, LLC repaid the \$35.0 million loan receivable to us.

During the period from May 23, 2013 to June 6, 2013, we issued \$64.5 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$62.8 million.

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PROSPECTUS SUPPLEMENT  
(To Prospectus dated October 29, 2012)

## 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 11 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](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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 agents listed below.

**Incapital LLC**

**BofA Merrill Lynch**  
Prospectus Supplement dated May 8, 2013.

**Citigroup**



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**FORWARD-LOOKING STATEMENTS**

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

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

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

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

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

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

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

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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-12. 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. In this prospectus supplement and the accompanying prospectus, we use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$2 billion. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the "1940 Act." We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments have generally ranged between \$5 million and \$75 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

We also 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, which consist of companies in the discovery, production, transportation, storage and use of energy resources as well as companies that sell products and services to, or acquire products and services from, these companies.

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. Motivated sellers, including commercial finance companies, hedge funds, other business development companies, total return swap counterparties, banks, collateralized loan obligation funds, and other entities, are suffering from excess leverage, and we believe we are well

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positioned to capitalize as potential buyers of such assets at attractive prices. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of March 31, 2013, we held investments in 120 portfolio companies. The aggregate fair value as of March 31, 2013 of investments in these portfolio companies held on that date is approximately \$3.7 billion. Our portfolio across all our interest bearing investments had an annualized current yield of 13.9% as of March 31, 2013.

**Recent Developments**

**Dividends**

On May 6, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;

\$0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013;

\$0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and

\$0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

**Recent Investment Activity**

On April 1, 2013, we refinanced our existing senior secured loans to Ajax Rolled Ring & Machine, Inc., increasing the size of our debt investment to \$38.5 million.

On April 15, 2013, we entered into an Agent Joinder Letter with Citigroup Global Markets Inc. to appoint Citigroup Global Markets Inc. as an agent pursuant to the Second Amended and Restated Selling Agent Agreement dated March 4, 2013, among us, Prospect Capital Management LLC, Prospect Administration LLC, Incapital LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

On April 19, 2013, we made an investment of \$43.7 million to purchase 97% of the subordinated notes in Mountain View CLO 2013-I Ltd.

On April 22, 2013, we provided \$34.4 million of senior secured financing to support the carve-out acquisition of Pegasus Financial Services ("PFS") by investment funds managed by H.I.G. Capital. PFS is the world's largest processor of commissions paid by hotels to travel agencies.

On April 25, 2013, we made an investment of \$26.0 million to purchase 50.9% of the subordinated notes in Brookside Mill CLO Ltd.

On April 30, 2013, we made a \$21.2 million follow-on investment in APH Property Holdings, LLC ("APH"), to acquire Lofton Place Apartments and Vista at Palma Sola, residential properties located in Florida. We invested \$3.2 million of equity and \$18.0 million of debt in APH.

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On April 30, 2013, we sold our investment in Fischbein, LLC for net proceeds of \$3.2 million, recognizing a realized gain of \$2.3 million on the sale. In addition, there is \$0.3 million being held in escrow which will be recognized as additional gain when and if received.

On May 8, 2013, we made a \$6.1 million follow-on investment in APH, to acquire Arlington Park Marietta, LLC, a residential property located in Marietta, Georgia. We invested \$2.1 million of equity and \$4.0 million of debt in APH.

**Equity Issuance**

During the period from April 1, 2013 to May 3, 2013, we sold 4,477,037 shares of our common stock at an average price of \$10.93 per share, and raised \$48.9 million of gross proceeds, under the ATM Program. Net proceeds were \$48.6 million net of commissions to the broker-dealer on shares sold and offering costs.

On April 18, 2013, we issued 138,087 shares of our common stock in connection with the dividend reinvestment plan.

**Debt Issuance**

During the period from April 1, 2013 to May 3, 2013, we issued \$64.2 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$62.6 million.

On May 6, 2013, we sold an additional \$21.8 million in aggregate principal amount of our Prospect Capital InterNotes® with a settlement date of May 9, 2013 for net proceeds of \$21.2 million.

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**The Offering**

<b>Issuer</b>	Prospect Capital Corporation
<b>Purchasing Agent</b>	Incapital LLC
<b>Agents</b>	Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. From time to time, we may sell the notes to or through additional agents.
<b>Title of Notes</b>	Prospect Capital InterNotes®
<b>Amount</b>	We may issue notes from time to time in various offerings up to \$1.0 billion, the aggregate principal amount authorized by our board of directors for notes as well as all other publicly-offered senior debt securities of the Company. As of May 7, 2013, \$263.6 million aggregate principal amount of notes has been issued and an additional \$21.8 million aggregate principal amount of notes will be issued on May 9, 2013. 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 and the marginally more restrictive 175% asset coverage requirement under our credit facility.
<b>Denominations</b>	The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).
<b>Status</b>	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.
<b>Maturities</b>	Each note will mature 12 months or more from its date of original issuance.
<b>Interest</b>	<p>Notes may be issued with a fixed or floating interest rate; a floating interest rate note will be based on the London Interbank Offered Rate ("LIBOR").</p> <p>Interest on each fixed or floating interest rate 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 repaid prior to its stated maturity in accordance with its terms.</p> <p>Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months, often referred to as the 30/360 (ISDA) day count convention.</p>
<b>Principal</b>	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.

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<b>Redemption and Repayment</b>	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.
<b>Survivor's Option</b>	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. If the pricing supplement for your notes provides for the Survivor's Option, your right to exercise the Survivor's Option will be 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."
<b>Sale and Clearance</b>	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.
<b>Trustee</b>	The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time.
<b>Selling Group</b>	The agents and dealers comprising the selling group are broker-dealers and securities firms. Each of the Purchasing Agent and Merrill Lynch, Pierce, Fenner & Smith Incorporated entered into a Second Amended and Restated Selling Agent Agreement with us dated March 4, 2013 (the "Selling Agent Agreement"). 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. On April 15, 2013, Citigroup Global Markets Inc. entered into a joinder agreement to become a party 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 <a href="mailto:info@incapital.com">info@incapital.com</a> for a list of selling group members.

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You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and nine months ended March 31, 2013 and 2012 has been derived from unaudited financial data. Interim results for the three and nine months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. 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-24 for more information.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,			For the Year/Period Ended June 30,				
	2013	2012	2013	2012	2012	2011	2010	2009	2008	
	(in thousands except data relating to shares, per share and number of portfolio companies)									
<b>Performance Data:</b>										
Interest income	\$ 109,612	\$ 74,948	\$ 304,788	\$ 163,471	\$ 219,536	\$ 134,454	\$ 86,518	\$ 62,926	\$ 59,033	
Dividend income	83	5,475	68,246	31,554	64,881	15,092	15,366	22,793	12,033	
Other income	10,500	15,200	36,832	23,203	36,493	19,930	12,675	14,762	8,336	
<b>Total investment income</b>	<b>120,195</b>	<b>95,623</b>	<b>409,866</b>	<b>218,228</b>	<b>320,910</b>	<b>169,476</b>	<b>114,559</b>	<b>100,481</b>	<b>79,402</b>	
Interest and credit facility expenses	(20,854)	(9,655)	(50,779)	(28,374)	(38,534)	(17,598)	(8,382)	(6,161)	(6,318)	
Investment advisory expense	(33,862)	(23,467)	(106,707)	(56,599)	(82,507)	(46,051)	(30,727)	(26,705)	(20,199)	
Other expenses	(5,894)	(4,429)	(19,552)	(10,798)	(13,185)	(11,606)	(8,260)	(8,452)	(7,772)	
<b>Total expenses</b>	<b>(60,610)</b>	<b>(37,551)</b>	<b>(177,038)</b>	<b>(95,771)</b>	<b>(134,226)</b>	<b>(75,255)</b>	<b>(47,369)</b>	<b>(41,318)</b>	<b>(34,289)</b>	
<b>Net investment income</b>	<b>59,585</b>	<b>58,072</b>	<b>232,828</b>	<b>122,457</b>	<b>186,684</b>	<b>94,221</b>	<b>67,190</b>	<b>59,163</b>	<b>45,113</b>	
<b>Realized and unrealized gains (losses)</b>	<b>(15,156)</b>	<b>(7,863)</b>	<b>(94,661)</b>	<b>32,144</b>	<b>4,220</b>	<b>24,017</b>	<b>(47,565)</b>	<b>(24,059)</b>	<b>(17,522)</b>	
<b>Net increase in net assets from operations</b>	<b>\$ 44,429</b>	<b>\$ 50,209</b>	<b>\$ 138,167</b>	<b>\$ 154,601</b>	<b>\$ 190,904</b>	<b>\$ 118,238</b>	<b>\$ 19,625</b>	<b>\$ 35,104</b>	<b>\$ 27,591</b>	
<b>Per Share Data:</b>										
Net increase in net assets from operations(1)	\$ 0.20	\$ 0.44	\$ 0.71	\$ 1.39	\$ 1.67	\$ 1.38	\$ 0.33	\$ 1.11	\$ 1.17	
Distributions declared per share	\$ 0.33	\$ 0.30	\$ 0.95	\$ 0.91	\$ (1.22)	\$ (1.21)	\$ (1.33)	\$ (1.62)	\$ (1.59)	
Average weighted shares outstanding for the period	226,587,578	114,146,939	194,657,279	110,868,177	114,394,554	85,978,757	59,429,222	31,559,905	23,626,642	
<b>Assets and Liabilities Data:</b>										
Investments	\$ 3,707,722	\$ 1,691,580	\$ 3,707,722	\$ 1,691,580	\$ 2,094,221	\$ 1,463,010	\$ 748,483	\$ 547,168	\$ 497,530	
Other assets	339,295	124,429	339,295	124,429	161,033	86,307	84,212	119,857	44,248	

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Total assets	4,047,017	1,816,009	4,047,017	1,816,009	2,255,254	1,549,317	832,695	667,025	541,778
Amount drawn on credit facility		121,000		121,000	96,000	84,200	100,300	124,800	91,167
Senior Convertible Notes	847,500	317,500	847,500	317,500	447,500	322,500			
2022 Notes	100,000		100,000		100,000				
2023 Notes	247,682		247,682						
InterNotes®	199,401	5,465	199,401	5,465	20,638				
Amount owed to related parties	2,205	4,677	2,205	4,677	8,571	7,918	9,300	6,713	6,641
Other liabilities	94,641	48,561	94,641	48,561	70,571	20,342	11,671	2,916	14,347
Total liabilities	1,491,429	497,203	1,491,429	497,203	743,280	434,960	121,271	134,429	112,155
Net assets	\$ 2,555,588	\$ 1,318,806	\$ 2,555,588	\$ 1,318,806	\$ 1,511,974	\$ 1,114,357	\$ 711,424	\$ 532,596	\$ 429,623

**Investment**

**Activity Data:**

No. of portfolio companies at period end	120	78	120	78	82	72	58	30	29(2)
Acquisitions	\$ 784,395	\$ 170,073	\$ 2,304,457	\$ 547,345	\$ 1,120,659	\$ 953,337	\$ 364,788(3)	\$ 98,305	\$ 311,947
Sales, repayments, and other disposals	\$ 102,527	\$ 188,399	\$ 609,919	\$ 354,660	\$ 500,952	\$ 285,862	\$ 136,221	\$ 27,007	\$ 127,211
Weighted-Average Yield at end of period(4)	13.9%	12.6%	13.9%	12.6%	13.9%	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 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 May 7, 2013, we and our subsidiary had no secured indebtedness outstanding and approximately \$1.459 billion of unsecured senior indebtedness outstanding.

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.

***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





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limitation, the \$150.0 million aggregate principal amount of 6.25% Convertible Senior Notes due 2015 (the "2015 Notes"), the \$168.0 million aggregate principal amount of 5.50% Convertible Senior Notes due 2016 (the "2016 Notes"), the \$130.0 million aggregate principal amount of 5.375% Convertible Senior Notes due 2017 (the "2017 Notes"), the \$200.0 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018 (the "2018 Notes"), the \$200.0 million aggregate principal amount of 5.875% Convertible Senior Notes due 2019 (the "2019 Notes"), the \$100.0 million aggregate principal amount of 6.95% Senior Notes due 2022 (the "2022 Notes") and the \$250.0 million aggregate principal amount of 5.875% Senior Notes due 2023 (the "2023 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 May 7, 2013, we had no borrowings 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, the 2019 Notes, the 2022 Notes and the 2023 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, the 2019 Notes, the 2022 Notes or the 2023 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, the 2019 Notes, the 2022 Notes or the 2023 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;

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;

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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 other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

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.

***Changes in banks' inter-bank lending rate reporting practices or the method pursuant to which the LIBOR rates are determined may adversely affect the value of your floating rate notes.***

Beginning in 2008, concerns have been raised that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of daily LIBOR rates may have been under-reporting the inter-bank lending rate applicable to them in order to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may result from reporting higher inter-bank lending rates. Inquiries remain ongoing, including investigations by regulators and governmental authorities in various jurisdictions, and if such under-reporting occurred, it may have resulted in the LIBOR rate being artificially low. If any such under-reporting still exists and some or all of the member banks discontinue such practice, there may be a resulting sudden or prolonged upward movement in LIBOR rates. In addition, in August 2008 the BBA announced that it was changing the LIBOR rate-fixing process by increasing the number of banks surveyed to set the LIBOR rate. The BBA has taken steps intended to strengthen the oversight of the process and review biannually the composition of the panels of banks surveyed to set the LIBOR rate. In addition, the final report of the Wheatley Review of LIBOR, published in September 2012, set forth recommendations relating to the setting and administration of LIBOR, and the UK government has announced that it intends to incorporate these recommendations in new legislation. At the present time it is uncertain what changes, if any, may be made by the UK government or other governmental or regulatory authorities in the method for determining LIBOR or whether these changes would cause any decrease or increase in LIBOR rates. Any changes in the method pursuant to which the LIBOR rates

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are determined, or the development of a widespread market view that LIBOR rates have been or are being manipulated by members of the bank panel, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments and the value of the floating rate notes may be adversely affected. If your floating rate notes are subject to a maximum rate specified in your pricing supplement, you may not benefit from any such increase in LIBOR rates because the interest on your floating rate notes will be subject to the maximum rate. As a result, the amount of interest payable for your floating rate notes may be significantly less than it would have been had you invested in a similar investment instrument not subject to such a maximum interest rate.

***Your investment in the floating rate notes will involve certain risks not associated with an investment in conventional debt securities. You should consider carefully the following discussion of risks before you decide that an investment in the floating rate notes is suitable for you.***

Floating rate notes present different investment considerations than fixed rate notes. For notes with only floating rates, the rate of interest paid by us on the notes for each applicable interest period is not fixed, but will vary depending on LIBOR and accordingly could be substantially less than the rates of interest we would pay on fixed rate notes of the same maturity. Additionally, the notes may change the interest rate or interest rate formula in relation to LIBOR at one or more points during the term of such notes (often referred to as a "step up" feature) or may switch from floating to fixed rate or from a fixed to a floating rate during the term of the notes. Consequently, the return on the notes may be less than returns otherwise payable on fixed rate debt securities issued by us with similar maturities whose interest rates cannot change. The variable interest rate on the notes, while determined, in part, by reference to LIBOR, may not actually pay at such rates. Furthermore, we have no control over any fluctuations in LIBOR.

If the relevant pricing supplement specifies a maximum rate, the interest rate for any interest period will be limited by the maximum rate. The maximum rate will limit the amount of interest you may receive for each such interest period, even if the fixed or floating rate component, as adjusted by any spread factor, if applicable, and/or a spread, if applicable, would have otherwise resulted in an interest rate greater than the maximum rate. As a result, if the interest rate for any interest period without taking into consideration the maximum rate would have been greater than the maximum rate, the notes will provide you less interest income than an investment in a similar instrument that is not subject to a maximum interest rate.

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**DESCRIPTION OF NOTES**

*The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or 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 Company's publicly-offered senior debt securities, including the issuance and sale of the notes from time to time in various offerings, up to an aggregate principal amount of \$1.0 billion. As of May 7, 2013, \$263.6 million aggregate principal amount of notes has been issued and an additional \$21.8 million aggregate principal amount of notes will be issued on May 9, 2013.

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 may be issued with a fixed or floating interest rate; any floating interest rate will be based on LIBOR.

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).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including but not limited to:

the stated maturity;

the denomination of your notes;

the price at which we originally issue your notes, expressed as a percentage of the principal amount, and the original issue date;



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whether your notes are fixed rate notes or floating rate notes;

if your notes are fixed rate notes, the annual rate at which your notes will bear interest, or the periodic rates in the case of notes that bear different rates at different times during the term of the notes, and the interest payment dates, if different from those stated below under " Interest Rates Fixed Rate Notes;"

if your notes are floating rate notes, the interest rate, spread or spread multiplier or initial base rate, maximum rate and/or minimum rate; if there is more than one spread to be applied at different times during the term of the notes for your interest rate, which spread during which periods applies to your notes; and the interest reset, determination, calculation and payment dates, all of which we describe under " Interest Rates Floating Rate Notes" below;

if applicable, the circumstances under which your notes may be redeemed at our option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under " Redemption and Repayment" below;

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 " Survivor's Option;"

any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and

any other significant terms of your notes, which could be different from those described in this prospectus supplement and the accompanying prospectus, but in no event inconsistent with 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.

**Types of Notes**

We may issue either of the two types of notes described below. Notes may have elements of each of the two types of notes described below. For example, notes may bear interest at a fixed rate for some periods and at a floating rate in others.

**Fixed Rate Notes.** Notes of this type will bear interest at one or more fixed rates described in your pricing supplement.

Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed rate or rates per annum stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention) unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under " Payments of Principal and Interest." Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.



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**Floating Rate Notes.** Notes of this type will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. The various interest rate formulas and these other features are described below in " Interest Rates Floating Rate Notes." If your notes are floating rate notes, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Floating rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of floating rate notes at a rate per annum determined according to the interest rate formula stated in your pricing supplement during the applicable interest rate periods as stated in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below " Payments of Principal and Interest." Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

**Interest Rates**

This subsection describes the different kinds of interest rates that may apply to your notes, as specified in your pricing supplement.

**Fixed Rate Notes.** Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed yearly rate or rates stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Your pricing supplement will describe the interest periods and relevant interest payment dates on which interest on fixed rate notes will be payable. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention), unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under " Payments of Principal and Interest."

**Floating Rate Notes.** Floating rate notes will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Each floating rate note will bear interest from its original issue date or from the most recent date to which interest on the note has been paid or made available for payment. Interest will accrue on the principal of a floating rate note at a rate per annum determined according to the interest rate formula stated in the pricing supplement during the applicable interest rate period specified in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under " Payment of Principal and Interest."

In addition, the following will apply to floating rate notes.

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**Initial Base Rate**

Unless otherwise specified in your pricing supplement, for floating rate notes, the initial base rate will be the applicable LIBOR base rate in effect from and including the original issue date to but excluding the initial interest reset date. We will specify the initial LIBOR base rate in your pricing supplement.

**Spread or Spread Multiplier**

In some cases, the base rate for floating rate notes may be adjusted:

by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or

by multiplying the base rate by a specified percentage, called the spread multiplier.

If you purchase floating rate notes, your pricing supplement will specify whether a spread or spread multiplier will apply to your notes and, if so, the amount of the applicable spread or spread multiplier and any increases or decreases in the spread or spread multiplier during the term of your notes.

**Maximum and Minimum Rates**

The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

a maximum rate *i.e.*, a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or

a minimum rate *i.e.*, a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase floating rate notes, your pricing supplement will specify whether a maximum rate and/or minimum rate will apply to your notes and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on floating rate notes will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than \$250,000 is 16% and for any loan in the amount of \$250,000 or more but less than \$2,500,000 is 25%, per year on a simple interest basis. These limits do not apply to loans of \$2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on floating rate notes.

**Interest Reset Dates**

Except as otherwise specified in your pricing supplement, the rate of interest on floating rate notes will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually or annually (each, an "interest reset period"). The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in your pricing supplement, the interest reset date will be as follows:

for floating rate notes that reset daily, each London business day (as defined below);

for floating rate notes that reset weekly, the Wednesday of each week;

for floating rate notes that reset monthly, the third Wednesday of each month;



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for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as specified in your pricing supplement;

for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in your pricing supplement; and

for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in your pricing supplement.

For floating rate notes, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

Interest reset dates are subject to adjustment, as described below under " Business Day Conventions."

The base rate in effect from and including the original issue date to but excluding the first interest reset date will be the initial base rate. For floating rate notes that reset daily or weekly, the base rate in effect for each day following the fifth business day before an interest payment date to, but excluding, the interest payment date, and for each day following the fifth business day before the maturity to, but excluding, the maturity, will be the base rate in effect on that fifth business day.

**Interest Determination Dates**

The interest rate that takes effect on an interest reset date will be determined by the calculation agent for the LIBOR base rates by reference to a particular date called an interest determination date. Except as otherwise specified in your pricing supplement, the interest determination date relating to a particular interest reset date will be the second London business day preceding the interest reset date. We refer to an interest determination date for LIBOR notes as a LIBOR interest determination date.

**Interest Calculation Date**

The interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date or interest reset date, as applicable. For some notes, however, the calculation agent will set the rate on a day no later than the corresponding interest calculation date. Unless otherwise specified in your pricing supplement, the interest calculation date for rates to which a calculation date applies will be the business day immediately preceding the date on which interest will next be paid (on an interest payment date or the maturity, as the case may be). The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

**Interest Rate Calculations**

Interest payable on floating rate notes for any particular interest period will be calculated as described below using an interest factor, expressed as a decimal, applicable to each day during the applicable interest period, unless otherwise specified in your pricing supplement.

Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We have initially appointed U.S. Bank National Association as our calculation agent for any floating rate notes. We may specify a different calculation agent in your pricing supplement. The applicable pricing supplement for your floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of your floating rate note without your consent and without notifying you of the

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change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

For floating rate notes, the calculation agent will determine, on the corresponding interest calculation date or interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period *i.e.*, the period from and including the original issue date, or the last date to which interest has accrued (which may be the interest payment date or any interest reset date in accordance with the business day convention), to but excluding the next date to which interest will accrue (which may be the interest payment date or any interest reset date in accordance with the business day convention). For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the floating rate note by an accrued interest factor for the interest period. Such accrued interest rate factor is determined by multiplying the applicable interest rate for the period by the day count fraction. The day count fraction will be determined in accordance with the 30/360 (ISDA) day count convention, where the number of days in the interest period in respect of which payment is being made is divided by 360, calculated on a formula basis as follows:

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the interest period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the interest period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30.

Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date with respect to such floating rate note.

All percentages resulting from any calculation relating to any note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, *e.g.*, 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to any note will be rounded upward or downward to the nearest cent.

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**Sources and Corrections**

If we refer to a rate as set forth on a display page, other published source, information vendor or other vendor officially designated by the sponsor of that rate, if there is a successor source for the display page, other published source, information vendor or other official vendor, we refer to that successor source as applicable as determined by the calculation agent. When we refer to a particular heading or headings on any of those sources, those references include any successor or replacement heading or headings as determined by the calculation agent.

If the applicable rate is based on information obtained from a Reuters screen, that rate will be subject to the corrections, if any, published on that Reuters screen within one hour of the time that rate was first displayed on such source.

**LIBOR Calculation**

LIBOR, with respect to the base rate and any interest reset date, will be the London interbank offered rate for deposits in U.S. dollars for the index maturity specified in your pricing supplement, appearing on the Reuters screen LIBOR page as of approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date.

If the rate described above does not so appear on the Reuters screen LIBOR page, then LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the calculation agent at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, to prime banks in the London interbank market for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the quotations.

If fewer than two of the requested quotations described above are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the calculation agent, at approximately 11:00 A.M., New York City time (or the time in the relevant principal financial center), on the relevant interest reset date, for loans in U.S. dollars (or the index currency) to leading European banks for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount.

If no quotation is provided as described in the preceding paragraph, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for that interest reset date in its sole discretion.

For the purpose of this section, we define the term "index maturity" as the interest rate period of LIBOR on which the interest rate formula is based, as specified in your pricing supplement.

In all cases, if the stated maturity or any earlier redemption date or repayment date with respect to any note falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

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**Business Days**

The term "London business day" will apply to your floating rate notes, as specified in your pricing supplement, and it means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London generally are authorized or obligated by law, regulation or executive order to close and, is also a day on which dealings in the applicable index currency are transacted in the London interbank market.

**Business Day Convention**

The business day convention that will apply to your notes is the "following business day convention." The "following business day convention" means, for any interest payment date or interest reset date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

**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." 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."

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.

**Payment and Record Dates for Interest**

Interest on the notes will be paid as follows:

<b>Interest Payment Frequency</b>	<b>Interest Payment Dates</b>
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. For

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the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

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."

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 note plus unpaid interest accrued to the date or dates of redemption or repayment.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder's duly authorized representative through exercise of the Survivor's Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.



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**Survivor's Option**

The "Survivor's Option" is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor's Option applies to those notes.

If a note is entitled to a Survivor's Option, upon the valid exercise of the Survivor's Option and the proper tender of that note for repayment, we will, at our option, repay or repurchase that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner's interest in that note plus unpaid interest accrued to the date of repayment.

To be valid, the Survivor's Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder's spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder's spouse will be deemed the death of a beneficial owner only with respect to such deceased person's interest in the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor's Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the 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 as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of \$1,000 and multiples of \$1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2012, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on

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October 15, 2012, because the September 15, 2012 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment.

With respect to notes represented by a global note, DTC or its nominee is treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;

appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;

if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;

written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;

if applicable, a properly executed assignment or endorsement;

tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and

any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such

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beneficial interest can be established to the satisfaction of the trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by the trustee, in its sole discretion, which determination will be final and binding on all parties.

The broker or other entity will be responsible for disbursing payments received from the trustee to the authorized representative. See "Registration and Settlement."

Forms for the exercise of the Survivor's Option may be obtained from the Trustee at 100 Wall Street, Suite 1600, New York, NY 10005, Attention: General Counsel.

If applicable, we will comply with the requirements of Section 14(e) of the Exchange Act, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

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

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

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations. Any discussion relating to specific investments or portfolio loans herein should be read in conjunction with endnote 3 to the Consolidated Schedule of Investments included in our financial statements in order to determine whether all or any portion of such investment or loan is owned by our wholly-owned bankruptcy remote special purpose subsidiary, Prospect Capital Funding LLC and, accordingly, held as collateral for the revolving credit facility.

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

We seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was \$3,707,722 and \$2,094,221 as of March 31, 2013 and June 30, 2012, respectively. During the nine months ended March 31, 2013, our net cost of investments increased by \$1,695,800, or 80.8%, as a result of 56 new investments, 16 follow-on investments and six revolver advances of \$2,263,854, accrued of payment-in-kind interest of \$7,025, structuring fees of \$33,578 and amortization of discounts and premiums of \$13,624, while we received full repayment on seventeen investments, sold eight investments, impaired one investment, and received several partial prepayments, amortization payments and a revolver repayment, totaling \$609,919.

Compared to the end of last fiscal year (ended June 30, 2012), net assets increased by \$1,043,614, or 69.0% during the nine months ended March 31, 2013, from \$1,511,974 to \$2,555,588. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$1,083,618, dividend reinvestments of \$12,137, and \$138,167 from operations. These increases, in turn, were offset by \$190,308 in dividend distributions to our stockholders. The \$138,167 increase in net assets resulting from operations is net of the following: net investment income of \$232,828, net realized loss on investments of \$12,362, and a decrease in net assets due to changes in net unrealized depreciation of investments of \$82,299.

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 financial statements and the reported amounts of income and expenses during the reported period.

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Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

**Third Quarter Highlights**

*Investment Transactions*

On January 11, 2013, we provided \$27,100 of debt financing to Correctional Healthcare Holding Company, Inc. ("CHC"), a national provider of correctional medical and behavioral healthcare solutions. The subordinated secured second lien loan bears interest in cash at 11.25% and has a final maturity of January 11, 2020.

On January 17, 2013, we made a \$30,348 follow-on investment in APH Property Holdings, LLC ("APH"), to acquire 5100 Live Oaks Blvd, LLC, a multi-family residential property located in Tampa, Florida. We invested \$2,748 of equity and \$27,600 of debt in APH.

On January 24, 2013, we made an investment of \$24,870 to purchase 56.14% of the subordinated notes in Cent 17 CLO Limited ("Cent 17 CLO").

On January 24, 2013, we made an investment of \$26,901 to purchase 50.12% of the subordinated notes in Octagon Investment Partners XV, Ltd ("Octagon").

On January 29, 2013 we provided \$8,000 of secured second lien financing to TGG Medical Transitory, Inc. ("TGG"), a developer of technologies for extracorporeal photopheresis treatments. The senior secured second-lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

On January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide Acceptance Holdings LLC ("Nationwide"), which operate a specialty finance business based in Chicago, Illinois, a \$25,151 of combined debt and equity financing. The term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of January 31, 2023.

On February 5, 2013, we received a distribution of \$3,250 related to our investment in NRG Manufacturing, Inc. ("NRG"), for which we realized a gain of the same amount. This is a partial release of the total amounts held in escrow with a remaining fair value of \$3,568 as of March 31, 2013.

On February 5, 2013, we made a secured debt investment of \$2,000 in Healogics, Inc. ("Healogics"), a provider of outpatient wound care management services located in Jacksonville, Florida. On the same day we fully exited the deal and realized a gain of \$60 on this investment.

On February 13, 2013, we made an investment of \$35,025 to purchase 50.34% of the subordinated notes in Galaxy XV CLO, Ltd ("Galaxy").

On February 14, 2013, we made a \$2,000 secured first-lien debt investment in J.G. Wentworth, LLC ("J.G. Wentworth"), the largest purchaser of structured settlement and annuity payments in the United States. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 7.5% and has a final maturity of February 8, 2019.

On February 14, 2013, we provided \$15,000 of senior secured financing to Speedy Group Holdings Corp. ("Speedy"), a leading provider of short-term loans and financial services in the United States, the United Kingdom and Canada. The unsecured subordinated term loan bears interest in cash at 12.0% and has a final maturity of November 15, 2017.

On February 15, 2013, we made a \$6,000 secured second-lien debt investment in SESAC Holdco II LLC ("SESAC"), a performing rights organization based in Nashville, TN. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of July 12, 2019.

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On February 21, 2013, we provided \$39,550 of senior secured first-lien financing to Healthcare Group (Puerto Rico), Inc. ("Atlantis"), a leading owner and operator of dialysis stations. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity date of February 21, 2018.

On February 25, 2013, we made a \$10,000 secured second lien loan and a \$2,000 secured first-lien debt investment in Transaction Networks Services, Inc. ("TNS"), an international data communications company that provides networking, data communications and other value added services. On the same day we sold the \$2,000 secured first lien debt instrument and realized a gain of \$20 on this investment. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 8.0% and has a final maturity of August 14, 2020.

On March 1, 2013, we made a \$70,000 secured term loan investment in a subsidiary of Cinedigm DC Holdings, LLC ("Cinedigm"), the leading provider of digital cinema services, software and content marketing and distribution. The senior secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.0% and interest in kind of 2.5% and has a final maturity of March 31, 2021.

On March 6, 2013, we made a \$5,000 follow-on investment in Rocket Software, Inc ("Rocket"). The senior secured second-lien term loan 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 March 7, 2013, we made a secured second-lien follow-on investment of \$60,000 in United Sporting Companies, Inc. ("USC"). The senior secured second-lien term loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On March 8, 2013, we made an investment of \$40,400 to purchase 78.60% of the subordinated notes in Halcyon Loan Advisors Funding 2013-I Ltd ("Halcyon").

On March 12, 2013, we provided \$12,000 of secured second-lien financing to ALG USA Holdings, LLC ("ALG"), a vertically integrated travel company that focuses on providing all-inclusive vacations in Mexico and the Caribbean to the U.S. customer. The senior secured second-lien term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of February 28, 2020.

On March 15, 2013, we made an investment of \$44,063 to purchase 95.27% of the subordinated notes in Apidos CLO XII, Ltd ("Apidos XII").

On March 18, 2013, we sold our \$2,000 investment in J.G. Wentworth and realized a gain of \$75 on this investment.

On March 18, 2013, we provided a \$197,291 first-lien senior secured credit facility to support the refinancing of Capstone Logistics, LLC ("Capstone"), a logistics services portfolio company controlled by H.I.G. Capital ("H.I.G."). After the financing, we received repayment of \$30,705 of Term Loan A and \$38,434 of Term Loan B previously outstanding. The Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.0% and has a final maturity of September 16, 2016. The Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of September 16, 2016.

On March 27, 2013, we provided \$100,000 of senior secured debt financing to support the recapitalization of Broder Bros., Co. ("Broder"), a leading distributor of imprintable sportswear and accessories in the United States. The senior secured term loan bears interest in cash at the greater of 10.75% or Libor plus 9.0% and has a final maturity of June 27, 2018.

On March 28, 2013, we sold our investment in New Meatco Provisions, LLC ("Meatco") for net proceeds of approximately \$1,965, recognizing a realized loss of \$10,814 on the sale.

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On March 29, 2013, we received net proceeds of \$1,251 for the partial sale of our equity investment in Caleel + Hayden, LLC ("C&H"), realizing a gain of \$900 on the sale.

*Equity Issuance*

During the period from January 7, 2013 to February 5, 2013, we sold 10,248,051 shares of our common stock at an average price of \$11.25 per share, and raised \$115,315 of gross proceeds, under the ATM Program. Net proceeds were \$114,162 after commission to the broker-dealer on shares sold and offering costs.

During the period from February 15, 2013 to March 28, 2013, we sold 12,753,216 shares of our common stock at an average price of \$11.21 per share, and raised \$142,953 of gross proceeds, under the ATM Program. Net proceeds were \$141,523 after commission to the broker-dealer on shares sold and offering costs.

On January 23, 2013, February 20, 2013 and March 21, 2013, we issued shares of our common stock in connection with the dividend reinvestment plan of 160,182, 160,941 and 132,237, respectively.

*Dividend*

On February 7, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110050 per share for February 2013 to holders of record on February 28, 2013 with a payment date of March 21, 2013;

\$0.110075 per share for March 2013 to holders of record on March 29, 2013 with a payment date of April 18, 2013; and

\$0.110100 per share for April 2013 to holders of record on April 30, 2013 with a payment date of May 23, 2013.

*Debt Issuance*

On March 4, 2013, we entered into a Second Amended and Restated Selling Agent Agreement which continued our issuance of Prospect Capital InterNotes® on substantially the same terms and provides for our issuance of floating rate notes in addition to fixed rate notes. During the period from

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January 4, 2013 to March 28, 2013, we issued approximately \$34,408 in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$33,359, as follows:

Date of Issuance	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date
January 4, 2013 - January 31, 2013	\$ 4,427	4.00% - 4.375%	4.15%	January 15, 2020
January 4, 2013 - January 31, 2013	2,388	4.50% - 4.875%	4.74%	January 15, 2031
January 4, 2013 - January 31, 2013	9,338	5.50% - 5.875%	5.63%	January 15, 2043
February 4, 2013 - February 28, 2013	2,619	4.00%	4.00%	February 15, 2020
February 4, 2013 - February 28, 2013	664	4.50%	4.50%	February 15, 2031
February 4, 2013 - February 28, 2013	4,623	5.50%	5.50%	February 15, 2043
March 4, 2013 - March 28, 2013	3,832	4.00%	4.00%	March 15, 2020
March 4, 2013 - March 28, 2013	984	4.125% - 4.5%	4.24%	March 15, 2031
March 4, 2013 - March 28, 2013	4,308	5.50%	5.50%	March 15, 2043
March 14, 2013 - March 28, 2013(1)	1,225	L+3.00%	3.27%	March 15, 2023
	\$ 34,408			

(1)

Rate as of March 31, 2013 was 3.00% plus the Libor spot rate at issuance.

On March 15, 2013, we issued \$250,000 in aggregate principal amount of 5.875% senior unsecured notes due 2023 (the "2023 Notes") for net proceeds following underwriting and other expenses of approximately \$245,885. Interest on the 2023 Notes is paid semi-annually. The 2023 Notes matured on March 15, 2023. (See *Capitalization*.)

**Investment Holdings**

As of March 31, 2013, we continue to pursue our diversified investment strategy. At March 31, 2013, approximately \$3,707,722 or 145.1% of our net assets are invested in 120 long-term portfolio investments and CLOs and 9.9% of our net assets are invested in money market funds.

During the nine months ended March 31, 2013, we originated \$2,297,432 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 annualized current yield was 13.9% as of June 30, 2012 and March 31, 2013 across all performing interest bearing investments. Monetization of 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



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

As of March 31, 2013, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), APH, AWCNC, LLC, Borga, Inc., CCPI Holdings, Inc. ("CCPI"), Credit Central Holdings of Delaware, LLC ("Credit Central"), Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Delaware, Manx Energy, Inc. ("Manx"), Nationwide, NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V"), The Healing Staff, Inc. ("THS"), Valley Electric Co. of Mt. Vernon, Inc. ("Valley Electric") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp., (f/k/a Biotronic NeuorNetwork) ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

The following is a summary of our investment portfolio by level of control at March 31, 2013 and June 30, 2012, respectively:

Level of Control	March 31, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 715,301	18.8%	\$ 675,305	18.2%	\$ 518,015	24.7%	\$ 564,489	27.0%
Affiliate	48,949	1.3%	41,745	1.1%	44,229	2.1%	46,116	2.2%
Non-control/Non-affiliate	3,030,863	79.9%	2,990,672	80.7%	1,537,069	73.2%	1,483,616	70.8%
Total Portfolio	\$ 3,795,113	100.0%	\$ 3,707,722	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

The following is our investment portfolio presented by type of investment at March 31, 2013 and June 30, 2012, respectively:

Type of Investment	March 31, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Revolving Line of Credit	\$ 10,545	0.3%	\$ 9,930	0.3%	\$ 1,145	0.1%	\$ 868	0.0%
Senior Secured Debt	1,944,699	51.2%	1,878,542	50.7%	1,146,454	54.6%	1,088,019	52.0%
Subordinated Secured Debt	916,981	24.2%	876,859	23.6%	536,900	25.6%	480,147	22.9%
Unsecured Debt	189,133	5.0%	189,653	5.1%	72,617	3.5%	73,195	3.5%
CLO Debt	27,562	0.7%	29,844	0.8%	27,258	1.3%	27,717	1.3%
CLO Residual Interest	571,668	15.0%	582,939	15.7%	214,559	10.2%	218,009	10.4%
Preferred Stock	21,291	0.6%	5,767	0.2%	31,323	1.5%	29,155	1.4%
Common Stock	109,872	2.9%	110,699	3.0%	61,459	2.9%	137,198	6.6%
Membership Interests	1,090	0.0%	3,144	0.1%	5,437	0.2%	13,844	0.7%
Overriding Royalty Interests			% 1,539	0.0%		%	1,623	0.1%
Net Profit Interests			% 5,791	0.2%		%		%
Escrows Receivable			% 5,065	0.1%		%	17,686	0.8%
Warrants	2,272	0.1%	7,950	0.2%	2,161	0.1%	6,760	0.3%
Total Portfolio	\$ 3,795,113	100.0%	\$ 3,707,722	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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The following is our investments in interest bearing securities presented by type of security at March 31, 2013 and June 30, 2012, respectively:

Level of Control	March 31, 2013				June 30, 2012			
	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	\$ 1,955,244	53.4%	\$ 1,888,472	52.9%	\$ 1,147,599	57.4%	\$ 1,088,887	57.6%
Second Lien	916,981	25.1%	876,859	24.7%	536,900	26.9%	480,147	25.4%
Unsecured	189,133	5.2%	189,653	5.3%	72,617	3.6%	73,195	3.9%
CLO Residual								
Interest	571,668	15.6%	582,939	16.3%	214,559	10.7%	218,009	11.6%
CLO Debt	27,562	0.7%	29,844	0.8%	27,258	1.4%	27,717	1.5%
Total Debt Securities	\$ 3,660,588	100.0%	\$ 3,567,767	100.0%	\$ 1,998,933	100.0%	\$ 1,887,955	100.0%

The following is our investment portfolio presented by geographic location of the investment at March 31, 2013 and June 30, 2012, respectively:

Geographic Location	March 31, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	\$ 101,751	2.7%	\$ 101,751	2.7%	\$ 15,134	0.7%	\$ 17,040	0.8%
Cayman Islands	599,230	15.8%	612,783	16.5%	241,817	11.5%	245,726	11.7%
Ireland	14,924	0.4%	15,000	0.4%	14,918	0.7%	15,000	0.7%
Midwest US	625,499	16.5%	579,633	15.6%	427,430	20.4%	377,139	18.0%
Northeast US	617,850	16.3%	630,254	17.0%	293,181	14.0%	313,437	15.0%
Puerto Rico	39,451	1.0%	39,451	1.1%		%		%
Southeast US	992,993	26.2%	956,160	25.8%	642,984	30.6%	634,945	30.4%
Southwest US	268,780	7.1%	255,317	6.9%	193,627	9.2%	234,433	11.2%
Western US	534,635	14.0%	517,373	14.0%	270,222	12.9%	256,501	12.2%
Total Portfolio	\$ 3,795,113	100.0%	\$ 3,707,722	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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The following is our investment portfolio presented by industry sector of the investment at March 31, 2013 and June 30, 2012, respectively:

Industry	March 31, 2013				June 30, 2012			
	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%	\$	%
Automobile / Auto Finance	28,122	0.7%	27,676	0.7%	32,806	1.6%	32,478	1.6%
Biotechnology		%	14	0.0%		%		%
Business Services	180,775	4.8%	180,849	4.9%	3,164	0.2%	3,288	0.2%
Chemicals	28,222	0.7%	28,222	0.8%	58,104	2.8%	58,104	2.8%
Commercial Services	252,295	6.6%	252,295	6.8%	80,418	3.8%	80,407	3.8%
Construction and Engineering	52,844	1.4%	52,844	1.4%		%		%
Consumer Finance	413,335	10.8%	401,208	10.9%	305,521	14.6%	305,521	14.6%
Consumer Services	258,439	6.8%	260,272	7.0%	146,335	7.0%	147,809	7.1%
Contracting	975	0.0%		%	15,949	0.8%		%
Diversified Financial Services	617,842	16.2%	631,395	17.0%	260,219	12.3%	264,128	12.6%
Diversified / Conglomerate Service		%		%		%	35	0.0%
Diversified								
Telecommunication Services	9,852	0.3%	9,852	0.3%		%		%
Durable Consumer Products	360,794	9.5%	356,042	9.6%	153,327	7.3%	152,862	7.3%
Ecological	141	0.0%	306	0.0%	141	0.0%	240	0.0%
Electronics		%	147	0.0%		%	144	0.0%
Energy	68,333	1.8%	60,755	1.6%	63,245	3.0%	126,868	6.1%
Food Products	131,980	3.5%	132,868	3.6%	101,975	4.9%	96,146	4.5%
Healthcare	276,747	7.3%	275,022	7.5%	141,990	6.8%	143,561	6.9%
Hotel, Restaurant & Leisure	11,764	0.3%	11,764	0.3%		%		%
Insurance		%		%	83,461	4.0%	83,461	4.0%
Machinery	1,271	0.0%	3,839	0.1%	4,684	0.2%	6,485	0.3%
Manufacturing	139,457	3.7%	153,143	4.1%	95,191	4.5%	127,127	6.1%
Media	148,264	3.9%	138,595	3.7%	165,866	7.9%	161,843	7.7%
Metal Services and Minerals	42,079	1.1%	42,193	1.1%		%		%
Oil and Gas Equipment Services		%		%	7,188	0.3%	7,391	0.4%
Oil and Gas Production	150,743	4.0%	66,917	1.8%	130,928	6.2%	38,993	1.9%
Personal and Nondurable Consumer Products	39,000	1.0%	39,616	1.1%	39,351	1.8%	39,968	1.9%
Production Services		%		%	268	0.0%	2,040	0.1%
Property Management	51,320	1.4%	51,694	1.4%	51,770	2.5%	47,982	2.2%
Real Estate	47,768	1.3%	47,768	1.3%		%		%
Retail	17,225	0.5%	17,615	0.5%	63	0.0%	129	0.0%
Software & Computer Services	181,646	4.8%	182,831	4.9%	53,908	2.6%	54,711	2.6%
Specialty Minerals	38,500	1.2%	43,538	1.2%	37,732	1.8%	44,562	2.1%
Textiles, Apparel & Luxury Goods	100,000	2.6%	100,000	2.7%		%		%
Textiles and Leather	16,370	0.4%	8,868	0.2%	15,123	0.7%	17,161	0.8%
Transportation	128,954	3.4%	129,574	3.5%	50,530	2.4%	50,777	2.4%
<b>Total Portfolio</b>	<b>\$ 3,795,113</b>	<b>100.0%</b>	<b>\$ 3,707,722</b>	<b>100.0%</b>	<b>\$ 2,099,313</b>	<b>100.0%</b>	<b>\$ 2,094,221</b>	<b>100.0%</b>

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**Portfolio Investment Activity**

During the nine months ended March 31, 2013, we acquired \$2,048,399 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$236,833, funded \$12,200 of revolver advances, recorded PIK interest of \$7,025 and amortization of discounts and premiums of \$13,624, resulting in gross investment originations of \$2,297,432. These investments are described briefly in the following:

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 ("TFS"), a provider of forklift and other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.50% and has a final maturity of July 5, 2017.

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. The second lien term loan bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of June 14, 2019.

On July 20, 2012, we provided \$12,000 of senior secured financing to EIG Investors Corp ("EIG"), 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. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of October 22, 2018.

On July 20, 2012, we provided \$10,000 of senior secured financing to FPG, LLC, a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The note payable bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On July 27, 2012, we provided \$85,000 of subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. The new company, Arctic Glacier U.S.A., 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. The unsecured subordinated term loan bears interest in cash at 12.0% and interest in kind of 3.0% and has a final maturity of July 27, 2019.

On August 2, 2012, we provided a \$27,000 secured loan to support the acquisition of New Star Metals, Inc. ("New Star"), a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company. The senior subordinated note bears interest in cash at greater of 11.5% or Libor plus 8.5% and interest in kind of 1.0% and has a final maturity of February 2, 2018.

On August 3, 2012, we provided \$120,000 senior secured financing, of which \$110,000 was funded at closing, to support the acquisition of InterDent, Inc. ("Interdent"), 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. The Term Loan A note bears interest in cash at the greater of 8.0% or Libor plus 6.5% and has a final maturity of August 3, 2017. The Term Loan B note bears interest in cash at the greater of 13.0% or Libor plus 10.0% and has a final maturity of August 3, 2017. The \$10,000 senior secured revolver bears interest in cash at the greater of 10.5% or Libor plus 8.25% and has a final maturity of February 3, 2013.

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.

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The senior subordinated loan bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 3.0% and has a final maturity of February 3, 2018.

On August 3, 2012, we provided \$10,000 of senior secured financing to Pinnacle (US) Acquisition Co Limited, 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. The second lien term loan bears interest in cash at the greater of 10.5% or Libor plus 8.25% and has a final maturity of August 3, 2020.

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, Ltd.

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, Ltd.

On August 17, 2012, we made a secured second lien investment of \$38,500 to support the recapitalization of American Gilsonite Company. The secured note bears interest in cash at 11.5% and has a final maturity of September 1, 2017. After the financing, we received repayment of the \$37,732 loan previously outstanding on August 28, 2012.

On September 14, 2012, we invested an additional \$10,000 in Hoffmaster Group, Inc. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of January 3, 2019.

On September 14, 2012, we made a secured investment of \$135,000 to support the recapitalization of Progrexion Holdings, Inc. ("Progrexion"). Concurrent with the financing, we received repayment of the \$62,680 loans that were previously outstanding. The senior secured loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On September 27, 2012, we made an investment of \$45,746 to purchase 95% of the subordinated notes in ING IM CLO 2012-III, Ltd.

On September 28, 2012, we made an unsecured investment of \$10,400 to support the acquisition of Evanta Ventures, Inc., a diversified event management company. The subordinated note bears interest in cash at 12.0% and interest in kind of 1.0% and has a final maturity of September 28, 2018.

On September 28, 2012, we made a secured second lien investment of \$100,000 to support the recapitalization of USC, a national distributor of hunting, outdoor, marine and tackle products. The secured loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On October 3, 2012, we made a senior secured investment of \$21,500 to support the acquisition of CP Well Testing, LLC, a leading provider of flowback services to oil and gas companies operating in Western Oklahoma and the Texas Panhandle. The first lien note bears interest in cash at the greater of 13.5% or Libor plus 11.0% and has a final maturity of October 3, 2017.

On October 11, 2012, we made a secured second lien investment of \$12,000 in Deltek, Inc., an enterprise software and information solutions provider for professional services firms, government contractors, and government agencies. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of October 10, 2019.

On October 12, 2012, we made a senior secured investment of \$42,000 to support the acquisition of Gulf Coast Machine and Supply Company, a preferred provider of value-added

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forging solutions to energy and industrial end markets. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On October 18, 2012, we made a follow-on senior secured debt investment of \$20,000 in First Tower Delaware, to support seasonal growth in finance receivables due to increased holiday borrowing activity among its customer base. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of June 30, 2022.

On October 24, 2012, we made an investment of \$7,800 in APH, to acquire an industrial real estate property occupied by Filet-of-Chicken, a chicken processor in Georgia. We invested \$1,809 of equity and \$6,000 of debt in APH. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and interest in kind of 2.0% and has a final maturity of October 24, 2020.

On November 5, 2012, we made an investment of \$39,475 to purchase 95.0% of the income notes in ING IM CLO 2012-IV, LTD.

On November 9, 2012 we made a secured second lien investment of \$22,000 to support the recapitalization of EIG. Concurrent with the financing, we received a repayment of the \$12,000 loan previously outstanding. The new note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of May 9, 2020.

On November 26, 2012 we made a secured second lien investment of \$22,000 in The Petroleum Place, Inc., a provider of enterprise resource planning software focused on the oil & gas industry. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of May 20, 2019.

On November 30, 2012 we made a secured second lien investment of \$9,500 to support the recapitalization of R-V. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and has a final maturity of May 30, 2018. As part of the recapitalization, we received a dividend of \$11,073 for our investment in R-V's common stock.

On December 6, 2012, we made an investment of \$38,291 to purchase 90% of the subordinated notes in Apidos CLO XI, LLC.

On December 13, 2012, we completed a \$33,921 recapitalization of CCPI, an international manufacturer of refractory materials and other consumable products for industrial applications. Through the recapitalization, Prospect acquired a controlling interest in CCPI for \$28,334 in cash and 467,928 unregistered shares of our common stock. The first lien note issued to CCPI bears interest in cash at a fixed rate of 10.0% and has a final maturity of December 31, 2017. The first lien note issued to CCPI Holdings bears interest in cash at a fixed rate of 12.0% and interest in kind of 7.0%, and has a final maturity of June 30, 2018.

On December 14, 2012, we provided \$10,000 of first-lien financing to support the recapitalization of Prince Mineral Holding Corp., a leading global specialty mineral processor and consolidator. The first lien note bears interest in cash at a fixed rate of 11.5% and has a final maturity of December 15, 2019.

On December 14, 2012, we made a \$3,000 follow-on investment in Focus Brands, Inc. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of August 21, 2018.

On December 17, 2012, we made a \$39,800 first-lien investment in Coverall Health-Based Cleaning Systems, a leading franchiser of commercial cleaning businesses. The first lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and has a final maturity of December 17, 2017.

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On December 17, 2012, we made a \$38,150 first-lien follow-on investment in TFS, to support the acquisition of Miner Holding Company, Inc. The first lien note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 21, 2017.

On December 17, 2012, we made a secured debt investment of \$30,000 to support the recapitalization of Biotronic. After the financing, we received payment of the \$26,227 loan that was previously outstanding. The new note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 17, 2017.

On December 19, 2012, we provided \$17,500 of senior secured second-lien financing to Grocery Outlet, Inc., to support the recapitalization of a retailer of food, beverages and general merchandise. The second lien note bears interest in cash at the greater of 10.5% or Libor plus 9.25% and has a final maturity of June 17, 2019.

On December 19, 2012, we provided \$23,200 of senior secured second-lien financing to support the recapitalization of TB Corp., a Mexican restaurant chain. The second lien note bears interest in cash at a fixed rate of 12.0% and interest in kind of 1.5%, and has a final maturity of December 18, 2018.

On December 20, 2012, we made an additional follow-on senior secured debt investment of \$19,500 to support the recapitalization of Progrexion. After the financing, we now hold \$154,500 of senior secured debt of Progrexion. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On December 21, 2012, we made a \$10,000 senior secured second-lien follow-on investment in Seaton Corp. The second lien note bears interest in cash at the greater of 12.5% or Libor plus 9.0% and interest in kind of 2.0%, and has a final maturity of March 14, 2015.

On December 21, 2012, we made a \$37,500 senior secured first-lien investment in Lasership, Inc., a leading provider of regional same day and next day distribution services for premier e-commerce and product supply businesses. The first lien note bears interest in cash at the greater of 10.25% or Libor plus 8.25% and has a final maturity of December 21, 2017.

On December 21, 2012, we made a \$12,000 senior secured first-lien follow-on investment in FPG, LLC, a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The first lien note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On December 24, 2012, we made a follow-on secured debt investment of \$5,000 in New Star. The second lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest in kind of 1.0%, and has a final maturity of February 2, 2018.

On December 24, 2012, we made a \$7,000 second-lien secured investment in Aderant North America, Inc., a leading provider of enterprise software solutions to professional services organizations. The first lien note bears interest in cash at the greater of 11.0% or PRIME plus 7.75% and has a final maturity of June 20, 2019.

On December 28, 2012, we made a \$9,500 second-lien secured investment in APH, to acquire Abbington Pointe, Inc., a multi-family property in Marietta, Georgia. We invested \$3,193 of equity and \$6,400 of debt in APH. The second lien note bears interest in cash at the greater of 10.5% or Libor plus 8.50% and interest in kind of 2.0% and has a final maturity of October 24, 2020.

On December 28, 2012, we made a \$5,000 second-lien secured investment in TransFirst Holdings, Inc., a payments processing firm that provides electronic credit card authorization to merchants located throughout the United States. The second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of June 27, 2018.

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On December 28, 2012, we completed a \$47,900 recapitalization of Credit Central, a branch-based provider of installment loans. Through the recapitalization, we acquired a controlling interest in Credit Central for \$38,082 in cash and 897,906 unregistered shares of our common stock. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.50% and has a final maturity of December 31, 2020.

On December 28, 2012, we made a \$3,600 follow-on subordinated unsecured investment in Ajax. The unsecured note bears interest in cash at the greater of 11.5% or Libor plus 8.50% and interest in kind of 6.00% and has a final maturity of December 31, 2017.

On December 28, 2012, we made a \$30,000 first-lien senior secured investment to support the recapitalization of Spartan Energy Services, LLC, a leading provider of thru tubing and flow control services to oil and gas companies. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

On December 31, 2012, we provided \$32,000 senior secured loan to support the acquisition of System One Holdings, LLC, a leading provider of professional staffing services, by investment funds managed by MidOcean Partners. The first lien note bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of December 31, 2018.

On December 31, 2012, we funded a recapitalization of Valley Electric with \$52,098 of combined debt and equity financing. Through the recapitalization, we acquired a controlling interest in Valley Electric for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. The first lien note issued to Valley Electric bears interest in cash at the greater of 8.0% or Libor plus 5.0% and interest in kind of 2.5%, and has a final maturity of December 31, 2017. The first lien note issued to Valley Electric Holdings bears interest in cash at the greater of 9.0% or Libor plus 6.0% and interest in kind of 9.0%, and has a final maturity of December 31, 2018.

On December 31, 2012, we provided \$70,000 of secured second-lien debt financing for the acquisition of Thomson Reuters Property Tax Services by Ryan, LLC. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and interest in kind of 3.0%, and has a final maturity of June 30, 2018.

On January 11, 2013, we provided \$27,100 of debt financing to CHC, a national provider of correctional medical and behavioral healthcare solutions. The subordinated secured second lien loan bears interest in cash at 11.25% and has a final maturity of January 11, 2020.

On January 17, 2013, we made a \$30,348 follow-on investment in APH, to acquire 5100 Live Oaks Blvd, LLC, a multi-family residential property located in Tampa, Florida. We invested \$2,748 of equity and \$27,600 of debt in APH Property Holdings, LLC.

On January 24, 2013, we made an investment of \$24,870 to purchase 56.14% of the subordinated notes in Cent 17 CLO.

On January 24, 2013, we made an investment of \$26,901 to purchase 50.12% of the subordinated notes in Octagon.

On January 29, 2013 we provided \$8,000 of secured second lien financing to TGG, a developer of technologies for extracorporeal photopheresis treatments. The senior secured second-lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

On January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide, which operate a specialty finance business based in Chicago, Illinois, a \$25,151 of combined debt and equity financing. The term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of January 31, 2023.



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On February 5, 2013, we received a distribution of \$3,250 related to our investment in NRG, for which we realized a gain of the same amount. This is a partial release of the total amounts held in escrow with a remaining fair value of \$3,568 as of March 31, 2013.

On February 5, 2013, we made a secured debt investment of \$2,000 in Healogics, a provider of outpatient wound care management services located in Jacksonville, Florida. On the same day we fully exited the deal and realized a gain of \$60 on this investment.

On February 13, 2013, we made an investment of \$35,025 to purchase 50.34% of the subordinated notes in Galaxy.

On February 14, 2013, we made a \$2,000 secured first-lien debt investment in J.G. Wentworth, the largest purchaser of structured settlement and annuity payments in the United States. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 7.5% and has a final maturity of February 8, 2019.

On February 14, 2013, we provided \$15,000 of senior secured financing to Speedy, a leading provider of short-term loans and financial services in the United States, the United Kingdom and Canada. The unsecured subordinated term loan bears interest in cash at 12.0% and has a final maturity of November 15, 2017.

On February 15, 2013, we made a \$6,000 secured second-lien debt investment in SESAC, a performing rights organization based in Nashville, TN. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of July 12, 2019.

On February 21, 2013, we provided \$39,550 of senior secured first-lien financing to Atlantis, a leading owner and operator of dialysis stations. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity date of February 21, 2018.

On February 25, 2013, we made a \$10,000 secured second lien loan and a \$2,000 secured first-lien debt investment in TNS, an international data communications company that provides networking, data communications and other value added services. On the same day we sold the \$2,000 secured first lien debt instrument and realized a gain of \$20 on this investment. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 8.0% and has a final maturity of August 14, 2020.

On March 1, 2013, we made a \$70,000 secured term loan investment in a subsidiary of Cinedigm, the leading provider of digital cinema services, software and content marketing and distribution. The senior secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.0% and interest in kind of 2.5% and has a final maturity of March 31, 2021.

On March 6, 2013, we made a \$5,000 follow-on investment in Rocket. The senior secured second-lien term loan 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 March 7, 2013, we made a secured second-lien follow-on investment of \$60,000 in USC. The senior secured second-lien term loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On March 8, 2013, we made an investment of \$40,400 to purchase 78.60% of the subordinated notes in Halcyon.

On March 12, 2013, we provided \$12,000 of secured second-lien financing to ALG, a vertically integrated travel company that focuses on providing all-inclusive vacations in Mexico and the Caribbean to the U.S. customer. The senior secured second-lien term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of February 28, 2020.

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On March 15, 2013, we made an investment of \$44,063 to purchase 95.27% of the subordinated notes in Apidos XII.

On March 18, 2013, we provided a \$197,291 first-lien senior secured credit facility to support the refinancing of Capstone, a logistics services portfolio company controlled by H.I.G. After the financing, we received repayment of \$30,705 of Term Loan A and \$38,434 of Term Loan B previously outstanding. The Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.0% and has a final maturity of September 16, 2016. The Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of September 16, 2016.

On March 27, 2013, we provided \$100,000 of senior secured debt financing to support the recapitalization of Broder, a leading distributor of imprintable sportswear and accessories in the United States. The senior secured term loan bears interest in cash at the greater of 10.75% or Libor plus 9.0% and has a final maturity of June 27, 2018.

During the nine months ended March 31, 2013, we completed a partial sale of one investment and closed-out seventeen positions which are briefly described below.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. ("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 August 3, 2012, Pinnacle Treatment Centers, Inc. repaid the \$17,475 loan receivable to us.

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

On September 20, 2012, Fischbein, LLC ("Fischbein") repaid the \$3,425 loan receivable to us.

On October 5, 2012, Northwestern Management Services, LLC ("Northwestern") repaid the \$15,092 loan receivable to us and we sold our 50 shares of Northwestern common stock for total proceeds of \$2,233, realizing a gain of \$1,862.

On October 16, 2012, Blue Coat Systems, Inc. repaid the \$25,000 loan receivable to us.

On October 18, 2012, Hi-Tech Testing Services, Inc. and Wilson Inspection X-Ray Services, Inc. repaid the \$7,200 loan receivable to us.

On October 19, 2012, Mood Media Corporation repaid the \$15,000 loan receivable to us.

On October 31, 2012, Shearer's Foods, Inc. ("Shearer's") repaid the \$37,999 loan receivable to us. On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's, receiving \$6,022 of net proceeds and realizing a gain of approximately \$2,027 on the redemption.

On November 8, 2012, Potters Holdings II, L.P. repaid the \$15,000 loan receivable to us.

On November 15, 2012, Renaissance Learning, Inc. repaid the \$6,000 loan receivable to us.

On December 3, 2012, VanDeMark Chemicals, Inc. repaid the \$29,658 loan receivable to us.

On December 7, 2012, Hudson Products Holdings, Inc. ("Hudson") repaid the \$6,267 loan receivable to us.

On December 21, 2012, ST Products, LLC repaid the \$23,162 loan receivable to us.

On December 21, 2012, SG Acquisition, Inc. repaid the \$83,242 loan receivable to us.

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On March 18, 2013, we sold our \$2,000 investment in J.G. Wentworth and realized a gain of \$75 on this investment.

On March 28, 2013, we sold our investment in Meatco for net proceeds of approximately \$1,965, recognizing a realized loss of \$10,814 on the sale.

On March 29, 2013, we received net proceeds of \$1,251 for the partial sale of our equity investment in C&H, realizing a gain of \$900 on the sale.

In addition to the repayments noted above, during the nine months ended March 31, 2013 we received principal amortization payments of \$13,583 on several loans, and \$51,078 of partial prepayments primarily related to Byrider Systems Acquisition Corp, Capstone, Cargo Airport Services USA, LLC, Energy Solutions, NMMB and Northwestern.

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. We do not know the timing, if any, related to this potential earnout and have valued the \$28,000 at zero as of March 31, 2013. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$158,687 in cash. Currently, a portion of our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, 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. During the nine months ended March 31, 2013, Energy Solutions repaid \$24,250 of senior secured debt. We received a \$16,952 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income during the nine months ended March 31, 2013. During the nine months ended March 31, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. We received no such distributions during the three months ended March 31, 2013. Energy Solutions continues to hold \$23,576 of cash for future investment and repayment of the remaining debt.

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

As of March 31, 2013, \$812 of purchase discount from the assets acquired from Patriot remains to be accreted as interest income, of which \$271 is expected to be amortized during the three months ending June 30, 2013.

During the three and nine months ended March 31, 2012, we recognized \$964 and \$3,348 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. Included in the \$964 recorded during the three months ended March 31, 2012 is \$726 of normal accretion and \$238 of accelerated accretion resulting from the repayment of ROM Acquisition Corp ("ROM"). Included in the \$3,348 recorded during the nine months ended March 31, 2012 is \$2,417 of normal accretion and \$931 of accelerated accretion resulting from the repayments of Mac & Massey Holdings LLC and ROM.

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

Quarter-End	Acquisitions(1)	Dispositions(2)
March 31, 2013	\$ 784,395	\$ 102,527
December 31, 2012	772,125	349,269
September 30, 2012	747,937	158,123
June 30, 2012	573,314	146,292
March 31, 2012	170,073	188,399
December 31, 2011	154,697	120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	\$ 5,553,770	\$ 1,767,596

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- (1) Includes new deals, additional fundings, refinancings and PIK interest.
- (2) Includes scheduled principal payments, prepayments and refinancings.
- (3) The \$210,438 of acquisitions for the quarter ended December 31, 2009 includes \$207,126 of portfolio investments acquired from Patriot.

**Investment Valuation**

In determining the fair value of our portfolio investments at March 31, 2013 the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$3,616,948 to \$3,908,509, excluding money market investments.



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

In determining the range of value for our investments in CLOs, management and the independent valuation firms used discounted cash flow models. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for each security. A discounted cash flow model is prepared, utilizing a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distributes the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates that incorporate all the risk factors.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analysis, applied to each investment, was a total valuation of \$3,707,722, 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.

As a result of improved operating results, the Board of Directors increased the fair value of our investment in AIRMALL to \$51,694 as of March 31, 2013, a premium of \$374 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

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*Ajax Rolled Ring & Machine, Inc.*

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

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. During the quarter ended December 31, 2012, we funded an additional \$3,600 of unsecured debt to refinance first-lien debt held by Wells Fargo. As of March 31, 2013, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was \$19,837 and our subordinated debt was \$18,635 as of March 31, 2013.

Due to soft operating results in the three months ended December 31, 2012, the Board of Directors decreased the fair value of our investment in Ajax to \$38,472 as of March 31, 2013, a reduction of \$6,057 from its amortized cost, compared to the \$11,151 unrealized appreciation recorded at June 30, 2012.

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

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

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry with the intent of strategically expanding Energy Solutions operations across energy sectors. As part of the reorganization, we transferred our equity interests in 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 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. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$158,687 in cash. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were 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.

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 \$30,942 for our debt and equity positions at March 31, 2013 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At March 31, 2013 and June 30, 2012, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was

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valued at \$7,578 below and \$63,623 above its amortized cost, respectively. We received distributions of \$53,820 from Energy Solutions that were recorded as dividend income during the nine months ended March 31, 2013. No such distributions were received during the three months ended March 31, 2013.

*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, LLC ("First Tower") businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. During the three months ended June 30, 2012, we received \$8,075 in structuring fee income. During the three months ended December 31, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. As of January 31, 2013, First Tower had total assets of approximately \$632,681 including \$401,673 of finance receivables net of unearned charges. As of March 31, 2013, First Tower's total debt outstanding to parties senior to us was \$264,760.

Due to a reduction in public market comparables for consumer finance industry, the Board of Directors decreased the fair value of our investment in First Tower to \$295,158 as of March 31, 2013, a discount of \$12,795 to its amortized cost, compared to \$287,953 as of June 30, 2012, equal to its amortized cost at that time.

*Manx Energy, Inc.*

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

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



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support ongoing operations. On June 30, 2012, Manx assigned the membership interests of Coalbed and AEH to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed company owned by us.

The Board of Directors decreased the fair value of our investment in Manx to zero as of March 31, 2013 and June 30, 2012, respectively, a reduction of \$11,028 from its amortized cost.

*The Healing Staff, Inc.*

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

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

Based upon an analysis of the liquidation value of assets, our Board of Directors determined the fair value of our investment in THS and VSA to be zero at March 31, 2013 and June 30, 2012, respectively, a reduction of \$3,750 from its amortized cost.

*Wolf Energy Holdings, Inc.*

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

Based on an increase in the liquidation value of Wolf, the Board of Directors increased the fair value of our investment in Wolf to \$811 as of March 31, 2013, a reduction of \$7,230 from its amortized cost, compared to the \$7,991 unrealized depreciation recorded at June 30, 2012.

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,

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Ajax and First Tower Delaware, experienced such volatility and experienced meaningful fluctuations in valuation during the nine months ended March 31, 2013. The valuation of Ajax decreased due to declining operating results. The value of our equity position in Ajax decreased to zero as of March 31, 2013, a discount of \$6,057 to its cost, compared to the \$11,151 unrealized gain recorded at June 30, 2012. The valuation of First Tower Delaware decreased due to change in current market conditions. The value of our equity position in First Tower decreased to \$30,398 as of March 31, 2013, a discount of \$12,795 to its cost, compared to the value of \$43,193 recorded at June 30, 2012, equal to its cost. Seven of the other controlled investments have been valued at discounts to the original investment. Eight of the control investments are valued at the original investment amounts or higher. Overall, at March 31, 2013, the control investments are valued at \$39,996 below their amortized cost.

We hold three affiliate investments at March 31, 2013. One of our affiliate portfolio companies, Boxercraft, experienced a meaningful decrease in valuation during the nine months ended March 31, 2013 due to declining operating results. As of March 31, 2013, Boxercraft is valued at \$8,868 as of March 31, 2013, a reduction of \$7,502 to its amortized cost. Overall, at March 31, 2013, affiliate investments are valued \$7,204 below their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. As of March 31, 2013 and June 30, 2012, three of our Non-control/Non-affiliate investments, H&M Oil & Gas, LLC ("H&M"), Stryker Energy, LLC ("Stryker") and Wind River Resources Corp. and Wind River II Corp. ("Wind River"), are valued at a significant discount to amortized cost, due to significant decreases in the operating results of the operating companies. Overall, at March 31, 2013, other Non-control/Non-affiliate investments are valued at \$25,382 above their amortized cost, excluding our investments in H&M, Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

**Capitalization**

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

	As of March 31, 2013		As of June 30, 2012	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 552,500	\$	\$ 492,500	\$ 96,000
Senior Convertible Notes	\$ 847,500	\$ 847,500	\$ 447,500	\$ 447,500
Senior Unsecured Notes	\$ 347,682	\$ 347,682	\$ 100,000	\$ 100,000
InterNotes®	\$ 199,401	\$ 199,401	\$ 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 March 31, 2013:

	Total	Payments Due by Period			After 5 Years
		Less than 1 year	1 - 3 Years	3 - 5 Years	
Revolving Credit Facility	\$	\$	\$	\$	\$
Senior Convertible Notes	847,500		150,000	297,500	400,000
Senior Unsecured Notes	347,682				347,682
InterNotes®	199,401				199,401
<b>Total contractual obligations</b>	<b>\$ 1,394,583</b>	<b>\$</b>	<b>\$ 150,000</b>	<b>\$ 297,500</b>	<b>\$ 947,083</b>

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock and warrants to purchase such securities in an amount up to \$3,000,000 less issuances to date. As of March 31, 2013 we can issue up to \$2,004,070 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

*Revolving Credit Facility*

On 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 2010 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 2010 Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$552,500 under the 2012 Facility as of March 31, 2013. 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 March 31, 2013, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility

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equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of March 31, 2013 and June 30, 2012, we had \$430,094 and \$451,252, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was zero and \$96,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of \$552,500. At March 31, 2013, the investments used as collateral for the 2012 Facility had an aggregate market value of \$718,974, which represents 28.1% 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, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at market value as of March 31, 2013. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the 2012 Facility, we incurred \$10,955 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 \$7,481 remains to be amortized as of March 31, 2013.

During the three months ended March 31, 2013 and March 31, 2012, we recorded \$2,305 and \$4,484 of interest costs and amortization of financing costs on the Syndicated Facility as interest expense, respectively. During the nine months ended March 31, 2013 and March 31, 2012, we recorded \$6,700 and \$2,706 of interest costs and amortization of financing costs on the Syndicated 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 March 31, 2013 of 88.0902 and 88.1429 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 March 31, 2013 was last calculated on the anniversary of the issuance (December 21, 2012) 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 is increased if monthly cash dividends paid to common shares exceed the rate of \$0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012. Interest on the remaining \$167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2013 of 78.3699 and 78.5395 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 March 31, 2013 was last calculated on the anniversary of the issuance (February 14, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the

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anniversary. The conversion rate for the 2016 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101150 per share.

On April 16, 2012, we issued \$130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds 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 March 31, 2013 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 been adjusted on the anniversary date of the issuance (April 16, 2012) 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 in effect at April 16, 2013 is 86.1156 shares of common stock per \$1 principal amount of 2017 Notes which is equivalent to the conversion price of \$11.61 per share of common stock. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10150 per share.

On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds 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 and conversion rate at March 31, 2013 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 price has not been adjusted since the issuance (August 14, 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 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101600 per share.

On December 21, 2012, we issued \$200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds following underwriting and other expenses of approximately \$193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2013 of 79.7766 shares of common stock per \$1 principal amount of 2019 Notes, which is equivalent to a conversion price of approximately \$12.54 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (December 21, 2012) and will 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 2019 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.110025 per share.

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

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to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

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

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

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

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

In connection with the issuance of the Senior Convertible Notes, we incurred \$27,300 of fees which are being amortized over the terms of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$21,633 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities as of March 31, 2013.

During the three months ended March 31, 2013 and March 31, 2012, we recorded \$13,299 and \$5,133 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense. During the nine months ended March 31, 2013 and March 31, 2012, we recorded \$32,529 and \$15,553 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 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.

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

In connection with the issuance of the 2022 Notes and 2023 Notes (collectively the "Senior Unsecured Notes"), we incurred \$7,487 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$7,254 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

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

*Prospect Capital InterNotes®*

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

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

During the nine months ended March 31, 2013, we issued \$178,763 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$174,260. These notes were issued with stated interest rates ranging from 4.00% to 6.63% with a weighted average rate of 5.70%. These notes mature between July 15, 2019 and March 15, 2043. We issued an additional \$64,216 in aggregate principal amount of our Prospect Capital InterNotes® subsequent to March 31, 2013. (See *Recent Developments*.)

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The bonds outstanding as of March 31, 2013 are:

Date of Issuance	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date
March 1, 2012 - March 8, 2012	\$ 5,465	6.90% - 7.00%	6.97%	March 15, 2022
April 5, 2012 - April 26, 2012	8,516	6.50% - 6.85%	6.72%	April 15, 2022
June 14, 2012	2,657	6.95%	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	6.55%	June 15, 2019
July 6, 2012 - July 26, 2012	20,928	6.20% - 6.45%	6.31%	July 15, 2019
August 2, 2012 - August 23, 2012	17,545	6.05% - 6.15%	6.09%	August 15, 2019
September 7, 2012				
- September 27, 2012	29,406	5.85% - 6.00%	5.92%	September 15, 2019
October 4, 2012	7,172	5.70%	5.70%	October 19, 2019
November 23, 2012				
- November 29, 2012	13,754	5.00% - 5.13%	5.09%	November 15, 2019
November 29, 2012	1,979	5.75%	5.75%	November 15, 2032
November 23, 2012				
- November 29, 2012	16,437	6.50% - 6.63%	6.58%	November 15, 2042
December 6, 2012				
- December 28, 2012	9,339	4.50% - 4.86%	4.73%	December 15, 2019
December 6, 2012	1,127	5.63%	5.63%	December 15, 2032
December 13, 2012				
- December 28, 2012	3,702	5.00% - 5.13%	5.11%	December 15, 2030
December 6, 2012				
- December 28, 2012	22,966	6.00% - 6.38%	6.21%	December 15, 2042
January 4, 2013 - January 31, 2013		4.00% -		
	4,427	4.375%	4.15%	January 15, 2020
January 4, 2013 - January 31, 2013		4.50% -		
	2,388	4.875%	4.74%	January 15, 2031
January 4, 2013 - January 31, 2013		5.50% -		
	9,338	5.875%	5.63%	January 15, 2043
February 4, 2013 - February 28, 2013	2,619	4.00%	4.00%	February 15, 2020
February 4, 2013 - February 28, 2013	664	4.50%	4.50%	February 15, 2031
February 4, 2013 - February 28, 2013	4,623	5.50%	5.50%	February 15, 2043
March 4, 2013 - March 28, 2013	3,832	4.00%	4.00%	March 15, 2020
March 4, 2013 - March 28, 2013	984	4.125% - 4.5%	4.24%	March 15, 2031
March 4, 2013 - March 28, 2013	4,308	5.50%	5.50%	March 15, 2043
March 14, 2013 - March 28, 2013(1)	1,225	L+3.00%	3.27%	March 15, 2023
	\$ 199,401			

(1)

Rate as of March 31, 2013 was 3.00% plus the Libor spot rate at issuance.

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$5,975 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$5,784 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three and nine months ended March 31, 2013, we recorded \$2,784 and \$5,462 of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense, respectively.



Table of Contents**Net Asset Value**

During the nine months ended March 31, 2013, we raised \$1,083,618 of additional equity, net of offering costs, by issuing 97,916,280 shares of our common stock. The following table shows the calculation of net asset value per share as of March 31, 2013 and June 30, 2012:

	As of March 31, 2013		As of June 30, 2012
Net Assets	\$ 2,555,588	\$	1,511,974
Shares of common stock outstanding	238,628,037		139,633,870
<b>Net asset value per share</b>	<b>\$ 10.71</b>	<b>\$</b>	<b>10.83</b>

At March 31, 2013, we had 238,628,037 shares of our common stock issued and outstanding.

**Results of Operations**

Net increase in net assets resulting from operations for the three months ended March 31, 2013 and 2012 was \$44,429 and \$50,209, respectively, representing \$0.20 and \$0.44 per weighted average share, respectively. Net investment income decreased on a weighted average per share basis from \$0.51 to \$0.26 for the three months ended March 31, 2012 and 2013, respectively. This decrease is primarily due 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 quarter ending March 31, 2012, and \$13,765 of structuring and advisory fees recognized during the quarter ended March 31, 2012 from our investments in Energy Solutions and NRG. During the three months ended March 31, 2013, we experienced net unrealized and realized losses of \$15,156 or approximately \$0.07 per weighted average share primarily from the sale of our investment in Meatco for which we realized a loss of \$10,814 and significant reductions in the market value of our investments in Boxercraft and First Tower. These instances of unrealized depreciation were partially offset by unrealized appreciation of our investment in H&M as we obtained control of this asset in April 2013. During the three months ended March 31, 2012, we experienced net unrealized and realized losses of \$7,863 or approximately \$0.07 per weighted average share primarily from significant write-downs of our investments in AIRMALL, H&M and Stryker. These instances of depreciation were partially offset by the sale of NRG for which we realized a gain of \$24,810 and unrealized appreciation of our investments in Ajax, Babson CLO Ltd 2011-I ("Babson"), CIFC Funding 2011-I, Ltd. ("CIFC"), Energy Solutions and R-V.

Net increase in net assets resulting from operations for the nine months ended March 31, 2013 and 2012 was \$138,167 and \$154,601, respectively, representing \$0.71 and \$1.39 per weighted average share, respectively. During the nine months ended March 31, 2013, we experienced net unrealized and realized losses of \$94,661 or approximately \$0.48 per weighted average share primarily due to the sale of Meatco, the other-than-temporary impairment of ICS and significant reductions in the market value of our investments in Ajax, Energy Solutions and First Tower Delaware. During the nine months ended March 31, 2012, we experienced net unrealized and realized gains of \$32,144 or approximately \$0.29 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 unrealized appreciation were partially offset by unrealized depreciation in AIRMALL, Biotronic, H&M, Meatco, NMMB, Stryker, Wind River and the impairment of Deb Shops, Inc. ("Deb Shops") due to bankruptcy for which we recorded a realized loss for the full amount of the amortized cost. Net investment income increased on a weighted average per share basis from \$1.10 to \$1.20 for the nine months ended March 31, 2012 and 2013, respectively. This increase is primarily due to an increase in structuring fees recognized for new investment originations and an increase in dividend income received from Energy Solutions and R-V. We received dividends from Energy Solutions of \$53,820 and \$14,300 during the nine months ended March 31, 2013 and 2012, respectively. We received dividends

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from R-V of \$11,222 and \$209 during the nine months ended March 31, 2013 and March 31, 2012, respectively.

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

**Investment Income**

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$120,195 and \$95,623 for the three months ended March 31, 2013 and March 31, 2012, respectively. Investment income was \$409,866 and \$218,228 for the nine months ended, March 31, 2013 and March 31, 2012, respectively. During the three and nine months ended March 31, 2013, 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 received from Energy Solutions and R-V.

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

	For The Three Months Ended March 31,		For The Nine Months Ended March 31,	
	2013	2012	2013	2012
Interest income	\$ 109,612	\$ 74,948	\$ 304,788	\$ 163,471
Dividend income	83	5,475	68,246	31,554
Other income	10,500	15,200	36,832	23,203
Total investment income	\$ 120,195	\$ 95,623	\$ 409,866	\$ 218,228
Average debt principal of performing investments	\$ 3,114,965	\$ 1,420,050	\$ 2,595,767	\$ 1,474,053
Weighted-average interest rate earned	14.08%	20.18%	15.43%	15.07%

Average interest income producing assets have increased from \$1,420,050 for the three months ended March 31, 2012 to \$3,114,965 for the three months ended March 31, 2013. The average yield on interest bearing assets decreased from 20.18% for the three months ended March 31, 2012 to 14.08% for the three months ended March 31, 2013. The decrease in annual returns is primarily due to 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 quarter ending March 31, 2012. This decrease was partially offset by an increase in our investment in CLOs. Excluding these amounts, our

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annual return would have been 12.93% and 12.73% for the three months ended March 31, 2012 and 2013, respectively.

Average interest income producing assets have increased from \$1,474,053 for the nine months ended March 31, 2012 to \$2,595,767 for the nine months ended March 31, 2013. The average yield on interest bearing assets increased from 15.07% for the nine months ended March 31, 2012 to 15.43% for the nine months ended March 31, 2013.

Investment income is also generated from dividends and other income. Dividend income decreased from \$5,475 for the three months ended March 31, 2012 to \$83 for the three months ended March 31, 2013. This \$5,392 decrease in dividend income is primarily attributed to a decrease in the level of dividends received from our investment in NRG. We received dividends from NRG of \$5,100 during the three months ended March 31, 2012. There were no dividends from NRG received during the three months ended March 31, 2013 as NRG has been sold.

Dividend income increased from \$31,554 for the nine months ended March 31, 2012 to \$68,246 for the nine months ended March 31, 2013. This \$36,692 increase in dividend income is primarily attributed to an increase in the level of dividends received during the respective nine month period from our investments in Energy Solutions and R-V. We received dividends from Energy Solutions of \$53,820 and \$14,300 during the nine months ended March 31, 2013 and 2012, 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 were 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. We received dividends from R-V of \$11,222 and \$209 during the nine months ended March 31, 2013 and March 31, 2012, respectively. The \$11,222 of dividends received from R-V during the nine months ended March 31, 2013 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The increases in dividend income from our investments in Energy Solutions and R-V were offset by a reduction in dividends received from NRG. We received dividends from NRG of \$15,011 during the nine months ended March 31, 2012, respectively. There were no dividends from NRG received during the nine months ended March 31, 2013 as NRG has been sold.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Comparing the three months ended March 31, 2012 to the three months ended March 31, 2013, income from other sources decreased from \$15,200 to \$10,500, respectively. This \$4,700 decrease is primarily due to a decrease in structuring and advisory fees recognized from our investment in Energy Solutions. We received \$13,932 of structuring and advisory fees from Energy Solutions during the three months ended March 31, 2012. No such fees were received during the three months ended March 31, 2013. This decrease was partially offset by an increase of \$8,363 in structuring fees received from other investments during the three months ended March 31, 2013 primarily related to Broder, Cinedigm, Capstone and USC.

Comparing the nine months ended March 31, 2012 to the nine months ended March 31, 2013, income from other sources increased from \$23,203 to \$36,832, respectively. This \$13,629 increase is primarily due to \$33,828 of structuring fees recognized during the nine months ended March 31, 2013 primarily from the Arctic, InterDent, New Century, Progrexion, Ryan and USC originations, in comparison to \$13,530 of structuring fees recognized during the nine months ended March 31, 2012 primarily related to the Capstone, Energy Solutions and Totes Isotoner Corporation originations. This \$20,298 increase in structuring fees is partially offset by a decrease in advisory fees recognized during the nine months ended March 31, 2012 from our investment in Energy Solutions. We received \$8,949

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of advisory fees from Energy Solutions during the nine months ended March 31, 2012. No such fee was received during the nine months ended March 31, 2013.

**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 our 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 \$60,610 and \$37,551 for the three months ended March 31, 2013 and March 31, 2012, respectively. Operating expenses were \$177,038 and \$95,771 for the nine months ended March 31, 2013 and March 31, 2012, respectively.

The base investment advisory expenses were \$18,966 and \$8,949 for the three months ended March 31, 2013 and March 31, 2012, respectively. The base investment advisory expenses were \$48,500 and \$25,985 for the nine months ended March 31, 2013 and March 31, 2012, respectively. This increase is directly related to our growth in total assets. For the three months ended March 31, 2013 and March 31, 2012, we incurred \$14,896 and \$14,518, respectively, of income incentive fees. For the nine months ended March 31, 2013 and March 31, 2012, we incurred \$58,207 and \$30,614, respectively, of income incentive fees. The \$27,593 increase in the income incentive fee for the nine-month period is driven by an increase in pre-incentive fee net investment income of \$137,964 for the respective nine-month period primarily due to an increase in interest income from a larger asset base and dividend income from Energy Solutions. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three and nine months ended March 31, 2013, we incurred \$20,854 and \$50,779, respectively, of expenses related to our Syndicated Facility, InterNotes®, Senior Unsecured Notes and Senior Convertible Notes. This compares with expenses of \$9,655 and \$28,374 incurred during the three and nine months ended March 31, 2012, respectively. These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken during those quarters. The table below describes the various expenses of our Syndicated Facility and Senior Convertible Notes and the related indicators of leveraging capacity and indebtedness during these periods.

	For The Three Months Ended March 31,		For The Nine Months Ended March 31,	
	2013	2012	2013	2012
Interest on borrowings	\$ 17,311	\$ 6,407	\$ 40,921	\$ 19,655
Amortization of deferred financing costs	2,162	2,680	5,886	7,174
Undrawn facility fees	1,381	568	3,972	1,545
Total	\$ 20,854	\$ 9,655	\$ 50,779	\$ 28,374
Weighted-average debt outstanding	\$ 1,178,121	\$ 481,363	\$ 925,652	\$ 491,824
Weighted-average interest rate on borrowings (excluding amortization and undrawn facility fees)	6.61%	5.27%	6.74%	5.23%
Facility amount at beginning of period	\$ 552,500	\$ 400,000	\$ 492,500	\$ 325,000

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The increase in interest expense for the three and nine months ended March 31, 2013 is primarily due to the issuance of the 2022 Notes, 2023 Notes and the Senior Convertible Notes on April 16, 2012, August 14, 2012 and December 21, 2012, for which we incurred \$10,018 and \$21,816 of collective interest expense, respectively.

The allocation of overhead expense from Prospect Administration was \$2,957 and \$2,910 for the three months ended March 31, 2013 and 2012. The allocation of overhead expense from Prospect Administration was \$7,280 and \$5,143 for the nine months ended March 31, 2013 and 2012. As our portfolio continues to grow, we expect to continue to increase the size of our administrative and financial staff. Other allocated expenses from Prospect Administration will continue to increase along with the increase in staffing and asset base.

Total operating expenses, net of investment advisory fees, interest costs, excise tax and allocation of overhead from Prospect Administration ("Other Operating Expenses"), were \$1,937 and \$1,519 for the three months ended March 31, 2013 and 2012, respectively. Other Operating Expenses were \$6,772 and \$5,655 for the nine months ended March 31, 2013 and 2012, respectively.

**Net Investment Income**

Net investment income represents the difference between investment income and operating expenses. Our net investment income ("NII") was \$59,585 and \$58,072 for the three months ended March 31, 2013 and March 31, 2012, respectively, or \$0.26 per share and \$0.51 per share, respectively. Investment income increased from \$95,623 to \$120,195 for the three months ended March 31, 2012 and 2013, respectively. The \$24,572 increase for the three months ended March 31, 2013 is due to increases of \$34,664 in interest, due to the increased size of our portfolio for which we have recognized additional interest income. The \$24,572 increase in investment income is offset by an increase in operating expenses of \$23,059, primarily due to a \$10,395 increase in advisory fees due to the growing size of our portfolio and related income, and \$11,199 of additional interest and credit facility expenses. For the calendar year ended December 31, 2012, we elected to retain a portion of our annual taxable income and have paid \$4,500 for the excise tax due with the filing of the return. As of March 31, 2013, we have \$1,000 accrued as an estimate of one quarter of the excise tax due for the calendar year ended December 31, 2013. The per share decrease for the three months ended March 31, 2013 is primarily due 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 quarter ending March 31, 2012, and \$13,765 of structuring and advisory fees recognized during the quarter ended March 31, 2012 from our investments in Energy Solutions and NRG.

Our NII was \$232,828 and \$122,457 for the nine months ended March 31, 2013 and March 31, 2012, respectively, or \$1.20 per share and \$1.10 per share, respectively. The \$110,371 increase for the nine months ended March 31, 2013 is primarily due to an increase of \$141,317 in interest income, due to the increased size of our portfolio for which we have recognized additional interest income. The \$191,638 increase in investment income is offset by an increase in operating expenses of \$81,267, primarily due to a \$50,108 increase in advisory fees due to the growing size of our portfolio and related income, and \$22,405 of additional interest and credit facility expenses. The per share increase for the nine months ended March 31, 2013 is primarily due to a \$39,520 increase in the level of dividends received from our investment in Energy Solutions.

**Net Realized (Loss) Gain, Increase in Net Assets from Net Changes in Unrealized (Depreciation) Appreciation**

Net realized (loss) gain was (\$6,014) and \$24,812 for the three months ended March 31, 2013 and March 31, 2012, respectively. Net realized (loss) gain was (\$12,362) and \$23,703 for the nine months ended March 31, 2013 and March 31, 2012, respectively. The net realized loss for the three months

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ended March 31, 2013 was due primarily to the sale of our investment in Meatco for which we realized a loss of \$10,814. This loss was partially offset by a \$900 gain we recognized on the partial sale of our equity investment in C&H and a distribution of \$3,250 related to our investment in NRG Manufacturing, Inc. for which we realized a gain of the same amount. The net realized loss for the nine months ended March 31, 2013 was primarily due to the sale of Meatco, the other-than-temporary impairment of ICS, sale of our equity investments in C&H, Northwestern and Shearer's, distributions received from escrow receivable accounts, primarily NRG, and the sale of our common stock in Iron Horse for which we realized a gain of \$1,772. The net realized gain for the three months ended March 31, 2012 was due primarily to the sale of NRG common stock for which we realized a gain of \$36,940. For the nine months ended March 31, 2012 this gain was offset by our write-off of Deb Shops. During the nine months ended March 31, 2012, Deb Shops filed for bankruptcy and a plan for reorganization was proposed. The plan, which was approved by the bankruptcy court, eliminated our debt position with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of \$14,607 for the full amount of the amortized cost.

Net increase in net assets from changes in unrealized depreciation was \$9,142 and \$32,675 for the three months ended March 31, 2013 and March 31, 2012, respectively. For the three months ended March 31, 2013, the \$9,142 decrease in net assets from the net change in unrealized depreciation was primarily driven by write-downs of our investments in Boxercraft because operating results were down during the three-month period, and First Tower due to changes in current market conditions. These instances of unrealized depreciation were partially offset by unrealized appreciation of our investment in H&M. For the three months ended March 31, 2012, the \$32,675 decrease in net assets from the net change in unrealized depreciation was primarily driven by significant write-downs of our investments in AIRMALL, H&M and Stryker as well as the elimination of the unrealized appreciation resulting from the sale of NRG mentioned above. These instances of depreciation were partially offset by unrealized appreciation of our investments in Ajax, Babson, CIFC, Energy Solutions and R-V.

Net increase in net assets from changes in unrealized (depreciation) appreciation was (\$82,299) and \$8,441 for the nine months ended March 31, 2013 and March 31, 2012, respectively. For the nine months ended March 31, 2013, the \$82,899 decrease in net assets from the net change in unrealized depreciation was driven by reduction in the fair value of our investments in Ajax and First Tower because of changes in current market conditions and Energy Solutions for which we received a \$16,952 make-whole fee for early repayment of the outstanding loan and distributions of \$53,820 during the nine-month period, which were recorded as interest and dividend income, respectively, reducing the amount previously recorded as unrealized appreciation. These instances of unrealized depreciation were partially offset by unrealized appreciation in H&M as well as the elimination of the unrealized depreciation resulting from the impairment of ICS mentioned above. For the nine months ended March 31, 2012, the \$8,441 increase in net assets from the net change in unrealized appreciation was driven by significant write-ups of our investments in Ajax, Energy Solutions and R-V as well as the elimination of unrealized depreciation resulting from the other-than-temporary impairment of Deb Shops mentioned above. These instances of unrealized appreciation were partially offset by unrealized depreciation in AIRMALL, Biotronic, H&M, Meatco, NMMB, Stryker, Wind River and the elimination of unrealized appreciation resulting from the sale of NRG mentioned above.

**Financial Condition, Liquidity and Capital Resources**

For the nine months ended March 31, 2013 and March 31, 2012, our operating activities used \$1,543,236 and \$46,026 of cash, respectively. There were no investing activities for the nine months ended March 31, 2013 and March 31, 2012. Financing activities provided \$1,565,137 and \$79,512 of cash during the nine months ended March 31, 2013 and March 31, 2012, respectively, which included the payments of dividends of \$166,084 and \$93,051, during the nine months ended March 31, 2013 and March 31, 2012, respectively.

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

Our primary sources of funds have been issuances of debt and equity. We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the nine months ended March 31, 2013, we borrowed \$99,000 and made repayments totaling \$195,000 under our revolving credit facility. As of March 31, 2013, we had no outstanding borrowings on our revolving credit facility, \$847,500 outstanding on our Senior Convertible Notes, \$347,682 outstanding on our Senior Unsecured Notes and \$199,401 outstanding on InterNotes®. (See *Capitalization*.)

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of March 31, 2013 and June 30, 2012, we have \$200,539 and \$180,646 of undrawn revolver commitments to our portfolio companies, respectively.

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.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$2,004,070 of additional debt and equity securities in the public market.

We also continue to generate liquidity through public and private stock offerings.

On June 1, 2012, we entered into an ATM program with KeyBanc Capital Markets Inc. or "KeyBanc" through which we could sell, by means of at-the-market offerings from time to time, of up to 9,500,000 shares of our common stock. During the period from July 2, 2012 to July 12, 2012, we sold 2,247,275 shares of our common stock at an average price of \$11.59 per share, and raised \$26,040 of gross proceeds, under the ATM Program. Net proceeds were \$25,779 after commission to KeyBanc on shares sold.

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 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 September 10, 2012, we entered into a second ATM Program with KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 9,750,000 shares of our common stock. During the period from October 1, 2012 to October 9, 2012, we sold 1,245,655 shares of our common stock at an average price of \$11.53 per share, and raised \$14,361 of gross proceeds, under this program. Net proceeds were \$14,217 after commission to the broker-dealer on shares sold and offering costs.

On November 7, 2012, we issued 35,000,000 shares of our common stock at \$11.10 per share (or \$10.96 per share net proceeds excluding expenses), raising \$383,600 of net proceeds.

On December 21, 2012, we entered into a third ATM Program with KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 17,500,000 shares of our common stock. During the period from January 7, 2013 to February 5, 2013, we sold 10,248,051 shares

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of our common stock at an average price of \$11.25 per share, and raised \$115,315 of gross proceeds, under this program. Net proceeds were \$114,162 after commission to KeyBanc on shares sold.

On February 11, 2013, we entered into a third ATM Program with KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 45,000,000 shares of our common stock. During the period from April 1, 2013 to May 3, 2013, we sold 4,477,037 shares of our common stock at an average price of \$10.93 per share, and raised \$48,944 of gross proceeds, under the ATM Program. Net proceeds were \$48,586 after commissions to KeyBanc on shares sold. (See *Recent Developments*.)

**Off-Balance Sheet Arrangements**

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

**Recent Developments**

During the period from April 4, 2013 to May 2, 2013, we issued \$64,216 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$62,586.

During the period from April 1, 2013 to May 3, 2013, we sold 4,477,037 shares of our common stock at an average price of \$10.93 per share, and raised \$48,944 of gross proceeds, under the ATM Program. Net proceeds were \$48,586 after commissions to the broker-dealer on shares sold and offering costs.

On April 1, 2013, we refinanced our existing \$38,472 senior secured loans to Ajax Rolled Ring & Machine, Inc., increasing the size of our debt investment to \$38,537.

On April 18, 2013, we issued 138,087 shares of our common stock in connection with the dividend reinvestment plan.

On April 19, 2013, we made an investment of \$43,650 to purchase 97% of the subordinated notes in Mountain View CLO 2013-I Ltd.

On April 22, 2013, we provided \$34,375 of senior secured financing to support the carve-out acquisition of Pegasus Financial Services ("PFS") by investment funds managed by H.I.G. Capital. PFS is the world's largest processor of commissions paid by hotels to travel agencies.

On April 25, 2013, we made an investment of \$26,000 to purchase 50.9% of the subordinated notes in Brookside Mill CLO Ltd.

On April 30, 2013, we made a \$21,247 follow-on investment in APH, to acquire Lofton Place Apartments and Vista at Palma Sola, residential properties located in Florida. We invested \$3,247 of equity and \$18,000 of debt in APH.

On April 30, 2013, we sold our investment in Fischbein for net proceeds of \$3,168, recognizing a realized gain of \$2,293 on the sale. In addition, there is \$310 being held in escrow which will be recognized as additional gain when and if received.

On May 6, 2013, we sold an additional \$21,825 in aggregate principal amount of our Prospect Capital InterNotes® with a settlement date of May 9, 2013 for net proceeds of \$21,212.



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On May 6, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;

\$0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013;

\$0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and

\$0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

On May 8, 2013, we made a \$6,119 follow-on investment in APH, to acquire Arlington Park Marietta, LLC, a residential property located in Marietta, Georgia. We invested \$2,119 of equity and \$4,000 of debt in APH.

**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 an operating company which provides substantially all of its services and benefits to us. Our March 31, 2013 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

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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 with Prospect Capital Management (the "Investment Adviser") proposing values within the valuation range presented by the independent valuation firms; and
- 4) the Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

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

Our investments in collateralized loan obligation funds ("CLOs") are classified as ASC 820 level 3 securities, and are valued using discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for each security. To value a CLO, both the assets and liabilities of the CLO capital structure have been modeled. Our valuation agent uses a waterfall engine to store the collateral data, including the collateral cash flows from the assets, and distributions of the cash flow to the liability structure based on the payment priorities, and discounts them back using proper discount rates that incorporate all the risk factors. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

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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. The changes to GAAP from the application of ASC 820 relate to the definition of fair value, the framework for measuring fair value, and the expanded disclosures about fair value measurements. ASC 820 applies to fair value measurements already required or permitted by other standards. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

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 for the three and nine months ended March 31, 2013, 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"). ASC 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. ASC 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. The adoption of ASC 2010-06 for the three and nine months ended March 31, 2013, 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

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from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income. As of March 31, 2013, we have \$1,000 accrued as an estimate of excises tax due for the calendar year ended December 31, 2013.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to "qualified dividend income" to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the 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. As of March 31, 2013 and for the quarter then ended, we did not have a liability for any unrecognized tax expense. 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.

*Valuation of Other Financial Assets and Financial Liabilities*

In February 2007, FASB issued ASC Subtopic 820-10-05-1, *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 820-10-05-1"). ASC 820-10-05-1 permits an entity to elect fair value as the initial and subsequent measurement attribute for many of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. We adopted this statement on July 1, 2008 and have elected not to value other assets and liabilities at fair value as would be permitted by ASC 820-10-05-1.

*Senior Convertible Notes*

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

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*Revenue Recognition*

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

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

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

Dividend income is recorded on the ex-dividend date.

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

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will not be collected in accordance with the terms of the investment. 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.

*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, Prospect Capital InterNotes®, Senior Unsecured Notes and Senior Convertible Notes as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our credit facility and the effective interest method for our Prospect Capital InterNotes®, Senior Unsecured Notes and Senior Convertible 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.

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*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 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 were effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The adoption of the amended guidance in ASU 2011-04 did not have a significant effect on our financial statements.

In August 2012, the FASB issued Accounting Standards Update 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114 ("SAB No. 114"), Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 ("ASU 2012-03")*. The update amends various SEC paragraphs pursuant to the issuance of SAB No. 114 and is effective upon issuance. The adoption of the amended guidance in ASU 2012-03 did not have a significant effect on our financial statements.

In October 2012, the FASB issued Accounting Standards Update 2012-04, *Technical Corrections and Improvements* ("ASU 2012-04"). The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of the amended guidance in ASU 2012-04 did not have a significant effect on our 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 March 31, 2013, we did not engage in hedging activities.

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**REGISTRATION AND SETTLEMENT**

**The Depository Trust Company**

All of the notes we offer will be issued in book-entry only form. This means that we will not issue certificates for notes, except in the limited case described below. Instead, we will issue global notes in registered form. Each global note will be held through DTC and will be registered in the name of Cede & Co., as nominee of DTC.

Accordingly, Cede & Co. will be the holder of record of the notes. Each note represented by a global note evidences a beneficial interest in that global note.

Beneficial interests in a global note will be shown on, and transfers are effected through, records maintained by DTC or its participants. In order to own a beneficial interest in a note, you must be an institution that has an account with DTC or have a direct or indirect account with such an institution. Transfers of ownership interests in the notes will be accomplished by making entries in DTC participants' books acting on behalf of beneficial owners.

So long as DTC or its nominee is the registered holder of a global note, DTC or its nominee, as the case may be, will be the sole holder and owner of the notes represented thereby for all purposes, including payment of principal and interest, under the indenture. Except as otherwise provided below, you will not be entitled to receive physical delivery of certificated notes and will not be considered the holder of the notes for any purpose under the indenture. Accordingly, you must rely on the procedures of DTC and the procedures of the DTC participant through which you own your note in order to exercise any rights of a holder of a note under the indenture. The laws of some jurisdictions require that certain purchasers of notes take physical delivery of such notes in certificated form. Those limits and laws may impair the ability to transfer beneficial interests in the notes.

Each global note representing notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global notes or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global notes shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the notes under the indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the notes.

The following is based on information furnished by DTC:

DTC will act as securities depository for the notes. The notes will be issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Generally, one fully registered global note will be issued for all of the principal amount of the notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's direct participants deposit with DTC.

DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non U.S. securities brokers and dealers,



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banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the notes under the DTC system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The beneficial interest of each actual purchaser of each note is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in notes, except in the event that use of the book-entry system for the notes is discontinued.

To facilitate subsequent transfers, all notes deposited by direct participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the direct participants to whose accounts such notes will be credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the notes, such as redemption, tenders, defaults, and proposed amendments to the security documents. For example, beneficial owners of the notes may wish to ascertain that the nominee holding the notes for their benefit has agreed to obtain and transmit notices to beneficial owners. In the alternative, beneficial owners may wish to provide their names and addresses to the registrar of the notes and request that copies of the notices be provided to them directly. Any such request may or may not be successful.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the regular record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

We will pay principal and or interest payments on the notes in same-day funds directly to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records upon DTC's receipt of funds and corresponding

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detail information. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of these participants and not of DTC or any other party, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is our responsibility, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the direct or indirect participant.

We will send any redemption notices to DTC. If less than all of the notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

A beneficial owner, or its authorized representative, shall give notice to elect to have its notes repaid by us, through its direct or indirect participant, to the trustee, and shall effect delivery of such notes by causing the direct participant to transfer that participant's interest in the global note representing such notes, on DTC's records, to the trustee. The requirement for physical delivery of notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing such notes are transferred by the direct participants on DTC's records.

DTC may discontinue providing its services as securities depository for the notes at any time by giving us reasonable notice. Under such circumstances, if a successor securities depository is not obtained, we will print and deliver certificated notes. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, we will print and deliver certificated notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but neither we, the Purchasing Agent nor any agent takes any responsibility for its accuracy.

**Registration, Transfer and Payment of Certificated Notes**

If we ever issue notes in certificated form, those notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have originally designated American Stock Transfer & Trust Company, LLC to act in those capacities for the notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any notes at any time.

We will not be required to: (1) issue, exchange or register the transfer of any note to be redeemed for a period of 15 days after the selection of the notes to be redeemed; (2) exchange or register the transfer of any note that was selected, called or is being called for redemption, except the unredeemed portion of any note being redeemed in part; or (3) exchange or register the transfer of any note as to which an election for repayment by the holder has been made, except the unrepaid portion of any note being repaid in part.

We will pay principal of and interest on any certificated notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note by check on any interest payment date other than at stated maturity or upon earlier redemption or repayment to the person in whose name the note is registered at the close of business on the regular record date for that payment. We will pay principal and interest at stated maturity or upon earlier redemption or repayment in same-day funds against presentation and surrender of the applicable notes.

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**SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following summary of U.S. federal income tax considerations supplements the discussion set forth under the heading "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus and is subject to the qualifications and assumptions set forth therein.

The following is a general summary of the material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the notes. This discussion is based upon the Code, Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations, possibly with retroactive effect. No ruling from the Internal Revenue Service ("IRS") has been or will be sought regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

This discussion applies only to a holder of notes that acquires the notes pursuant to this offering at their "issue price" within the meaning of the applicable provisions of the Code and who holds the notes as a capital asset (generally, property held for investment) under the Code. This discussion does not address any U.S. federal estate or gift tax consequences or any state, local or non-U.S. tax consequences. In addition, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, including, but not limited to:

banks, insurance companies or other financial institutions;

pension plans or trusts;

U.S. noteholders (as defined below) whose functional currency is not the U.S. dollar;

real estate investment trusts;

regulated investment companies;

persons subject to the alternative minimum tax;

cooperatives;

tax-exempt organizations;

dealers in securities;

expatriates;

foreign persons or entities (except to the extent set forth below);

persons deemed to sell the notes under the constructive sale provisions of the Code; or

persons that hold the notes as part of a straddle, hedge, conversion transaction or other integrated investment.

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If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns notes, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns the notes should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

We encourage investors to consult their tax advisors regarding the specific consequences of an investment in our notes, including tax reporting requirements, the applicability of U.S. federal, state or local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

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**Consequences to U.S. Noteholders**

The following is a general summary of the material U.S. federal income tax consequences that will apply to you if you are a U.S. noteholder. Material U.S. federal income tax consequences to non-U.S. noteholders are described under "Consequences to Non-U.S. Noteholders" below. For purposes of this summary, the term "U.S. noteholder" means a beneficial owner of a note that is, for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the U.S., any of the States or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

*Stated interest and OID on the notes*

Except as discussed below, a U.S. noteholder generally will be required to recognize stated interest as ordinary income at the time it is paid or accrued on the notes in accordance with its regular method of accounting for U.S. federal income tax purposes. In addition, if the notes' "issue price" (the first price at which a substantial amount of the notes is sold to investors) is less than their "stated redemption price at maturity" (the sum of all payments to be made on the notes other than "qualified stated interest") by more than a statutorily defined de minimis threshold, the notes will be issued with original issue discount ("OID") for U.S. federal income tax purposes. The term "qualified stated interest" generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, if certain requirements are met (as described below), certain variable rates.

If the notes are issued with OID, a U.S. noteholder generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such holder's regular method of tax accounting. Such OID will be included in gross income for each day during each taxable year in which the note is held using a constant yield-to-maturity method that reflects the compounding of interest. This means that the holder will have to include in income increasingly greater amounts of OID over time. Notice will be given in the applicable pricing supplement if we determine that a particular note will be issued with OID. We are required to provide information returns stating the amount of OID accrued on the notes held by persons of record other than certain exempt holders.

If the notes are "step-up notes" (i.e., notes with a fixed interest rate that increases at pre-determined intervals), the tax treatment described in the first sentence under "Consequences to U.S. Noteholders Stated interest and OID on the notes" assumes that we will have the right to call the notes at par (plus accrued but unpaid interest) on each date that the interest rate increases. If this is not the case, interest that exceeds the lowest rate payable under the step-up note may not be treated as qualified stated interest and, depending on the amount of such excess, may thus cause the step-up note to be treated as issued with OID, in which case the notes generally would be subject to the OID rules discussed above. Prospective investors are urged to consult their own tax advisors regarding the treatment of step-up notes or similar notes.

If you own a note issued with de minimis OID (i.e., discount that is not OID), you generally must include the de minimis OID in income at the time principal payments on the notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

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*Short-term notes*

Notes that have a fixed maturity of one year or less ("short-term notes") will be subject to the following special rules.

All of the interest on a short-term note is treated as part of the short-term note's stated redemption price at maturity, thereby giving rise to OID. Thus, all short-term notes will be OID debt securities. OID will be treated as accruing on a short-term debt instrument ratably or, at the election of a U.S. noteholder, under a constant yield method.

A U.S. noteholder that uses the cash method of tax accounting (with certain exceptions) will generally not be required to include OID in respect of the short-term note in income on a current basis, though they may be required to include stated interest in income as the income is received. Such a U.S. noteholder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such a short-term note until the maturity of the note or its earlier disposition in a taxable transaction. In addition, such a U.S. noteholder will be required to treat any gain realized on a disposition of the note as ordinary income to the extent of the holder's accrued OID on the note, and short-term capital gain to the extent the gain exceeds accrued OID. A U.S. noteholder that uses the cash method of tax accounting may, however, elect to include OID on a short-term note in income on a current basis. In such case, the limitation on the deductibility of interest described above will not apply. A U.S. noteholder that uses the accrual method of tax accounting and certain cash method holders generally will be required to include OID on a short-term note in income on a current basis.

*Floating Rate Notes*

In the case of a note that is a floating rate note (including a note based on LIBOR), special rules apply. In general, if a note qualifies for treatment as a "variable rate debt instrument" under Treasury Regulations and provides for stated interest that is unconditionally payable at least annually at a variable rate that, subject to certain exceptions, is a single "qualified floating rate" or "objective rate," each as defined below, all stated interest on the note is treated as qualified stated interest. In that case, both the note's "yield to maturity" and "qualified stated interest" will be determined, for purposes of calculating the accrual of OID, if any, as though the note will bear interest in all periods throughout its term at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its issue date or, in the case of an objective rate (other than a "qualified inverse floating rate"), the rate that reflects the yield to maturity that is reasonably expected for the note. A U.S. noteholder of a variable rate debt instrument would then recognize OID, if any, that is calculated based on the note's assumed yield to maturity. If the interest actually accrued or paid during an accrual period exceeds or is less than the assumed fixed interest, the qualified stated interest allocable to that period is increased or decreased under rules set forth in Treasury Regulations. Special rules apply for determining the amount of OID for other variable rate debt instruments, such as instruments with more than one qualified floating rate or instruments with a single fixed rate and one or more qualified floating rates. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding any investment in a note that qualifies a "variable rate debt instrument."

A note will generally qualify as a variable rate debt instrument if (a) the note's issue price does not exceed the total noncontingent principal payments by more than the lesser of: (i) .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or (ii) 15% of the total noncontingent principal payments; (b) the note provides for stated interest, compounded or paid at least annually, only at one or more qualified floating rates, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) the value of

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the rate on any date during the term of the note is set no earlier than three months prior to the first day on which that value is in effect or no later than one year following that first day.

Generally, a rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated. A rate that equals LIBOR or LIBOR plus or minus a fixed spread is, in general, a qualified floating rate. However, a rate (including a rate based on LIBOR) will generally not be a qualified floating rate if, among other circumstances:

the rate is subject to one or more minimum or maximum rate floors or ceilings or one or more governors limiting the amount of increase or decrease in each case which are not fixed throughout the term of the note and which are reasonably expected as of the issue date to cause the rate in some accrual periods to be significantly higher or lower than the overall expected return on the note determined without the floor, ceiling, or governor; or

the rate is a multiple of a qualified floating rate unless the multiple is a fixed multiple that is greater than 0.65 but not more than 1.35 (provided, however, that if a multiple of a qualified floating rate is not within such limits and thus is not itself a qualified floating rate, it may nevertheless qualify as an "objective rate").

If a note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of the note, the qualified floating rates together constitute a single qualified floating rate.

Generally, an objective rate is a rate that is determined using a single fixed formula that is based on objective financial or economic information such as one or more qualified floating rates. An objective rate is a qualified inverse floating rate if that rate is equal to a fixed rate minus a qualified floating rate and variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. A variable rate will generally not qualify as an objective rate if, among other circumstances, it is reasonably expected that the average value of the variable rate during the first half of the term of the note will be either significantly less than or significantly greater than the average value of the rate during the final half of the term of the note.

If a floating rate note does not qualify as a "variable rate debt instrument," the note generally will be subject to taxation under special rules applicable to contingent payment debt instruments. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding such notes.

*Sale, exchange, redemption or other taxable disposition of the notes*

Subject to the special rules for short-term notes discussed above, upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. noteholder generally will recognize capital gain or loss in an amount equal to the difference between (1) the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which, to the extent not previously included in income, generally will be taxable as ordinary income) and (2) its adjusted tax basis in the note. A U.S. noteholder's adjusted tax basis in a note generally will equal the price the U.S. noteholder paid for the note increased by OID (including with respect to a short-term note), if any, previously included in income with respect to that note, and reduced by any cash payments on the note other than qualified stated interest. Such capital gain or loss will be long-term capital gain or loss if, at the time of such taxable disposition, the U.S. noteholder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

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*Medicare Tax*

For taxable years beginning after December 31, 2012, certain U.S. noteholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on interest and other investment income, including interest on the notes and capital gains from the sale or other disposition of the notes.

*Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to certain payments of principal and interest (including OID) and to the proceeds of sale of a note paid to a U.S. noteholder (unless such noteholder is an exempt recipient). A backup withholding tax may apply to such payments if a U.S. noteholder fails to provide a taxpayer identification number or certification of exempt status, or if it is otherwise subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

**Consequences to Non-U.S. Noteholders**

The following is a general summary of the material U.S. federal income tax consequences that will apply to you if you are a non-U.S. noteholder. A beneficial owner of a note that is not a partnership for U.S. federal income tax purposes (including any entity or arrangement otherwise treated as a partnership for U.S. federal income tax purposes) or a U.S. noteholder is referred to herein as a "non-U.S. noteholder."

*Stated interest and OID on the notes*

Stated interest and OID, if any, paid or accrued to a non-U.S. noteholder will generally not be subject to U.S. federal income or withholding tax if the interest or OID is not effectively connected with its conduct of a trade or business within the United States and is not considered contingent interest within the meaning of Section 871(h)(4)(A) of the Code (generally relating to interest payments that are determined by reference to the income, profits, receipts, cash flow, changes in the value of non-publicly-traded property or other attributes of, or distributions or similar payments paid by, the debtor or a related party), and the non-U.S. noteholder:

does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;

is not a "controlled foreign corporation" with respect to which we are, directly or indirectly, a "related person";

is not a bank whose receipt of interest on the notes is described in section 881(c)(3)(A) of the Code; and

provides its name and address, and certifies, under penalties of perjury, that it is not a U.S. person (on a properly executed IRS Form W-8BEN (or other applicable form)), or holds its notes through certain foreign intermediaries and satisfies the certification requirements of applicable Treasury Regulations.

If a non-U.S. noteholder does not qualify for an exemption under these rules, interest income and OID, if any, from the notes may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate). Stated interest and OID, if any, effectively connected with a non-U.S. noteholder's conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, which is attributable to a United States permanent establishment), however, would not be subject to a 30% withholding tax so



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long as the non-U.S. noteholder provides us or our paying agent an adequate certification (currently on IRS Form W-8ECI); such payments of interest generally would be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if a non-U.S. noteholder is a foreign corporation and the stated interest and OID, if any, is effectively connected with its conduct of a U.S. trade or business, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. To claim the benefit of a tax treaty, a non-U.S. noteholder must provide a properly executed IRS Form W-8BEN (or other applicable form) to us or our paying agent before the payment of stated interest or OID, and may be required to obtain a U.S. taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

*Sale, exchange, redemption or other taxable disposition of the notes*

Any gain recognized by a non-U.S. noteholder on the sale, exchange, redemption or other taxable disposition of the notes (except with respect to accrued and unpaid interest, which would be taxed as described under "Consequences to Non-U.S. Noteholders Stated interest and OID on the notes" above) generally will not be subject to U.S. federal income tax unless:

the gain is effectively connected with its conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment); or

the non-U.S. noteholder is a nonresident alien individual present in the U.S. for 183 or more days in the taxable year within which the sale, exchange, redemption or other disposition takes place and certain other requirements are met.

If a non-U.S. noteholder is a holder described in the first bullet point above, the net gain derived from the sale, exchange, redemption or other taxable disposition of its notes generally will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if such non-U.S. noteholder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. If a non-U.S. noteholder is a holder described in the second bullet point above, it will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, exchange, redemption or other taxable disposition of its notes, which may be offset by U.S. source capital losses, even though it is not considered a resident of the United States.

*Information Reporting and Backup Withholding*

Generally, we must report to the IRS and to a non-U.S. noteholder the amount of interest (including OID) on the notes paid to a non-U.S. noteholder and the amount of tax, if any, withheld with respect to those payments if the notes are in registered form. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which a non-U.S. noteholder resides under the provisions of an applicable income tax treaty.

In general, a non-U.S. noteholder will not be subject to backup withholding with respect to payments on the notes that we make to such noteholder provided that we do not have actual knowledge or reason to know that such noteholder is a U.S. person as defined under the Code, and we have received from you the statement described above under the fourth bullet point under "Consequences to Non-U.S. Noteholders Stated interest and OID on the notes".

In addition, no information reporting requirements or backup withholding will be required regarding the proceeds of the sale of a note made within the United States or conducted through certain United States-related financial intermediaries, if the payor receives the statement described

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above and does not have actual knowledge or reason to know that the non-U.S. noteholder is a U.S. person as defined under the Code, or the non-U.S. noteholder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a non-U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

*Other withholding rules*

After December 31, 2013, withholding at a rate of 30% will be required on interest in respect of, and after December 31, 2016, withholding at a rate of 30% will be required on gross proceeds from the sale of, notes held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in, and accounts maintained by, the institution to the extent such shares or accounts are held by certain United States persons or by certain non-U.S. entities that are wholly or partially owned by United States persons. Accordingly, the entity through which notes are held will affect the determination of whether such withholding is required. Similarly, interest in respect of, and gross proceeds from the sale of, notes held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any "substantial United States owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we will in turn provide to the Secretary of the Treasury. Current law provides that obligations that are outstanding on January 1, 2014 are exempt from the withholding and reporting requirements under a grandfathering provision. Non-U.S. noteholders are encouraged to consult with their tax advisors regarding the possible implications of these requirements on their investment in notes.

Non-U.S. noteholders should consult any applicable income tax treaties that may provide for different rules. In addition, non-U.S. noteholders are urged to consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the notes.

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**CERTAIN CONSIDERATIONS APPLICABLE TO ERISA, GOVERNMENTAL AND  
OTHER PLAN INVESTORS**

A fiduciary of a pension plan or other employee benefit plan (including a governmental plan, an individual retirement account or a Keogh plan) proposing to invest in the notes should consider this section carefully.

A fiduciary of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (commonly referred to as "ERISA"), should consider fiduciary standards under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the notes. Such fiduciary should consider whether the investment is in accordance with the documents and instruments governing the plan.

In addition, ERISA and the Code prohibit certain transactions (referred to as "prohibited transactions") involving the assets of a plan subject to ERISA or the assets of an individual retirement account or plan subject to Section 4975 of the Code (referred to as an "ERISA plan"), on the one hand, and persons who have certain specified relationships to the plan ("parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code), on the other. If we (or an affiliate) are considered a party in interest or disqualified person with respect to an ERISA plan, then the investment in notes by the ERISA plan may give rise to a prohibited transaction. The purchase and holding of notes by an ERISA plan may be subject to one or more statutory or administrative exemptions from the prohibited transaction rules under ERISA and the Code. Even if the conditions for relief under such exemptions were satisfied, however, there can be no assurance that such exemptions would apply to all of the prohibited transactions that may be deemed to arise in connection with a plan's investment in the notes.

By purchasing and holding the notes, the person making the decision to invest on behalf of an ERISA plan is representing that the purchase and holding of the notes will not result in a prohibited transaction under ERISA or the Code. Therefore, an ERISA plan should not invest in the notes unless the plan fiduciary or other person acquiring securities on behalf of the ERISA plan determines that neither we nor an affiliate is a party in interest or a disqualified person or, alternatively, that an exemption from the prohibited transaction rules is available. If an ERISA plan engages in a prohibited transaction, the transaction may require "correction" and may cause the ERISA plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to excise taxes.

Employee benefit plans that are governmental plans and non-U.S. plans are not subject to ERISA requirements. However, non-U.S., federal, state or local laws or regulations governing the investment and management of the assets of governmental or non-U.S. plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and Section 4975 of the Code discussed above. By purchasing and holding the notes, the person making the decision to invest on behalf of such plans is representing that the purchase and holding of the notes will not violate any law applicable to such governmental or non-U.S. plan that is similar to the prohibited transaction provisions of ERISA or the Code.

If you are the fiduciary of an employee benefit plan or ERISA plan and you propose to invest in the notes with the assets of such employee benefit plan or ERISA plan, you should consult your own legal counsel for further guidance. The sale of notes to an employee benefit plan is in no respect a representation by us, the Purchasing Agent or any other person that such an investment meets all relevant legal requirements with respect to investments by employee benefit plans generally or any particular plan or that such an investment is appropriate for employee benefit plans generally or any particular plan.

Table of Contents**USE OF PROCEEDS**

Unless otherwise indicated in a pricing supplement for the notes, we expect to use the net proceeds from the sale of the notes initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. We anticipate that substantially all of the net proceeds from each offering will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

As of May 7, 2013, we had no borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately \$497.4 million was available to us for borrowing under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 275 basis points, with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least half of the credit facility is used or 100 basis points otherwise.

**SENIOR SECURITIES**

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of March 31, 2013.

<b>Credit Facility</b>	<b>Total Amount Outstanding(1)</b>	<b>Asset Coverage per Unit(2)</b>	<b>Involuntary Liquidating Preference per Unit(3)</b>	<b>Average Market Value per Unit(4)</b>
Fiscal 2013 (as of March 31, 2013, unaudited)				
Fiscal 2012 (as of June 30, 2012)	\$ 96,000	\$ 22,668		
Fiscal 2011 (as of June 30, 2011)	84,200	18,065		
Fiscal 2010 (as of June 30, 2010)	100,300	8,093		
Fiscal 2009 (as of June 30, 2009)	124,800	5,268		
Fiscal 2008 (as of June 30, 2008)	91,167	5,712		
Fiscal 2007 (as of June 30, 2007)		N/A		
Fiscal 2006 (as of June 30, 2006)	28,500	4,799		
Fiscal 2005 (as of June 30, 2005)		N/A		
Fiscal 2004 (as of June 30, 2004)		N/A		
<b>2015 Notes</b>				
Fiscal 2013 (as of March 31, 2013, unaudited)	\$ 150,000	\$ 26,334		
Fiscal 2012 (as of June 30, 2012)	150,000	14,507		
Fiscal 2011 (as of June 30, 2011)	150,000	10,140		
<b>2016 Notes</b>				
Fiscal 2013 (as of March 31, 2013, unaudited)	\$ 167,500	\$ 23,583		
Fiscal 2012 (as of June 30, 2012)	167,500	12,992		
Fiscal 2011 (as of June 30, 2011)	172,500	8,818		

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**2017 Notes**

Fiscal 2013 (as of March 31, 2013, unaudited)	\$	130,000	\$	30,386
Fiscal 2012 (as of June 30, 2012)		130,000		16,739

**2018 Notes**

Fiscal 2013 (as of March 31, 2013, unaudited)	\$	200,000	\$	19,751
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**2019 Notes**

Fiscal 2013 (as of March 31, 2013, unaudited)	\$	200,000	\$	19,751
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**2022 Notes**

Fiscal 2013 (as of March 31, 2013, unaudited)	\$	100,000	\$	39,502
Fiscal 2012 (as of June 30, 2012)		100,000		21,761

**2023 Notes**

Fiscal 2013 (as of March 31, 2013, unaudited)	\$	247,682	\$	15,949
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**Prospect Capital InterNotes®**

Fiscal 2013 (as of March 31, 2013, unaudited)	\$	199,401	\$	19,810
Fiscal 2012 (as of June 30, 2012)		20,638		105,442

**All Senior Securities(5)**

Fiscal 2013 (as of March 31, 2013, unaudited)	\$	1,394,583	\$	2,833
Fiscal 2012 (as of June 30, 2012)		664,138		3,277
Fiscal 2011 (as of June 30, 2011)		406,700		3,740

- (1) Total amount of each class of senior securities outstanding at the end of the period presented (in 000's).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) This column is inapplicable.
- (4) This column is inapplicable.
- (5) On February 16, 2012, we entered into the Selling Agent Agreement and began offering notes (the "Prospect Capital InterNotes Program"). On March 4, 2013, we entered into a Second Amended and Restated Selling Agent Agreement which continued the Prospect Capital InterNotes Program on substantially similar terms and provides for our issuance of floating rate notes in addition to fixed rate notes. Through May 7, 2013, we have sold \$263.6 million aggregate principal amount of notes and on May 9, 2013, we will issue an additional \$21.8 million aggregate principal amount of notes. Amounts sold under the Prospect Capital InterNotes Program after March 31, 2013 are not reflected in the table above.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

For the three and nine months ended March 31, 2013 and the years ended June 30, 2012, 2011, 2010, 2009 and 2008, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	<b>For the Three Months Ended March 31, 2013</b>	<b>For the Nine Months Ended March 31, 2013</b>	<b>For the Year Ended June 30, 2012</b>	<b>For the Year Ended June 30, 2011</b>	<b>For the Year Ended June 30, 2010</b>	<b>For the Year Ended June 30, 2009</b>	<b>For the Year Ended June 30, 2008</b>
Earnings to Fixed Charges(1)	3.18	3.83	5.95	7.72	3.34	6.78	5.37

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1)

Earnings include the net change in unrealized appreciation or depreciation. Net change in unrealized appreciation or depreciation can vary substantially from year to year. Excluding the net change in unrealized appreciation or depreciation, the earnings to fixed charges ratio would be 3.62 for the three months ended March 31, 2013, 5.45 for the nine months ended March 31, 2013, 6.79 for the year ended June 30, 2012, 7.29 for the year ended June 30, 2011, 2.87 for the year ended June 30, 2010, 4.35 for the year ended June 30, 2009 and 5.57 for the year ended June 30, 2008.

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**PLAN OF DISTRIBUTION**

Under the terms of the Selling Agent Agreement dated March 4, 2013, the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to agents, including Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated and other dealers who are broker-dealers and securities firms. The agents, including the Purchasing Agent, and the additional agents named from time to time pursuant to the Selling Agent Agreement, are, or will be, parties to the Selling Agent Agreement. The notes will be offered for sale in the United States only. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. We also may appoint additional agents to sell the notes. Any sale of the notes through those additional agents, however, will be on the same terms and conditions to which the original agents have agreed. The Purchasing Agent will purchase the notes at a discount ranging from 0.4% to 3.8% of the non-discounted price for each note sold. However, we also may sell the notes to the Purchasing Agent at a discount greater than or less than the range specified above. The discount at which we sell the notes to the Purchasing Agent will be set forth in the applicable pricing supplement. The Purchasing Agent also may sell notes to dealers at a concession not in excess of the discount it received from us. In certain cases, the Purchasing Agent and the other agents and dealers may agree that the Purchasing Agent will retain the entire discount. We will disclose any particular arrangements in the applicable pricing supplement.

Following the solicitation of orders, each of the agents, severally and not jointly, may purchase notes as principal for its own account from the Purchasing Agent. Unless otherwise set forth in the applicable pricing supplement, these notes will be purchased by the agents and resold by them to one or more investors at a fixed public offering price. After the initial public offering of notes, the public offering price (in the case of notes to be resold at a fixed public offering price), discount and concession may be changed.

We have the sole right to accept offers to purchase notes and may reject any proposed offer to purchase notes in whole or in part. Each agent also has the right, in its discretion reasonably exercised, to reject any proposed offer to purchase notes in whole or in part. We reserve the right to withdraw, cancel or modify any offer without notice. We also may change the terms, including the interest rate we will pay on the notes, at any time prior to our acceptance of an offer to purchase.

Each agent, including the Purchasing Agent, may be deemed to be an "underwriter" within the meaning of the Securities Act. We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act, or to contribute to any payments they may be required to make in respect of such liabilities. We also have agreed to reimburse the agents for certain expenses.

No note will have an established trading market when issued. We do not intend to apply for the listing of the notes on any securities exchange. However, we have been advised by the agents that they may purchase and sell notes in the secondary market as permitted by applicable laws and regulations. The agents are not obligated to make a market in the notes, and they may discontinue making a market in the notes at any time without notice. Neither we nor the agents can provide any assurance regarding the development, liquidity or maintenance of any trading market for any notes. All secondary trading in the notes will settle in same-day funds. See "Registration and Settlement."

In connection with certain offerings of notes, the rules of the SEC permit the Purchasing Agent to engage in transactions that may stabilize the price of the notes. The Purchasing Agent will conduct these activities for the agents. These transactions may consist of short sales, stabilizing transactions and purchases to cover positions created by short sales. A short sale is the sale by the Purchasing Agent of a greater amount of notes than the amount the Purchasing Agent has agreed to purchase in connection with a specific offering of notes. Stabilizing transactions consist of certain bids or purchases made by the Purchasing Agent to prevent or retard a decline in the price of the notes while an offering of notes is in process. In general, these purchases or bids for the notes for the purpose of stabilization or to

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reduce a syndicate short position could cause the price of the notes to be higher than it might otherwise be in the absence of those purchases or bids. Neither we nor the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that these transactions may have on the price of any notes. In addition, neither we nor the Purchasing Agent makes any representation that, once commenced, these transactions will not be discontinued without notice. The Purchasing Agent is not required to engage in these activities and may end any of these activities at any time.

Some of the agents and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The agents and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.



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**LEGAL MATTERS**

The legality of the notes will be passed upon for the Company by Joseph Ferraro, our General Counsel, Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden, Arps"), New York, New York, and Venable LLP, as special Maryland counsel, Baltimore, Maryland, will pass on certain matters for the Company. Troutman Sanders LLP will pass on certain matters for the agents. Skadden, Arps and Venable LLP each have from time to time acted as counsel for us and our subsidiaries and may do so in the future.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the notes offered by this prospectus supplement and accompanying prospectus. The registration statement contains additional information about us and the notes being registered by this prospectus supplement and accompanying prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2012, are available free of charge by contacting us at 10 East 40th Street, 44th floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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

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

**March 31, 2013 and June 30, 2012**

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

	<b>March 31, 2013</b>	<b>June 30, 2012</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets (Note 4)</b>		
Investments at fair value:		
Control investments (amortized cost of \$715,301 and \$518,015, respectively)	\$ 675,305	\$ 564,489
Affiliate investments (amortized cost of \$48,949 and \$44,229, respectively)	41,745	46,116
Non-control/Non-affiliate investments (amortized cost of \$3,030,863 and \$1,537,069, respectively)	2,990,672	1,483,616
Total investments at fair value (amortized cost of \$3,795,113 and \$2,099,313, respectively, Note 3)	3,707,722	2,094,221
Investments in money market funds	253,332	118,369
Total investments	3,961,054	2,212,590
Cash	24,726	2,825
Receivables for:		
Interest, net	18,435	14,219
Dividends	2	1
Other	462	783
Prepaid expenses	210	421
Deferred financing costs	42,128	24,415
<b>Total Assets</b>	<b>4,047,017</b>	<b>2,255,254</b>
<b>Liabilities</b>		
Credit facility payable (Note 4 and Note 8)		96,000
Senior convertible notes (Note 5 and Note 8)	847,500	447,500
Senior unsecured notes (Note 6 and Note 8)	347,682	100,000
Prospect Capital InterNotes® (Note 7 and Note 8)	199,401	20,638
Due to broker	42,961	44,533
Dividends payable	26,267	14,180
Due to Prospect Administration (Note 12)	1,332	658
Due to Prospect Capital Management (Note 12)	873	7,913
Accrued expenses	2,559	2,925
Interest payable	15,268	6,723
Other liabilities	7,586	2,210
<b>Total Liabilities</b>	<b>1,491,429</b>	<b>743,280</b>
<b>Net Assets</b>	<b>\$ 2,555,588</b>	<b>\$ 1,511,974</b>
<b>Components of Net Assets</b>		
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 238,628,037 and 139,633,870 issued and outstanding, respectively) (Note 9)	\$ 239	\$ 140
Paid-in capital in excess of par (Note 9)	2,640,457	1,544,801
Undistributed net investment income	66,187	23,667
Accumulated realized losses on investments	(63,904)	(51,542)

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Unrealized depreciation on investments	(87,391)	(5,092)
<b>Net Assets</b>	<b>\$ 2,555,588</b>	<b>\$ 1,511,974</b>
<b>Net Asset Value Per Share</b>	<b>\$ 10.71</b>	<b>\$ 10.83</b>

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three and Nine Months Ended March 31, 2013 and 2012****(in thousands, except share and per share data)****(Unaudited)**

	<b>For The Three Months Ended March 31,</b>		<b>For The Nine Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Investment Income</b>				
Interest Income: (Note 3)				
Control investments	\$ 26,598	\$ 32,966	\$ 77,756	\$ 45,546
Affiliate investments	1,599	2,378	4,944	7,179
Non-control/Non-affiliate investments other than CLO securities	58,187	37,044	161,727	107,078
CLO fund securities	23,228	2,560	60,361	3,668
<b>Total interest income</b>	<b>109,612</b>	<b>74,948</b>	<b>304,788</b>	<b>163,471</b>
Dividend income:				
Control investments	75	5,474	65,042	29,819
Non-control/Non-affiliate investments			3,185	1,733
Money market funds	8	1	19	2
<b>Total dividend income</b>	<b>83</b>	<b>5,475</b>	<b>68,246</b>	<b>31,554</b>
Other income: (Note 10)				
Control investments	2,656	13,768	7,753	14,386
Affiliate investments	5	11	618	85
Non-control/Non-affiliate investments	7,839	1,421	28,461	8,732
<b>Total other income</b>	<b>10,500</b>	<b>15,200</b>	<b>36,832</b>	<b>23,203</b>
<b>Total Investment Income</b>	<b>120,195</b>	<b>95,623</b>	<b>409,866</b>	<b>218,228</b>
<b>Operating Expenses</b>				
Investment advisory fees:				
Base management fee (Note 12)	18,966	8,949	48,500	25,985
Income incentive fee (Note 12)	14,896	14,518	58,207	30,614
<b>Total investment advisory fees</b>	<b>33,862</b>	<b>23,467</b>	<b>106,707</b>	<b>56,599</b>
Interest and credit facility expenses	20,854	9,655	50,779	28,374
Legal fees	395	256	1,652	1,198
Valuation services	420	308	1,167	916
Audit, compliance and tax related fees	200	276	1,010	1,141
Allocation of overhead from Prospect Administration (Note 12)	2,957	2,910	7,280	5,143
Insurance expense	88	69	259	168
Directors' fees	75	68	225	195
Excise Tax	1,000		5,500	
Other general and administrative expenses	759	542	2,459	2,037
<b>Total Operating Expenses</b>	<b>60,610</b>	<b>37,551</b>	<b>177,038</b>	<b>95,771</b>
<b>Net Investment Income</b>	<b>59,585</b>	<b>58,072</b>	<b>232,828</b>	<b>122,457</b>

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Net realized (loss) gain on investments (Note 3)	(6,014)	24,812	(12,362)	23,703
Net change in unrealized (depreciation) appreciation on investments (Note 3)	(9,142)	(32,675)	(82,299)	8,441
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 44,429</b>	<b>\$ 50,209</b>	<b>\$ 138,167</b>	<b>\$ 154,601</b>
Net increase in net assets resulting from operations per share: (Note 11 and Note 15)	\$ 0.20	\$ 0.44	\$ 0.71	\$ 1.39
Dividends declared per share	\$ 0.33	\$ 0.30	\$ 0.95	\$ 0.91

See notes to consolidated financial statements.

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

**For The Nine Months Ended March 31, 2013 and 2012**

(in thousands, except share data)

(Unaudited)

	For The Nine Months Ended March 31,	
	2013	2012
<b>Increase in Net Assets from Operations:</b>		
Net investment income	\$ 232,828	\$ 122,457
Net realized (loss) gain on investments	(12,362)	23,703
Net change in unrealized appreciation on investments	(82,299)	8,441
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>138,167</b>	<b>154,601</b>
<b>Dividends to Shareholders</b>	<b>(190,308)</b>	<b>(102,421)</b>
<b>Capital Share Transactions:</b>		
Proceeds from capital shares sold, net of underwriting costs	1,085,188	144,900
Less: Offering costs of public share offerings	(1,570)	(524)
Reinvestment of dividends	12,137	7,893
<b>Net Increase in Net Assets Resulting from Capital Share Transactions</b>	<b>1,095,755</b>	<b>152,269</b>
<b>Total Increase in Net Assets</b>	<b>1,043,614</b>	<b>204,449</b>
Net assets at beginning of period	1,511,974	1,114,357
<b>Net Assets at End of Period</b>	<b>\$ 2,555,588</b>	<b>\$ 1,318,806</b>
<b>Capital Share Activity:</b>		
Shares sold	92,408,899	13,500,000
Shares issued to acquire controlled investments	5,507,381	
Shares issued through reinvestment of dividends	1,077,887	817,241
Net increase in capital share activity	98,994,167	14,317,241
Shares outstanding at beginning of period	139,633,870	107,606,690
<b>Shares Outstanding at End of Period</b>	<b>238,628,037</b>	<b>121,923,931</b>

See notes to consolidated financial statements.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Months Ended March 31, 2013 and 2012****(in thousands, except share data)****(Unaudited)**

	<b>For The Nine Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities:</b>		
Net increase in net assets resulting from operations	\$ 138,167	\$ 154,601
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operations:		
Net realized loss (gain) on investments	12,362	(23,703)
Net change in unrealized depreciation (appreciation) on investments	82,299	(8,441)
Amortization of discounts and premiums	(13,624)	(3,741)
Amortization of deferred financing costs	5,878	7,174
Payment-in-kind interest	(7,025)	(4,499)
Structuring fees	(33,578)	(13,530)
<b>Change in operating assets and liabilities</b>		
Payments for purchases of investments	(2,204,603)	(524,817)
Proceeds from sale of investments and collection of investment principal	609,919	354,660
Net (increase) decrease of investments in money market funds	(134,963)	1,878
Increase in interest receivable	(4,216)	(7,637)
Increase in dividends receivable	(1)	(75)
Decrease (increase) in other receivables	321	(1,344)
Decrease (increase) in prepaid expenses	211	(53)
(Decrease) increase in due to broker	(1,572)	26,569
Increase in due to Prospect Administration	674	150
Decrease in due to Prospect Capital Management	(7,040)	(3,391)
(Decrease) increase in accrued expenses	(366)	111
Increase in interest payable	8,545	179
Increase (decrease) in other liabilities	5,376	(117)
<b>Net Cash Used In Operating Activities</b>	<b>(1,543,236)</b>	<b>(46,026)</b>
<b>Cash Flows from Financing Activities:</b>		
Borrowings under credit facility (Note 4)	99,000	615,800
Principal payments under credit facility (Note 4)	(195,000)	(579,000)
Borrowings under Senior Convertible Notes (Note 5)	400,000	
Repurchases under Senior Convertible Notes (Note 5)		(5,000)
Borrowings under Senior Unsecured Notes	247,682	
Borrowings under Prospect Capital InterNotes® (Note 7)	178,763	5,465
Financing costs paid and deferred	(23,591)	(9,078)
Proceeds from issuance of common stock, net of underwriting costs	1,025,937	144,900
Offering costs from issuance of common stock	(1,570)	(524)
Dividends paid	(166,084)	(93,051)
<b>Net Cash Provided By Financing Activities</b>	<b>1,565,137</b>	<b>79,512</b>
<b>Total Increase in Cash</b>	<b>21,901</b>	<b>33,486</b>
Cash balance at beginning of period	2,825	1,492



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<b>Cash Balance at End of Period</b>	\$	24,726	\$	34,978
<b>Cash Paid For Interest</b>	\$	32,757	\$	19,607
<b>Non-Cash Financing Activity:</b>				
Amount of shares issued in connection with dividend reinvestment plan	\$	12,137	\$	7,893
Amount of shares issued in connection with controlled investments	\$	59,251	\$	

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS****March 31, 2013 (Unaudited) and June 30, 2012 (Audited)****(in thousands, except share data)**

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2013 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (25.00% or greater of voting control)</b>						
AIRMALL USA, Inc.(27)	Pennsylvania / Property Management	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3),(4)	\$ 28,900	\$ 28,900	\$ 28,900	1.1%
		Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)	12,500	12,500	12,500	0.5%
		Convertible Preferred Stock (9,919.684 shares)		9,920	9,920	0.4%
		Common Stock (100 shares)			374	0.0%
				<b>51,320</b>	<b>51,694</b>	<b>2.0%</b>
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 4/01/2013)(3),(4)	19,837	19,837	19,837	0.8%
		Subordinated Secured Note Tranche B (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 4/01/2013)(3), (4)	15,035	15,035	15,035	0.6%
		Subordinated Unsecured Note (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 12/31/2017)(4)	3,600	3,600	3,600	0.1%
		Convertible Preferred Stock Series A (6,142.6 shares)		6,057		0.0%
		Unrestricted Common Stock (6 shares)				0.0%
				<b>44,529</b>	<b>38,472</b>	<b>1.5%</b>
APH Property Holdings, LLC(32)	Georgia / Real Estate	Senior Secured Note (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 2.00% PIK, due 10/24/2020)(4)	40,018	40,018	40,018	1.6%
		Common Stock (17,400 shares)		7,750	7,750	0.3%
				<b>47,768</b>	<b>47,768</b>	<b>1.9%</b>
AWCNC, LLC(19)	North Carolina / Machinery	Members Units Class A (1,800,000 units)				0.0%
		Members Units Class B-1 (1 unit)				0.0%
		Members Units Class B-2 (7,999,999 units)				0.0%
						<b>0.0%</b>
Borga, Inc.	California / Manufacturing	Revolving Line of Credit \$1,150 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4),(25)	1,150	1,095	480	0.0%
		Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past	1,612	1,501		0.0%

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due)(4)				
Senior Secured Term Loan C (12.00% plus 4.00% PIK plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)	9,641	706		0.0%
Common Stock (100 shares)(21)				0.0%
Warrants (33,750 warrants)(21)				0.0%
		<b>3,302</b>	<b>480</b>	<b>0.0%</b>

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**March 31, 2013 (Unaudited) and June 30, 2012 (Audited)**

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2013 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (25.00% or greater of voting control)</b>						
CCPI Holdings Inc.(33)	Ohio / Manufacturing	Senior Secured Note (10.00%, due 12/31/2017)	\$ 17,775	\$ 17,775	\$ 17,775	0.7%
		Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018)	7,526	7,526	7,526	0.3%
		Common Stock (100 shares)		8,581	8,581	0.3%
		Net Revenue Interest (4% of Net Revenue)				0.0%
				<b>33,882</b>	<b>33,882</b>	<b>1.3%</b>
Credit Central Holdings of Delaware, LLC (22),(34)	Ohio / Consumer Finance	Senior Secured Revolving Credit Facility \$60,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 12/31/2020)(4), (25)	38,082	38,082	38,082	1.5%
		Common Stock (100 shares)		9,581	7,342	0.3%
		Net Revenue Interest (5% of Net Revenue)			2,907	0.1%
				<b>47,663</b>	<b>48,331</b>	<b>1.9%</b>
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	Senior Secured Note (18.00%, due 12/11/2016)	750	750	750	0.0%
		Junior Secured Note (18.00%, due 12/12/2016)	12,000	12,000	12,000	0.5%
		Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.1%
		Subordinated Secured Note to Freedom Marine Holdings, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, due 12/31/2011)(4)	13,765	12,503	5,134	0.2%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449		0.0%
		Escrow Receivable				0.0%
		Common Stock (100 shares)		8,318	9,558	0.4%
				<b>38,520</b>	<b>30,942</b>	<b>1.2%</b>
First Tower Holdings of Delaware, LLC(22),(29)	Mississippi / Consumer Finance	Senior Secured Revolving Credit Facility \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(4), (25)	264,760	264,760	264,760	10.4%
		Common Stock (83,729,323 shares)		43,193	30,398	1.2%
		Net Revenue Interest (5% of Net Revenue & Distributions)				0.0%
				<b>307,953</b>	<b>295,158</b>	<b>11.6%</b>
Manx Energy, Inc. ("Manx")(12)	Kansas / Oil & Gas Production	Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)	3,550	3,550		0.0%

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		Preferred Stock (6,635 shares)		6,307		0.0%
		Common Stock (17,082 shares)		1,171		0.0%
				<b>11,028</b>		<b>0.0%</b>
Nationwide Acceptance Holdings, LLC(22),(36)	Chicago / Consumer Finance	Senior Secured Revolving Credit Facility \$30,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 1/31/2023)(4), (25)	21,308	21,308	21,308	0.8%
		Membership Units (100 shares)		3,843	2,127	0.1%
		Net Revenue Interest (5% of Net Revenue)			1,716	0.1%
				<b>25,151</b>	<b>25,151</b>	<b>1.0%</b>
NMMB Holdings, Inc.(24)	New York / Media	Senior Term Loan (14.00%, due 5/6/2016)	16,000	16,000	14,506	0.6%
		Senior Subordinated Term Loan (15.00%, due 5/6/2016)	2,800	2,800		0.0%
		Series A Preferred Stock (4,400 shares)		4,400		0.0%
				<b>23,200</b>	<b>14,506</b>	<b>0.6%</b>

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**March 31, 2013 (Unaudited) and June 30, 2012 (Audited)**

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2013 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (25.00% or greater of voting control)</b>						
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/30/2018)(4)	\$ 9,500	\$ 9,500	\$ 9,500	0.4%
		Warrants (200,000 warrants, expiring 6/30/2017)		1,682	6,916	0.3%
		Common Stock (545,107 shares)		5,087	18,850	0.7%
				<b>16,269</b>	<b>35,266</b>	<b>1.4%</b>
The Healing Staff, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, due 3/21/2012 4/10/2013)	1,688	\$ 1,686		0.0%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170		0.0%
		Common Stock (1,000 shares)		975		0.0%
				<b>3,831</b>		<b>0.0%</b>
Valley Electric Co. of Mt. Vernon, Inc.(35)	Washington / Construction & Engineering	Senior Secured Note (9.00% (LIBOR + 6.00%, with 3.00% LIBOR floor) plus 9.00% PIK, due 12/31/2018)(4)	33,305	33,305	33,305	1.3%
		Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(4)	10,013	10,013	10,013	0.4%
		Common Stock (50,000 Shares)		9,526	8,358	0.3%
		Net Revenue Interest (5% of Net Revenue)			1,168	0.0%
				<b>52,844</b>	<b>52,844</b>	<b>2.0%</b>
Wolf Energy Holdings, Inc.(12)	Kansas / Oil & Gas Production	Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)	2,590	2,000	202	0.0%
		Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status due 5/28/2013)	50	50	4	0.0%
		Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)(6)	7,773	5,991	605	0.0%
		Common Stock (100 Shares)				0.0%
				<b>8,041</b>	<b>811</b>	<b>0.0%</b>
		<b>Total Control Investments</b>		<b>715,301</b>	<b>675,305</b>	<b>26.4%</b>
<b>Affiliate Investments (5.00% to 24.99% voting control)</b>						
	Michigan / Healthcare					

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BNN Holdings Corp., (f/k/a Biotronic NeuroNetwork)	Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(4)	29,700	29,700	29,700	1.2%
	Preferred Stock Series A (9,925.455 shares)(13)		2,300	2,538	0.1%
	Preferred Stock Series B (1,753.64 shares)(13)		579	639	0.0%
			<b>32,579</b>	<b>32,877</b>	<b>1.3%</b>

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Portfolio Company	Locale / Industry	Investments(1)	March 31, 2013 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Affiliate Investments (5.00% to 24.99% voting control)</b>						
Boxercraft Incorporated(20)	Georgia / Textiles & Leather	Senior Secured Term Loan A (10.00% plus 5.00% PIK, due 9/16/2013)	\$ 1,698	\$ 1,670	\$ 1,698	0.1%
		Senior Secured Term Loan B (10.00% plus 5.00% PIK, due 9/16/2013)	4,851	4,675	4,851	0.2%
		Senior Secured Term Loan C (10.00% plus 5.00% PIK, due 9/16/2013)	2,351	2,351	2,319	0.1%
		Senior Secured Term Loan (10.00% plus 5.00% PIK, due 3/16/2014)	8,254	7,674		0.0%
		Preferred Stock (1,000,000 shares)				0.0%
		Common Stock (10,000 shares)				0.0%
		Warrants (1 warrant, expiring 8/31/2022)				0.0%
				<b>16,370</b>	<b>8,868</b>	<b>0.4%</b>
Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest				0.0%
						<b>0.0%</b>
		<b>Total Affiliate Investments</b>		<b>48,949</b>	<b>41,745</b>	<b>1.7%</b>
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		141	306	0.0%
				<b>141</b>	<b>306</b>	<b>0.0%</b>
Aderant North America, Inc.	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)	7,000	6,898	7,000	0.3%
				<b>6,898</b>	<b>7,000</b>	<b>0.3%</b>
Aircraft Fasteners International, LLC	California / Machinery	Convertible Preferred Stock (32,500 units)		396	539	0.0%
				<b>396</b>	<b>539</b>	<b>0.0%</b>
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)	12,000	11,764	11,764	0.5%
				<b>11,764</b>	<b>11,764</b>	<b>0.5%</b>
American Gilsonite Company	Utah / Specialty Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)	38,500	38,500	38,500	1.5%



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		Membership Interest in AGC/PEP, LLC (99.9999%)(15)			5,038	0.2%
				<b>38,500</b>	<b>43,538</b>	<b>1.7%</b>
Apidos CLO VIII, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	19,730	19,681	20,450	0.8%
				<b>19,681</b>	<b>20,450</b>	<b>0.8%</b>
Apidos CLO IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	20,525	19,635	19,614	0.8%
				<b>19,635</b>	<b>19,614</b>	<b>0.8%</b>

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Portfolio Company	Locale / Industry	Investments(1)	March 31, 2013 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Apidos CLO XI, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	\$ 38,340	\$ 38,715	\$ 38,306	1.5%
				<b>38,715</b>	<b>38,306</b>	<b>1.5%</b>
Apidos CLO XII, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	44,063	42,961	42,957	1.7%
				<b>42,961</b>	<b>42,957</b>	<b>1.7%</b>
Arctic Glacier U.S.A, Inc.	Canada / Food Products	Subordinated Unsecured (12.00% plus 3.00% PIK, due 7/27/2019)	86,751	86,751	86,751	3.4%
				<b>86,751</b>	<b>86,751</b>	<b>3.4%</b>
Atlantis Healthcare Group (Puerto Rico), Inc(4)	Puerto Rico / Healthcare	Revolving Line of Credit \$7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014)(25),(26) Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor,) due 2/21/2018)	39,451	39,451	39,451	0.0%
				<b>39,451</b>	<b>39,451</b>	<b>1.5%</b>
Babson CLO Ltd 2011-I.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,000	35,026	35,991	1.4%
				<b>35,026</b>	<b>35,991</b>	<b>1.4%</b>
Babson CLO Ltd 2012-IA.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	29,075	26,884	28,619	1.1%
				<b>26,884</b>	<b>28,619</b>	<b>1.1%</b>
Babson CLO Ltd 2012-IIA.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	27,850	29,471	28,332	1.1%
				<b>29,471</b>	<b>28,332</b>	<b>1.1%</b>
Broder Bros., Co.			100,000	100,000	100,000	3.9%

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	Pennsylvania /Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.75% (LIBOR + 9.00% with 1.75% LIBOR floor), due 6/27/2018(4)		<b>100,000</b>	<b>100,000</b>	<b>3.9%</b>
Byrider Systems Acquisition Corp.(22)	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)	15,833	15,833	15,176	0.6%
				<b>15,833</b>	<b>15,176</b>	<b>0.6%</b>
Caleel + Hayden, LLC(14),(31)	Colorado / Personal & Nondurable Consumer Products	Membership Units (13,220 shares)			129	0.0%
		Escrow Receivable			103	0.0%
					<b>232</b>	<b>0.0%</b>
Capstone Logistics, LLC.(4)	Georgia / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)	97,291	97,291	97,291	3.8%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)	100,000	100,000	100,000	3.9%
				<b>197,291</b>	<b>197,291</b>	<b>7.7%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Cargo Airport Services USA, LLC	New York / Transportation	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/31/2016)(3),(4) Common Equity (1.6 units)	\$ 45,273	\$ 45,273 1,639	\$ 45,273 2,259	1.8% 0.1%
				<b>46,912</b>	<b>47,532</b>	<b>1.9%</b>
Cent 17 CLO Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	24,870	24,469	24,293	1.0%
				24,469	24,293	1.0%
CIFC Funding 2011-I, Ltd.(4),(22)	Cayman Islands / Diversified Financial Services	Secured Class D Notes (5.30% (LIBOR + 5.00%), due 1/19/2023) Unsecured Class E Notes (7.30% (LIBOR + 7.00%), due 1/19/2023)	19,000 15,400	14,965 12,597	16,283 13,561	0.6% 0.5%
				<b>27,562</b>	<b>29,844</b>	<b>1.1%</b>
Cinedigm DC Holdings, LLC(4)	New York/ Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% floor) plus 2.50% PIK, due 3/31/2021)	70,151	70,151	70,151	2.7%
				<b>70,151</b>	<b>70,151</b>	<b>2.7%</b>
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable			320	0.0%
					<b>320</b>	<b>0.0%</b>
Correctional Healthcare Holding Company, Inc.	Colorado / Healthcare	Second Lien Term Loan (11.25% due 1/11/2020)(3)	27,100	27,100	27,100	1.1%
				<b>27,100</b>	<b>27,100</b>	<b>1.1%</b>
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% floor), due 12/17/2017)(3),(4)	39,551	39,551	39,551	1.5%
				<b>39,551</b>	<b>39,551</b>	<b>1.5%</b>
CP Well Testing, LLC			19,935	19,935	19,935	0.8%

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Oklahoma / Oil & Gas Products		Senior Secured Term Loan (13.50% (LIBOR + 11.00% with 2.50% floor), due 10/03/2017)(4)		<b>19,935</b>	<b>19,935</b>	<b>0.8%</b>
CRT MIDCO, LLC	Wisconsin / Media	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3),(4)	72,375	72,375	72,376	2.8%
				<b>72,375</b>	<b>72,376</b>	<b>2.8%</b>
Deltek, Inc.	Virginia/ Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(4)	12,000	11,828	11,828	0.5%
				<b>11,828</b>	<b>11,828</b>	<b>0.5%</b>
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15.00% payable on Equity distributions)(7)				0.0%
						<b>0.0%</b>
Edmentum, Inc. (f/k/a Archipelago Learning, Inc.)(4)	Minnesota / Consumer Services	Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)	50,000	48,167	50,000	2.0%
				<b>48,167</b>	<b>50,000</b>	<b>2.0%</b>
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)	15,699	15,312	15,700	0.6%
				<b>15,312</b>	<b>15,700</b>	<b>0.6%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
EIG Investors Corp	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% floor), due 5/09/2020)(4),(16)	\$ 22,000	\$ 21,788	\$ 22,000	0.9%
				<b>21,788</b>	<b>22,000</b>	<b>0.9%</b>
EXL Acquisition Corp.	South Carolina / Biotechnology	Escrow Receivable			14	0.0%
					<b>14</b>	<b>0.0%</b>
Evanta Ventures, Inc.(11)	Oregon / Commercial Services	Subordinated Unsecured (12.00% plus 1.00% PIK, due 9/28/2018)	10,453	10,453	10,453	0.4%
				<b>10,453</b>	<b>10,453</b>	<b>0.4%</b>
Fairchild Industrial Products, Co.	North Carolina / Electronics	Escrow Receivable			147	0.0%
					<b>147</b>	<b>0.0%</b>
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable			529	0.0%
		Membership Class A (875,000 units)		875	2,771	0.1%
				<b>875</b>	<b>3,300</b>	<b>0.1%</b>
Focus Brands, Inc.(4)	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)	18,000	17,723	17,723	0.7%
				<b>17,723</b>	<b>17,723</b>	<b>0.7%</b>
FPG, LLC	Illinois / Durable Consumer Products	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(4)	21,677	21,677	21,677	0.8%
		Common Stock (5,638 shares)		27	97	0.0%
				<b>21,704</b>	<b>21,774</b>	<b>0.8%</b>
Galaxy XII CLO, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	20,930	22,739	0.9%

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			20,930	22,739	0.9%	
Galaxy XV CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,025	31,713	31,624	1.2%
				<b>31,713</b>	<b>31,624</b>	<b>1.2%</b>
Grocery Outlet Inc.	California / Retail	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)	17,500	17,161	17,500	0.7%
				<b>17,161</b>	<b>17,500</b>	<b>0.7%</b>
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(4)	41,475	41,475	41,475	1.6%
				<b>41,475</b>	<b>41,475</b>	<b>1.6%</b>
H&M Oil & Gas, LLC	Texas / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% PIK, plus 2.00% default interest, in non-accrual status effective 1/1/2011, past due)(4)	64,263	60,019	39,677	1.5%
		Senior Secured Note (18.00% PIK, in non-accrual status effective 4/27/2012, past due)	4,823	4,130	4,822	0.2%
		Senior Secured Note (8.00% PIK, due 3/31/2013)	133	130	133	0.0%
		Net Profits Interest (8.00% payable on Equity distributions)(7)				0.0%
				<b>64,279</b>	<b>44,632</b>	<b>1.7%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Halcyon Loan Advisors Funding 2012-I, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	\$ 23,188	\$ 23,032	\$ 22,944	0.9%
				<b>23,032</b>	<b>22,944</b>	<b>0.9%</b>
Halcyon Loan Advisors Funding 2013-I, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	40,400	40,289	40,238	1.6%
				<b>40,289</b>	<b>40,238</b>	<b>1.6%</b>
Hoffmaster Group, Inc.(4)	Wisconsin / Durable Consumer Products	Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019)	20,000	19,826	19,826	0.8%
		Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)	1,000	991	991	0.0%
				<b>20,817</b>	<b>20,817</b>	<b>0.8%</b>
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016)(3)	43,100	43,323	37,868	1.5%
				<b>43,323</b>	<b>37,868</b>	<b>1.5%</b>
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)	12,500	12,289	12,500	0.5%
				<b>12,289</b>	<b>12,500</b>	<b>0.5%</b>
ING IM CLO 2012-II, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	38,070	35,965	38,297	1.5%
				<b>35,965</b>	<b>38,297</b>	<b>1.5%</b>
ING IM CLO 2012-III, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	46,632	45,736	47,294	1.9%
				<b>45,736</b>	<b>47,294</b>	<b>1.9%</b>
ING IM CLO 2012-IV, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	40,613	40,597	41,132	1.6%



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			<b>40,597</b>	<b>41,132</b>	<b>1.6%</b>
Injured Workers Pharmacy LLC	Massachusetts / Healthcare	Second Lien Debt (12.00% (LIBOR + 7.50% with 4.50% LIBOR floor) plus 1.00% PIK, due 11/4/2017)(3),(4)	15,215	15,215	0.6%
			<b>15,215</b>	<b>15,215</b>	<b>0.6%</b>
Interdent, Inc.(4)	California / Healthcare	Revolving Line of Credit \$10,000 Commitment (10.50% (LIBOR + 8.25% with 2.25% LIBOR floor), due 2/3/2013)(25)	8,250	8,250	0.3%
		Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017)	53,819	53,819	2.1%
		Senior Secured Term Loan B (13.00% (LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3),	55,000	55,000	2.2%
			<b>117,069</b>	<b>117,069</b>	<b>4.6%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Debt (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 1.50% PIK, due 6/23/2018)(3),(4)	\$ 16,041	\$ 16,041	\$ 16,041	0.6%
				<b>16,041</b>	<b>16,041</b>	<b>0.6%</b>
LaserShip, Inc.(4)	Virginia / Transportation	Revolving Line of Credit \$5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(25)				0.0%
		Senior Secured Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2017)(3)	37,266	37,266	37,266	1.5%
				<b>37,266</b>	<b>37,266</b>	<b>1.5%</b>
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4),(25),(26)				0.0%
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	3,164	3,137	3,137	0.1%
		Membership Interest (125 units)		215	245	0.0%
				<b>3,352</b>	<b>3,382</b>	<b>0.1%</b>
Madison Park Funding IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	31,110	26,832	27,862	1.1%
				<b>26,832</b>	<b>27,862</b>	<b>1.1%</b>
Material Handling Services, LLC(4)	Ohio / Business Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 7/5/2017)(3)	27,580	27,580	27,580	1.1%
		Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017)	37,959	37,959	37,959	1.5%
				<b>65,539</b>	<b>65,539</b>	<b>2.6%</b>
Maverick Healthcare, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	1,677	0.1%
		Common Units (1,250,000 units)				0.0%
				<b>1,252</b>	<b>1,677</b>	<b>0.1%</b>

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Medical Security Card Company, LLC(4)	Arizona / Healthcare	Revolving Line of Credit \$1,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 2/1/2016)(25)				0.0%
		First Lien Term Loan (11.25% (LIBOR + 8.75% with 2.50% LIBOR floor), due 2/1/2016)(3)	14,067	14,067	14,067	0.6%
				<b>14,067</b>	<b>14,067</b>	<b>0.6%</b>
National Bankruptcy Services, LLC(3),(4)	Texas / Diversified Financial Services	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 1.50% PIK, due 7/17/2017)	18,612	18,612	18,612	0.7%
				<b>18,612</b>	<b>18,612</b>	<b>0.7%</b>
Naylor, LLC(4)	Florida / Media	Revolving Line of Credit \$2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25)				0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(3)	46,778	46,778	45,802	1.8%
				<b>46,778</b>	<b>45,802</b>	<b>1.8%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
New Century Transportation, Inc.	New Jersey / Transportation	Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 3.00% PIK due 2/3/2018)(3), (4)	\$ 44,776	\$ 44,776	\$ 44,776	1.8%
				<b>44,776</b>	<b>44,776</b>	<b>1.8%</b>
New Star Metals, Inc.	Indiana / Metal Services & Minerals	Senior Subordinated Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 1.00% PIK due 2/2/2018)(4)	32,193	32,193	32,193	1.3%
				<b>32,193</b>	<b>32,193</b>	<b>1.3%</b>
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	15,400	15,134	15,046	0.6%
				<b>15,134</b>	<b>15,046</b>	<b>0.6%</b>
Nobel Learning Communities, Inc.	Pennsylvania / Consumer Services	Subordinated Unsecured (11.50% plus 1.50% PIK, due 8/9/2017)	15,262	15,262	15,262	0.6%
				<b>15,262</b>	<b>15,262</b>	<b>0.6%</b>
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable			3,568	0.1%
					<b>3,568</b>	<b>0.1%</b>
Octagon Investment Partners XV, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)(22)	26,901	25,818	25,655	1.0%
				<b>25,818</b>	<b>25,655</b>	<b>1.0%</b>
Out Rage, LLC(4)	Wisconsin / Durable Consumer Products	Revolving Line of Credit \$1,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/02/2014)(25)	1,200	1,200	1,200	0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/2/2015)	10,336	10,336	10,336	0.4%
				<b>11,536</b>	<b>11,536</b>	<b>0.4%</b>
Pelican Products, Inc.(16)	California / Durable Consumer Products	Subordinated Secured (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019)(4)	15,000	14,721	14,721	0.6%

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				<b>14,721</b>	<b>14,721</b>	<b>0.6%</b>
Pinnacle (US) Acquisition Co Limited(16)	Texas / Software & Computer Services	Second Lien Term Loan (10.50% (LIBOR + 8.25% with 2.25% LIBOR floor), due 8/3/2020)(4)	10,000	9,811	10,000	0.4%
				<b>9,811</b>	<b>10,000</b>	<b>0.4%</b>
Pre-Paid Legal Services, Inc.(16)	Oklahoma / Consumer Services	Senior Subordinated Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2016)(3),(4)	5,000	5,000	5,000	0.2%
				<b>5,000</b>	<b>5,000</b>	<b>0.2%</b>
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)	10,000	9,886	10,000	0.4%
				<b>9,886</b>	<b>10,000</b>	<b>0.4%</b>
Progrexion Holdings, Inc.(4),(28)	Utah / Consumer Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)	154,017	154,017	154,017	6.0%
				<b>154,017</b>	<b>154,017</b>	<b>6.0%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Rocket Software, Inc.(3),(4)	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)	\$ 20,000	\$ 19,710	\$ 19,944	0.8%
				<b>19,710</b>	<b>19,944</b>	<b>0.8%</b>
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK due 11/29/2016)	28,222	28,222	28,222	1.1%
				<b>28,222</b>	<b>28,222</b>	<b>1.1%</b>
Ryan, LLC.(4)	Texas / Business Services	Subordinated Secured (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)	70,000	70,000	70,000	2.7%
				<b>70,000</b>	<b>70,000</b>	<b>2.7%</b>
Seaton Corp(3),(4)	Illinois / Business Services	Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2014)	3,305	3,231	3,305	0.1%
		Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2015)	10,005	10,005	10,005	0.4%
				<b>13,236</b>	<b>13,310</b>	<b>0.5%</b>
SESAC Holdco II LLC	Tennessee / Media	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 7/12/2019)(4)	6,000	5,911	5,911	0.2%
				<b>5,911</b>	<b>5,911</b>	<b>0.2%</b>
Skillssoft Public Limited Company(22)	Ireland / Software & Computer Services	Senior Unsecured (11.125%, due 6/1/2018)	15,000	14,924	15,000	0.6%
				<b>14,924</b>	<b>15,000</b>	<b>0.6%</b>
Snacks Holding Corporation	Minnesota / Food Products	Senior Subordinated Unsecured Term Loan (12.00% plus 1.00% PIK, due 11/12/2017)	15,366	14,921	15,365	0.6%
		Series A Preferred Stock (4,021.45 shares)				0.0%
		Series B Preferred Stock (1,866.10 shares)				0.0%
		Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)		590	1,034	0.0%
				<b>15,511</b>	<b>16,399</b>	<b>0.6%</b>

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Southern Management Corporation(22),(30)	South Carolina / Consumer Finance	Second Lien Term Loan (12.00% plus 5.00% PIK due 5/31/2017)	17,568	17,568	17,568	0.7%
				<b>17,568</b>	<b>17,568</b>	<b>0.7%</b>
Spartan Energy Services, Inc.(3),(4)	Louisiana / Energy	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017))	29,813	29,813	29,813	1.2%
				<b>29,813</b>	<b>29,813</b>	<b>1.2%</b>
Speedy Group Holdings Corp.	Canada / Consumer Finance	Senior Unsecured (12.00%, due 11/15/2017)(22)	15,000	15,000	15,000	0.6%
				<b>15,000</b>	<b>15,000</b>	<b>0.6%</b>
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable			384	0.0%
					<b>384</b>	<b>0.0%</b>
Springs Window Fashions, LLC.	Wisconsin / Durable Consumer Products	Second Lien Term Loan (11.25% (LIBOR + 9.25% with 2.00% LIBOR floor), due 11/30/2017)(3),(4)	35,000	35,000	35,000	1.4%
				<b>35,000</b>	<b>35,000</b>	<b>1.4%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Stauber Performance Ingredients, Inc.(3),(4)	California / Food Products	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)	\$ 19,415	\$ 19,415	\$ 19,415	0.8%
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)	10,303	10,303	10,303	0.4%
				<b>29,718</b>	<b>29,718</b>	<b>1.2%</b>
Stryker Energy, LLC	Ohio / Oil & Gas Production	Subordinated Secured Revolving Credit Facility \$50,300 Commitment (8.50% (LIBOR + 7.00% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4),(25) Overriding Royalty Interests(18)	34,411	32,710	1,539	0.0% 0.1%
				<b>32,710</b>	<b>1,539</b>	<b>0.1%</b>
Symphony CLO, IX Ltd.(22)	Cayman Islands / Diversified Financial Services	LP Certificates (Residual Interest)	45,500	43,915	46,592	1.8%
				<b>43,915</b>	<b>46,592</b>	<b>1.8%</b>
System One Holdings, LLC(4)	Pennsylvania / Business Services	Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)	32,000	32,000	32,000	1.3%
				<b>32,000</b>	<b>32,000</b>	<b>1.3%</b>
TB Corp.	Texas / Consumer Service	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018)	23,270	23,270	23,270	0.9%
				<b>23,270</b>	<b>23,270</b>	<b>0.9%</b>
Targus Group International, Inc.(16)	California / Durable Consumer Products	First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 5/25/2016)(3),(4)	23,579	23,247	23,580	0.9%
				<b>23,247</b>	<b>23,580</b>	<b>0.9%</b>
TGG Medical Transitory, Inc.	New Jersey/ Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4)	8,000	7,765	7,824	0.3%
				<b>7,765</b>	<b>7,824</b>	<b>0.3%</b>



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The Petroleum Place Inc.	Colorado / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 5/20/2019)(4)	22,000	21,681	22,000	0.9%
				<b>21,681</b>	<b>22,000</b>	<b>0.9%</b>
Transaction Network Services, Inc.	Virginia / Diversified Telecommunication Services	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(4)	10,000	9,852	9,852	0.4%
				<b>9,852</b>	<b>9,852</b>	<b>0.4%</b>
TransFirst Holdings, Inc.(4)	New York / Software & Computer Services	Second Lien Term Loan (11.00%, (LIBOR + 9.75% with 1.25% floor), due 6/27/2018)	5,000	4,855	4,908	0.2%
				<b>4,855</b>	<b>4,908</b>	<b>0.2%</b>
Totes Isotoner Corporation	Ohio / Nondurable Consumer Products	Second Lien Term Loan (10.75%, (LIBOR + 9.25% with 1.50% LIBOR floor), due 1/8/2018)(3),(4)	39,000	39,000	39,000	1.5%
				<b>39,000</b>	<b>39,000</b>	<b>1.5%</b>
United Sporting Companies, Inc.(5)	South Carolina / Durable Consumer Products	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(4)	160,000	160,000	160,000	6.3%
				<b>160,000</b>	<b>160,000</b>	<b>6.3%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Wind River Resources Corp. and Wind River II Corp.	Utah / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal, 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4) Net Profits Interest (5.00% payable on Equity distributions)(7)	\$ 15,000	\$ 14,750	\$	0.0%
				14,750		0.0%
		<b>Total Non-control/Non-affiliate Investments (Level 3 Investments)</b>		<b>3,030,743</b>	<b>2,990,557</b>	<b>117.3%</b>
		<b>Total Level 3 Portfolio Investments</b>		<b>3,794,993</b>	<b>3,707,607</b>	<b>145.1%</b>
<b>LEVEL 1 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		56		0.0%
				56		0.0%
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)		64	115	0.0%
				64	115	0.0%
		<b>Total Non-control/Non-affiliate Investments (Level 1 Investments)</b>		<b>120</b>	<b>115</b>	<b>0.0%</b>
		<b>Total Portfolio Investments</b>		<b>3,795,113</b>	<b>3,707,722</b>	<b>145.1%</b>
<b>SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)</b>						
Fidelity Institutional Money Market Funds	Government Portfolio (Class I)			222,071	222,071	8.7%
Fidelity Institutional Money Market Funds	Government Portfolio (Class I) (3)			31,260	31,260	1.2%
Victory Government Money Market Funds				1	1	0.0%
		<b>Total Money Market Funds</b>		<b>253,332</b>	<b>253,332</b>	<b>9.9%</b>
		<b>Total Investments</b>	<b>\$ 4,048,445</b>	<b>\$ 3,961,054</b>		<b>155.0%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (25.00% or greater of voting control)</b>						
AIRMALL USA, Inc.(27)	Pennsylvania / Property Management	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3),(4)	\$ 29,350	\$ 29,350	\$ 29,350	2.0%
		Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)	12,500	12,500	12,500	0.8%
		Convertible Preferred Stock (9,919.684 shares)		9,920	6,132	0.4%
		Common Stock (100 shares)				0.0%
				<b>51,770</b>	<b>47,982</b>	<b>3.2%</b>
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 4/01/2013)(3),(4)	20,167	20,167	20,167	1.3%
		Subordinated Secured Note Tranche B (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 4/01/2013)(3), (4)	15,035	15,035	15,035	1.0%
		Convertible Preferred Stock Series A (6,142.6 shares)		6,057	17,191	1.1%
		Unrestricted Common Stock (6 shares)			17	0.0%
				<b>41,259</b>	<b>52,410</b>	<b>3.4%</b>
AWCNC, LLC(19)	North Carolina / Machinery	Members Units Class A (1,800,000 units)				0.0%
		Members Units Class B-1 (1 unit)				0.0%
		Members Units Class B-2 (7,999,999 units)				0.0%
						<b>0.0%</b>
Borga, Inc.	California / Manufacturing	Revolving Line of Credit \$1,000 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4),(25)	1,000	945	668	0.0%
		Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)	1,612	1,500		0.0%
		Senior Secured Term Loan C (12.00% plus 4.00% PIK plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)	9,352	707		0.0%
		Common Stock (100 shares)(21)				0.0%
		Warrants (33,750 warrants)(21)				0.0%
				<b>3,152</b>	<b>668</b>	<b>0.0%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (25.00% or greater of voting control)</b>						
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	Senior Secured Note (18.00%, due 12/11/2016)(3)	\$ 25,000	\$ 25,000	\$ 25,000	1.7%
		Junior Secured Note (18.00%, due 12/12/2016)(3)	12,000	12,000	12,000	0.8%
		Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.2%
		Subordinated Secured Note to Freedom Marine Holdings, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, due 12/31/2011)(4)	13,352	12,504	5,603	0.4%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449		0.0%
		Escrow Receivable			9,825	0.6%
		Common Stock (100 shares)		8,792	70,940	4.7%
			<b>63,245</b>	<b>126,868</b>	<b>8.4%</b>	
First Tower Holdings of Delaware, LLC(22),(29)	Mississippi / Consumer Finance	Senior Secured Revolving Credit Facility \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(25)	244,760	244,760	244,760	16.2%
		Common Stock (83,729,323 shares)		43,193	43,193	2.9%
		Net Revenue Interest (5% of Net Revenue & Distributions)				0.0%
				<b>287,953</b>	<b>287,953</b>	<b>19.1%</b>
Integrated Contract Services, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, due 3/21/2012 12/18/2013)(10)	2,581	2,580		0.0%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)(10)	1,170	1,170		0.0%
		Senior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/9/2007, past due)	300			0.0%
		Junior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/9/2007, past due)	11,520	11,520		0.0%
		Preferred Stock Series A (10 shares)				0.0%
		Common Stock (49 shares)		679		0.0%
			<b>15,949</b>		<b>0.0%</b>	
Manx Energy, Inc. ("Manx")(12)	Kansas / Oil & Gas Production	Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)	3,550	3,550		0.0%
		Preferred Stock (6,635 shares)		6,307		0.0%
		Common Stock (17,082 shares)		1,170		0.0%

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				<b>11,027</b>	<b>0.0%</b>	
NMMB Holdings, Inc.(24)	New York / Media	Senior Term Loan (14.00%, due 5/6/2016)	21,700	21,700	21,700	1.4%
		Senior Subordinated Term Loan (15.00%, due 5/6/2016)	2,800	2,800	2,800	0.2%
		Series A Preferred Stock (4,400 shares)		4,400	252	0.0%
				<b>28,900</b>	<b>24,752</b>	<b>1.6%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (25.00% or greater of voting control)</b>						
R-V Industries, Inc.	Pennsylvania / Manufacturing	Warrants (200,000 warrants, expiring 6/30/2017)		\$ 1,682	\$ 6,403	0.4%
		Common Stock (545,107 shares)		5,087	17,453	1.2%
				<b>6,769</b>	<b>23,856</b>	<b>1.6%</b>
Wolf Energy Holdings, Inc.(12)	Kansas / Oil & Gas Production	Appalachian Energy Holdings, LLC ("AEH") Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)	\$ 2,437	2,000		0.0%
		Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)(6)	7,311	5,991		0.0%
		Common Stock (100 Shares)				0.0%
				<b>7,991</b>		<b>0.0%</b>
		<b>Total Control Investments</b>		<b>518,015</b>	<b>564,489</b>	<b>37.3%</b>
<b>Affiliate Investments (5.00% to 24.99% voting control)</b>						
BNN Holdings Corp., (f/k/a Biotronic NeuroNetwork)	Michigan / Healthcare	Senior Secured Note (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 2/21/2013)(3),(4)	26,227	26,227	26,227	1.8%
		Preferred Stock Series A (9,925,455 shares)(13)		2,300	2,151	0.2%
		Preferred Stock Series B (1,753.64 shares)(13)		579	542	0.0%
				<b>29,106</b>	<b>28,920</b>	<b>2.0%</b>
Boxercraft Incorporated	Georgia / Textiles & Leather	Senior Secured Term Loan A (9.50% (LIBOR + 6.50% with 3.00% LIBOR floor), due 9/16/2013)(3),(4)	1,644	1,532	1,644	0.1%
		Senior Secured Term Loan B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 9/16/2013)(3),(4)	4,698	4,265	4,698	0.3%
		Senior Secured Term Loan C (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 9/16/2013)(3),(4)	2,277	2,277	2,277	0.2%
		Senior Secured Term Loan (12.00% plus 3.00% PIK, due 3/16/2014)(3)	7,966	7,049	7,966	0.5%
		Preferred Stock (1,000,000 shares)			576	0.0%
		Common Stock (10,000 shares)				0.0%
				<b>15,123</b>	<b>17,161</b>	<b>1.1%</b>
Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest			35	0.0%



		35	0.0%
<b>Total Affiliate Investments</b>	<b>44,229</b>	<b>46,116</b>	<b>3.1%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 240	0.0%
				<b>141</b>	<b>240</b>	<b>0.0%</b>
Aircraft Fasteners International, LLC	California / Machinery	Convertible Preferred Stock (32,500 units)		396	471	0.0%
				<b>396</b>	<b>471</b>	<b>0.0%</b>
American Gilsonite Company	Utah / Specialty Minerals	Senior Subordinated Note (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/10/2016)(3),(4)	\$ 30,232	30,232	30,232	2.0%
		Senior Subordinated Note (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/10/2016)(4)	7,500	7,500	7,500	0.5%
		Membership Interest in AGC/PEP, LLC (99.9999%)(15)			6,830	0.5%
				<b>37,732</b>	<b>44,562</b>	<b>3.0%</b>
Apidos CLO VIII, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	19,730	18,056	19,509	1.3%
				<b>18,056</b>	<b>19,509</b>	<b>1.3%</b>
Apidos CLO IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	20,525	18,723	18,723	1.2%
				<b>18,723</b>	<b>18,723</b>	<b>1.2%</b>
Archipelago Learning, Inc.	Minnesota / Consumer Services	Second Lien Debt (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)(4),(16)	50,000	48,022	49,271	3.3%
				<b>48,022</b>	<b>49,271</b>	<b>3.3%</b>
Babson CLO Ltd 2011-I.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,000	33,080	34,244	2.3%
				<b>33,080</b>	<b>34,244</b>	<b>2.3%</b>

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Babson CLO Ltd 2012-IA.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	29,075	27,014	27,197	1.8%
				<b>27,014</b>	<b>27,197</b>	<b>1.8%</b>
Babson CLO Ltd 2012-IIA.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	27,850	27,486	27,017	1.8%
				<b>27,486</b>	<b>27,017</b>	<b>1.8%</b>
Blue Coat Systems, Inc.(3),(4)	Massachusetts / Software & Computer Services	Second Lien Term Loan (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 8/15/2018)	25,000	24,279	25,000	1.7%
				<b>24,279</b>	<b>25,000</b>	<b>1.7%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Byrider Systems Acquisition Corp.(22)	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)	\$ 20,546	\$ 20,546	\$ 19,990	1.3%
				<b>20,546</b>	<b>19,990</b>	<b>1.3%</b>
Caleel + Hayden, LLC(14),(31)	Colorado / Personal & Nondurable Consumer Products	Membership Units (7,500 shares)		351	1,031	0.1%
				<b>351</b>	<b>1,031</b>	<b>0.1%</b>
Capstone Logistics, LLC(4)	Georgia / Commercial Services	Senior Secured Term Loan A (7.50% (LIBOR + 5.50% with 2.00% LIBOR floor), due 9/16/2016)	33,793	33,793	33,793	2.2%
		Senior Secured Term Loan B (13.50% (LIBOR + 11.50% with 2.00% LIBOR floor), due 9/16/2016)(3)	41,625	41,625	41,625	2.8%
				<b>75,418</b>	<b>75,418</b>	<b>5.0%</b>
Cargo Airport Services USA, LLC	New York / Transportation	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/31/2016)(3),(4)	48,891	48,891	48,891	3.2%
		Common Equity (1.6 units)		1,639	1,886	0.1%
				<b>50,530</b>	<b>50,777</b>	<b>3.3%</b>
CIFC Funding 2011-I, Ltd.(4)	Cayman Islands / Diversified Financial Services	Secured Class D Notes (5.79% (LIBOR + 5.00%), due 1/19/2023)	19,000	14,778	15,229	1.0%
		Unsecured Class E Notes (7.79% (LIBOR + 7.00%), due 1/19/2023)	15,400	12,480	12,488	0.8%
				<b>27,258</b>	<b>27,717</b>	<b>1.8%</b>
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable			315	0.0%
					<b>315</b>	<b>0.0%</b>
CRT MIDCO, LLC	Wisconsin / Media	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3),(4)	73,500	73,500	73,491	4.9%
				<b>73,500</b>	<b>73,491</b>	<b>4.9%</b>

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Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15.00% payable on Equity distributions)(7)				0.0%
						<b>0.0%</b>
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)	15,700	15,255	15,700	1.0%
				<b>15,255</b>	<b>15,700</b>	<b>1.0%</b>
Fairchild Industrial Products, Co.	North Carolina / Electronics	Escrow Receivable			144	0.0%
					<b>144</b>	<b>0.0%</b>

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			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Fischbein, LLC	North Carolina / Machinery	Senior Subordinated Debt (12.00% plus 2.00% PIK, due 10/31/2016)	\$ 3,413	\$ 3,413	\$ 3,413	0.3%
		Escrow Receivable			565	0.0%
		Membership Class A (875,000 units)		875	2,036	0.1%
				<b>4,288</b>	<b>6,014</b>	<b>0.4%</b>
Focus Brands, Inc.(4)	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)	15,000	14,711	14,711	1.0%
				<b>14,711</b>	<b>14,711</b>	<b>1.0%</b>
Galaxy XII CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	21,526	21,897	1.4%
				<b>21,526</b>	<b>21,897</b>	<b>1.4%</b>
H&M Oil & Gas, LLC	Texas / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% PIK, plus 2.00% default interest, in non-accrual status effective 1/1/2011, past due)(4)	62,814	60,019	30,524	2.0%
		Senior Secured Note (18.00% PIK, in non-accrual status effective 4/27/2012, past due)	4,507	4,430	4,507	0.3%
		Net Profits Interest (8.00% payable on Equity distributions)(7)				0.0%
				<b>64,449</b>	<b>35,031</b>	<b>2.3%</b>
Hi-Tech Testing Service, Inc. and Wilson Inspection X-Ray Services, Inc.	Texas / Oil & Gas Equipment & Services	Senior Secured Term Loan (11.00%, due 9/26/2016)	7,400	7,188	7,391	0.5%
				<b>7,188</b>	<b>7,391</b>	<b>0.5%</b>
Hoffmaster Group, Inc.(4)	Wisconsin / Durable Consumer Products	Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019)	10,000	9,810	9,811	0.6%
		Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)	1,000	990	951	0.1%
				<b>10,800</b>	<b>10,762</b>	<b>0.7%</b>

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Hudson Products Holdings, Inc.(16)	Texas / Manufacturing	Senior Secured Term Loan (9.00% (PRIME + 5.00% with 4.00% PRIME floor), due 8/24/2015)(3),(4)	6,299	5,880	5,826	0.4%
				<b>5,880</b>	<b>5,826</b>	<b>0.4%</b>
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016)(3)	43,100	43,361	43,100	2.9%
				<b>43,361</b>	<b>43,100</b>	<b>2.9%</b>
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)	12,500	12,260	12,488	0.8%
				<b>12,260</b>	<b>12,488</b>	<b>0.8%</b>

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<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Injured Workers Pharmacy LLC	Massachusetts / Healthcare	Second Lien Debt (12.00% (LIBOR + 7.50% with 4.50% LIBOR floor) plus 1.00% PIK, due 11/4/2017)(3),(4)	\$ 15,100	\$ 15,100	\$ 15,100	1.0%
				<b>15,100</b>	<b>15,100</b>	<b>1.0%</b>
Iron Horse Coiled Tubing, Inc.(23)	Alberta, Canada / Production Services	Common Stock (3,821 shares)		268	2,040	0.1%
				<b>268</b>	<b>2,040</b>	<b>0.1%</b>
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Debt (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 6/23/2016)(3),(4)	15,736	15,736	15,736	1.0%
				<b>15,736</b>	<b>15,736</b>	<b>1.0%</b>
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4),(25),(26) Senior Subordinated Debt (10.50%, due 5/31/2015)(3) Membership Interest (125 units)	4,265	4,125 216	4,125 225	0.0% 0.3% 0.0%
				<b>4,341</b>	<b>4,350</b>	<b>0.3%</b>
Madison Park Funding IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	31,110	25,810	25,810	1.7%
				<b>25,810</b>	<b>25,810</b>	<b>1.7%</b>
Maverick Healthcare, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units) Common Units (1,250,000 units)		1,252	1,756 95	0.1% 0.0%
				<b>1,252</b>	<b>1,851</b>	<b>0.1%</b>
Medical Security Card Company, LLC(4)	Arizona / Healthcare	Revolving Line of Credit \$1,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 2/1/2016)(25) First Lien Term Loan (11.25% (LIBOR + 8.75% with 2.50% LIBOR floor), due 2/1/2016)(3)	17,317	17,317	17,317	0.0% 1.1%
				<b>17,317</b>	<b>17,317</b>	<b>1.1%</b>



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Mood Media Corporation(3),(16),(22)	Canada / Media	Senior Subordinated Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 11/6/2018)(4)	15,000	14,866	15,000	1.0%
				<b>14,866</b>	<b>15,000</b>	<b>1.0%</b>
National Bankruptcy Services, LLC (3),(4)	Texas / Diversified Financial Services	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 1.50% PIK, due 7/16/2017)	18,402	18,402	18,402	1.2%
				<b>18,402</b>	<b>18,402</b>	<b>1.2%</b>
Naylor, LLC (4)	Florida / Media	Revolving Line of Credit \$2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25) Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)				0.0%
			48,600	48,600	48,600	3.2%
				<b>48,600</b>	<b>48,600</b>	<b>3.2%</b>

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<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
New Meatco Provisions, LLC	California / Food Products	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 4.00%, PIK due 4/18/2016)(4)	\$ 12,438	\$ 12,438	\$ 6,571	0.4%
				<b>12,438</b>	<b>6,571</b>	<b>0.4%</b>
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	15,085	14,792	14,792	1.0%
				<b>14,792</b>	<b>14,792</b>	<b>1.0%</b>
Nobel Learning Communities, Inc.	Pennsylvania / Consumer Services	Subordinated Unsecured (11.50% plus 1.50% PIK, due 8/9/2017)	15,147	15,147	15,147	1.0%
				<b>15,147</b>	<b>15,147</b>	<b>1.0%</b>
Northwestern Management Services, LLC	Florida / Healthcare	Revolving Line of Credit \$1,500 Commitment (10.50% (PRIME + 6.75% with 3.75% PRIME floor), due 7/30/2015)(4),(25)	200	200	200	0.0%
		Senior Secured Term Loan A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 7/30/2015)(3),(4)	16,092	16,092	16,092	1.1%
		Common Stock (50 shares)		371	1,205	0.1%
				<b>16,663</b>	<b>17,497</b>	<b>1.2%</b>
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable			6,431	0.4%
					<b>6,431</b>	<b>0.4%</b>
Out Rage, LLC (4)	Wisconsin / Durable Consumer Products	Revolving Line of Credit \$1,500 Commitment (11.0% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/02/2013)(25)				0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/2/2015)	10,756	10,756	10,686	0.7%
				<b>10,756</b>	<b>10,686</b>	<b>0.7%</b>
Pinnacle Treatment Centers, Inc.(4)	Pennsylvania / Healthcare	Revolving Line of Credit \$1,000 Commitment (8.0% (LIBOR + 5.00% with 3.00% LIBOR floor), due 1/10/2016)(25)				0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 1/10/2016)(3)	17,475	17,475	17,475	1.2%

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				<b>17,475</b>	<b>17,475</b>	<b>1.2%</b>
Potters Holdings II, L.P.(16)	Pennsylvania / Manufacturing	Senior Subordinated Term Loan (10.25% (LIBOR + 8.50% with 1.75% LIBOR floor), due 11/6/2017)(3),(4)	15,000	14,803	14,608	1.0%
				<b>14,803</b>	<b>14,608</b>	<b>1.0%</b>

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Pre-Paid Legal Services, Inc.(16)	Oklahoma / Consumer Services	Senior Subordinated Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2016)(3),(4)	\$ 5,000	\$ 5,000	\$ 4,989	0.3%
				<b>5,000</b>	<b>4,989</b>	<b>0.3%</b>
Progrexion Holdings, Inc.(4),(28)	Utah / Consumer Services	Senior Secured Term Loan A (11.25% (LIBOR + 9.25% with 2.00% LIBOR floor), due 12/31/2014)(3)	34,502	34,502	34,502	2.3%
		Senior Secured Term Loan B (11.25% (LIBOR + 9.25% with 2.00% LIBOR floor), due 12/31/2014)	28,178	28,178	28,178	1.9%
				<b>62,680</b>	<b>62,680</b>	<b>4.2%</b>
Renaissance Learning, Inc.(16)	Wisconsin / Consumer Services	Second Lien Term Loan (12.00% (LIBOR + 10.50% with 1.50% LIBOR floor), due 10/19/2018)(4)	6,000	5,775	6,000	0.4%
				<b>5,775</b>	<b>6,000</b>	<b>0.4%</b>
Rocket Software, Inc.(3),(4)	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)	15,000	14,711	14,711	1.0%
				<b>14,711</b>	<b>14,711</b>	<b>1.0%</b>
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK due 11/29/2016)	27,798	27,798	27,798	1.8%
				<b>27,798</b>	<b>27,798</b>	<b>1.8%</b>
Seaton Corp.	Illinois / Business Services	Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2014)(3),(4)	3,288	3,164	3,288	0.2%
				<b>3,164</b>	<b>3,288</b>	<b>0.2%</b>
SG Acquisition, Inc.(4)	Georgia / Insurance	Senior Secured Term Loan A (8.50% (LIBOR + 6.50% with 2.00% LIBOR floor), due 3/18/2016)	27,469	27,469	27,469	1.8%
		Senior Secured Term Loan B (14.50% (LIBOR + 12.50% with 2.00% LIBOR floor), due 3/18/2016)(3)	29,625	29,625	29,625	2.0%
			12,686	12,686	12,686	0.8%

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		Senior Secured Term Loan C (8.50% (LIBOR + 6.50% with 2.00% LIBOR floor), due 3/18/2016)	13,681	13,681	13,681	0.9%
		Senior Secured Term Loan D (14.50% (LIBOR + 12.50% with 2.00% LIBOR floor), due 3/18/2016)				
				<b>83,461</b>	<b>83,461</b>	<b>5.5%</b>
Shearer's Foods, Inc.	Ohio / Food Products	Junior Secured Debt (12.00% plus 3.75% PIK (3.75% LIBOR floor), due 3/31/2016)(3),(4)	37,639	37,639	37,639	2.5%
		Membership Interest in Mistral Chip Holdings, LLC Common (2,000 units)(17)		2,000	2,161	0.1%
		Membership Interest in Mistral Chip Holdings, LLC 2 Common (595 units)(17)		1,322	643	0.0%
		Membership Interest in Mistral Chip Holdings, LLC 3 Preferred (67 units)(17)		673	883	0.1%
				<b>41,634</b>	<b>41,326</b>	<b>2.7%</b>

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**March 31, 2013 (Unaudited) and June 30, 2012 (Audited)**

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Skillsoft Public Limited Company(22)	Ireland / Software & Computer Services	Senior Unsecured (11.125%, due 6/1/2018)	\$ 15,000	\$ 14,918	\$ 15,000	1.0%
				<b>14,918</b>	<b>15,000</b>	<b>1.0%</b>
Snacks Holding Corporation	Minnesota / Food Products	Senior Subordinated Unsecured Term Loan (12.00% plus 1.00% PIK, due 11/12/2017)	15,250	14,754	15,250	1.0%
		Series A Preferred Stock (4,021.45 shares)		56	42	0.0%
		Series B Preferred Stock (1,866.10 shares)		56	42	0.0%
		Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)		479	357	0.0%
				<b>15,345</b>	<b>15,691</b>	<b>1.0%</b>
Southern Management Corporation(22),(30)	South Carolina / Consumer Finance	Second Lien Term Loan (12.00% plus 5.00% PIK due 5/31/2017)	17,568	17,568	17,568	1.2%
				<b>17,568</b>	<b>17,568</b>	<b>1.2%</b>
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable			406	0.0%
					<b>406</b>	<b>0.0%</b>
Springs Window Fashions, LLC	Wisconsin / Durable Consumer Products	Second Lien Term Loan (11.25% (LIBOR + 9.25% with 2.00% LIBOR floor), due 11/30/2017)(3),(4)	35,000	35,000	34,062	2.3%
				<b>35,000</b>	<b>34,062</b>	<b>2.3%</b>
ST Products, LLC	Pennsylvania/ Manufacturing	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/16/2016)(3),(4)	23,328	23,328	23,328	1.5%
				<b>23,328</b>	<b>23,328</b>	<b>1.5%</b>
Stauber Performance Ingredients, Inc.(4)	California / Food Products	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)(3)	22,058	22,058	22,058	1.5%
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)	10,500	10,500	10,500	0.7%
				<b>32,558</b>	<b>32,558</b>	<b>2.2%</b>

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Stryker Energy, LLC	Ohio / Oil & Gas Production	Subordinated Secured Revolving Credit Facility \$50,300 Commitment (8.50% (LIBOR + 7.00% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4),(25) Overriding Royalty Interests(18)	33,444	32,711		0.0%
					1,623	0.1%
				<b>32,711</b>	<b>1,623</b>	<b>0.1%</b>
Symphony CLO, IX Ltd.(22)	Cayman Islands / Diversified Financial Services	LP Certificates (Residual Interest)	45,500	42,864	43,612	2.9%
				<b>42,864</b>	<b>43,612</b>	<b>2.9%</b>
Targus Group International, Inc.(16)	California / Durable Consumer Products	First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 5/25/2016)(3),(4)	23,760	23,363	23,760	1.6%
				<b>23,363</b>	<b>23,760</b>	<b>1.6%</b>

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**March 31, 2013 (Unaudited) and June 30, 2012 (Audited)**

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Totes Isotoner Corporation	Ohio / Nondurable Consumer Products	Second Lien Term Loan (10.75%, (LIBOR + 9.25% with 1.50% LIBOR floor) due 1/8/2018)(3),(4)	\$ 39,000	\$ 39,000	\$ 38,531	2.5%
				<b>39,000</b>	<b>38,531</b>	<b>2.5%</b>
U.S. HealthWorks Holding Company, Inc.(16)	California / Healthcare	Second Lien Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 6/15/2017)(3),(4)	25,000	25,000	25,000	1.7%
				<b>25,000</b>	<b>25,000</b>	<b>1.7%</b>
VanDeMark Chemicals, Inc.(3)	New York / Chemicals	Senior Secured Term Loan (12.20% (LIBOR + 10.20% with 2.0% LIBOR floor), due 12/31/2014)(4)	30,306	30,306	30,306	2.0%
				<b>30,306</b>	<b>30,306</b>	<b>2.0%</b>
Wind River Resources Corp. and Wind River II Corp.	Utah / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal, 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4) Net Profits Interest (5.00% payable on Equity distributions)(7)	14,750	14,750	2,339	0.2%
				<b>14,750</b>	<b>2,339</b>	<b>0.2%</b>
		<b>Total Non-control/Non-affiliate Investments (Level 3 Investments)</b>		<b>1,536,950</b>	<b>1,483,487</b>	<b>98.1%</b>
		<b>Total Level 3 Portfolio Investments</b>		<b>2,099,194</b>	<b>2,094,092</b>	<b>138.5%</b>
<b>LEVEL 1 PORTFOLIO INVESTMENTS:</b>						
<b>Non-control/Non-affiliate Investments (less than 5.00% of voting control)</b>						
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		56		0.0%
				<b>56</b>		<b>0.0%</b>
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)		63	129	0.0%
				<b>63</b>	<b>129</b>	<b>0.0%</b>



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<b>Total Non-control/Non-affiliate Investments (Level 1 Investments)</b>	<b>119</b>	<b>129</b>	<b>0.0%</b>
<b>Total Portfolio Investments</b>	<b>2,099,313</b>	<b>2,094,221</b>	<b>138.5%</b>
<b>SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)</b>			
Fidelity Institutional Money Market Funds Government Portfolio (Class I)	86,596	86,596	5.7%
Fidelity Institutional Money Market Funds Government Portfolio (Class I)(3)	31,772	31,772	2.1%
Victory Government Money Market Funds	1	1	0.0%
<b>Total Money Market Funds</b>	<b>118,369</b>	<b>118,369</b>	<b>7.8%</b>
<b>Total Investments</b>	<b>\$ 2,217,682</b>	<b>\$ 2,212,590</b>	<b>146.3%</b>

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2013 (Unaudited) and June 30, 2012 (Audited)**  
**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of March 31, 2013 and June 30, 2012**

- (1) The securities in which Prospect Capital Corporation ("we", "us" or "our") has invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended, or the "Securities Act." These securities may be resold only in transactions that are exempt from registration under the Securities Act.
- (2) Fair value is determined by or under the direction of our Board of Directors. As of March 31, 2013 and June 30, 2012, two of our portfolio investments, Allied Defense Group, Inc. ("Allied") and Dover Saddlery, Inc. ("Dover") were publicly traded and classified as Level 1 within the valuation hierarchy established by Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("ASC 820"). As of March 31, 2013 and June 30, 2012, the fair value of our remaining portfolio investments was determined using significant unobservable inputs. ASC 820 classifies such inputs used to measure fair value as Level 3 within the valuation hierarchy. Our investments in money market funds are classified as Level 2. See Note 2 and Note 3 within the accompanying consolidated financial statements for further discussion.
- (3) Security, or a portion thereof, is held by Prospect Capital Funding LLC, a bankruptcy remote special purpose entity, and is pledged as collateral for the revolving credit facility and such security is not available as collateral to our general creditors (See Note 4). The market values of these investments at March 31, 2013 and June 30, 2012 were \$711,204 and \$783,384, respectively; they represent 18.0% and 35.4% of total investments at fair value, respectively. Prospect Capital Funding LLC (See Note 1), our wholly-owned subsidiary, holds an aggregate market value of \$711,204 and \$783,384 of these investments as of March 31, 2013 and June 30, 2012, respectively.
- (4) Security, or portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. Stated interest rate was in effect at March 31, 2013 and June 30, 2012.
- (5) Ellett Brothers, LLC., Evans Sports, Inc., Jerry's Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc. and Outdoor Sports Headquarters, Inc., are joint borrowers on our second lien loan. United Sporting Companies, Inc., is a parent guarantor of this debt investment.
- (6) During the quarter ended December 31, 2009, we created two new entities, Coalbed Inc. and Coalbed LLC, to foreclose on the outstanding senior secured loan and assigned rights and interests of Conquest Cherokee, LLC ("Conquest"), as a result of the deterioration of Conquest's financial performance and inability to service debt payments. We own 1,000 shares of common stock in Coalbed Inc., representing 100% of the issued and outstanding common stock. Coalbed Inc., in turn owns 100% of the membership interest in Coalbed LLC.  
  
On October 21, 2009, Coalbed LLC foreclosed on the loan formerly made to Conquest. On January 19, 2010, as part of the Manx rollup, the Coalbed LLC assets and loan were assigned to Manx, the holding company. On June 30, 2012, Manx reassigned our investment in Coalbed to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed, separately owned holding company. Our Board of Directors set value at zero for the loan position in Coalbed LLC investment as of March 31, 2013 and June 30, 2012.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2013 (Unaudited) and June 30, 2012 (Audited)**  
**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of March 31, 2013 and June 30, 2012 (Continued)**

- (7) In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests.
- (8) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, Inc. ("CCEHI") and Change Clean Energy, Inc. ("CCEI"), Freedom Marine Holding, Inc. ("Freedom Marine") and Yatesville Coal Holdings, Inc. ("Yatesville") was transferred to Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings Inc.) ("Energy Solutions") to consolidate all of our energy holdings under one management team. We own 100% of Energy Solutions.
- (9) Entity was formed as a result of the debt restructuring of ESA Environmental Specialist, Inc. In early 2009, we foreclosed on the two loans on non-accrual status and purchased the underlying personal and real property. We own 1,000 shares of common stock in The Healing Staff ("THS"), f/k/a Lisamarie Fallon, Inc. representing 100% ownership. We own 1,500 shares of Vets Securing America, Inc. ("VSA"), representing 100% ownership.
- During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Services, Inc. ("ICS") was other-than-temporary and recorded a realized loss of \$12,198 for the amount that the amortized cost exceeded the fair market value. Our remaining investment in The Healing Staff ("THS"), an affiliate of ICS, was valued at zero as of March 31, 2013 and continues to provide staffing solutions for health care facilities and security staffing.
- (10) Loan is with THS an affiliate of ICS.
- (11) Evanta Ventures, Inc. and Sports Leadership Institute, Inc. are joint borrowers on our investment.
- (12) On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx Energy, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were brought under new common management. We funded \$2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring. On June 30, 2012, Manx reassigned our investments in Coalbed and AEH to Wolf, a newly-formed, separately owned holding company. We continue to fully reserve any income accrued for Manx.
- (13) On a fully diluted basis represents 10.00% of voting common shares.
- (14) A portion of the positions listed were issued by an affiliate of the portfolio company.
- (15) We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares (including 5,111 vested and unvested management options) of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.
- (16) Syndicated investment which had been originated by another financial institution and broadly distributed.



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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2013 (Unaudited) and June 30, 2012 (Audited)**  
**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of March 31, 2013 and June 30, 2012 (Continued)**

- (17) At June 30, 2012, Mistral Chip Holdings, LLC owns 44,800 shares of Chip Holdings, Inc. and Mistral Chip Holdings 2, LLC owns 11,975 shares in Chip Holdings, Inc. Chip Holdings, Inc. is the parent company of Shearer's Foods, Inc. and has 67,936 shares outstanding before adjusting for management options. On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's, receiving \$6,022 of net proceeds and realizing a gain of approximately \$2,027 on the redemption.
- (18) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.
- (19) On December 31, 2009, we sold our investment in Aylward Enterprises, LLC. AWCNC, LLC is the remaining holding company with zero assets. Our remaining outstanding debt after the sale was written off on December 31, 2009 and no value has been assigned to the equity position as of March 31, 2013 and June 30, 2012.
- (20) We own a warrant to purchase 2,650,588 shares of Series A Preferred Stock, 441,176 shares of Series B Preferred Stock, and 30,918 shares of Voting Common Stock in Boxercraft Incorporated.
- (21) We own warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation ("Metal Buildings"), the former holding company of Borga, Inc. Metal Buildings Holding Corporation owned 100% of Borga, Inc.
- On March 8, 2010, we foreclosed on the stock in Borga, Inc. that was held by Metal Buildings, obtaining 100% ownership of Borga, Inc.
- (22) Certain investments that we have determined are not "qualifying" assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. We monitor the status of these assets on an ongoing basis.
- (23) On January 1, 2010, we restructured our senior secured and bridge loans investment in Iron Horse Coiled Tubing, Inc. ("Iron Horse") and we reorganized Iron Horse's management structure. The senior secured loan and bridge loan were replaced with three new tranches of senior secured debt. During the period from June 30, 2011 to June 30, 2012, our fully diluted ownership of Iron Horse decreased from 57.8% to 5.0%, respectively, as we continued to transfer ownership interests to Iron Horse's management as they repaid our outstanding debt. Iron Horse management had an option to repurchase our remaining interest for \$2,040.
- As of June 30, 2012, our Board of Directors assessed a fair value in Iron Horse of \$2,040. On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. 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.
- (24) On May 6, 2011, we made a secured first-lien \$24,250 debt investment to NMMB Acquisition, Inc., a \$2,800 secured debt and \$4,400 equity investment to NMMB Holdings, Inc. We own 100% of the

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
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**(in thousands, except share data)**

**Endnote Explanations for the Consolidated Schedule of Investments as of March 31, 2013 and June 30, 2012 (Continued)**

Series A Preferred Stock in NMMB Holdings, Inc. NMMB Holdings, Inc. owns 100% of the Convertible Preferred in NMMB Acquisition, Inc. NMMB Acquisition, Inc. has a 5.8% dividend rate which is paid to NMMB Holdings, Inc. Our fully diluted ownership in NMMB Holdings, Inc. is 100% as of March 31, 2013 and June 30, 2012. Our fully diluted ownership in NMMB Acquisition, Inc. is 83.5% as of March 31, 2013 and June 30, 2012.

- (25) Undrawn committed revolvers incur commitment and unused fees ranging from 0.50% to 2.00%. As of March 31, 2013 and June 30, 2012, we have \$200,539 and \$180,646 of undrawn revolver commitments to our portfolio companies, respectively.
- (26) Stated interest rates are based on March 31, 2013 and June 30, 2012 one month Libor rates plus applicable spreads based on the respective credit agreements. Interest rates are subject to change based on actual elections by the borrower for a Libor rate contract or Base Rate contract when drawing on the revolver.
- (27) On July 30, 2010, we made a secured first-lien \$30,000 debt investment to AIRMALL USA, Inc., a \$12,500 secured second-lien to AMU Holdings, Inc., and 100% of the Convertible Preferred Stock and Common stock of AMU Holdings, Inc. Our Convertible Preferred Stock in AMU Holdings, Inc. has a 12.0% dividend rate which is paid from the dividends received from the underlying operating company, AIRMALL USA Inc. AMU Holdings, Inc. owns 100% of the common stock in AIRMALL USA, Inc.
- (28) Progrexion Marketing, Inc., Progrexion Teleservices, Inc., Progrexion ASG, Inc. Progrexion IP, Inc. and Efolks, LLC, are joint borrowers on our senior secured investment. Progrexion Holdings, Inc. and eFolks Holdings, Inc. are the guarantors of this debt investment.
- (29) Our wholly-owned entity, First Tower Holdings of Delaware, LLC, owns 80.1% of First Tower Holdings LLC, the operating company of First Tower, LLC.
- (30) Southern Management Corporation, Thaxton Investment Corporation, Southern Finance of Tennessee, Inc., Covington Credit of Texas, Inc., Covington Credit, Inc., Covington Credit of Alabama, Inc., Covington Credit of Georgia, Inc., Southern Finance of South Carolina, Inc. and Quick Credit Corporation, are joint borrowers on our senior secured investment. SouthernCo, Inc. is the guarantor of this debt investment.
- (31) We own 2.8% (13,220 shares) of Mineral Fusion Natural, LLC, a subsidiary of Caleel + Hayden, common and preferred interest.
- (32) Our wholly-owned entity, APH Property Holdings, LLC, owns 100% of the common equity of American Property Holdings Corp., a REIT which holds investments in several real estate properties.
- (33) Our wholly-owned entity, CCPI Holdings Inc. owns 95.13% of CCPI Inc., the operating company.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**March 31, 2013 (Unaudited) and June 30, 2012 (Audited)**

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

**Endnote Explanations for the Consolidated Schedule of Investments as of March 31, 2013 and June 30, 2012 (Continued)**

- (34) Our wholly-owned entity, Credit Central Holdings of Delaware, LLC owns 75% of Credit Central Holdings, LLC, which owns 100% of each of Credit Central, LLC, Credit Central South, LLC and Credit Central of Tennessee, LLC, the operating companies.
- (35) Our wholly-owned entity, Valley Electric Holdings I, Inc. ("HoldCo"), owns 100% of Valley Electric Holdings, II, Inc. ("Valley II"). Valley II owns 96.3% of Valley Electric Co. of Mt. Vernon, Inc. ("OpCo"), the operating company. Our debt investments are with both HoldCo and OpCo.
- (36) Our wholly-owned entity, Nationwide Acceptance Holdings, LLC owns 93.8% of Nationwide Acceptance LLC, the operating company.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

**(Unaudited)**

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

**Note 1. Organization**

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

We are a closed-end investment company that has filed an election to be treated as a Business Development Company ("BDC"), under the Investment Company Act of 1940 (the "1940 Act"). As a BDC, we have qualified and have elected to be treated as a regulated investment company ("RIC"), under Subchapter M of the Internal Revenue Code. We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes.

Prospect Capital Funding, LLC, a Delaware limited liability company, is a wholly-owned subsidiary which holds certain of our portfolio loan investments that are collateral for our credit facility.

**Note 2. Significant Accounting Policies**

The following are significant accounting policies consistently applied by us:

*Basis of Presentation*

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

*Reclassifications*

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

*Use of Estimates*

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

*Basis of Consolidation*

Under the 1940 Act 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 an operating company which provides substantially all of its services and benefits to us. Our financial



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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 2. Significant Accounting Policies (Continued)**

statements include our accounts and the accounts of PCF, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

*Investment Classification*

We are a non-diversified company within the meaning of the 1940 Act. We classify our investments by level of control. As defined in the 1940 Act, 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 Risks*

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

*Market Risk*

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

*Credit Risk*

Credit risk represents the risk we would incur if the counterparties failed to perform pursuant to the terms of their agreements with Prospect. Our investments in collateralized loan obligation funds ("CLOs") are subject to default risk of the underlying portfolio of loans.

*Prepayment Risk*

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 2. Significant Accounting Policies (Continued)**

rate, thereby effectively shortening the maturity of the security and making the security less likely to be an income producing instrument.

*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 with Prospect Capital Management (the "Investment Adviser") proposing values within the valuation range presented by the independent valuation firms; and
- 4) the Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

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

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 2. Significant Accounting Policies (Continued)**

We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B depending on the tranche. The investments are classified as ASC 820 level 3 securities, and are valued using discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for each security. To value a CLO, both the assets and liabilities of the CLO capital structure have been modeled. Our valuation agent uses a waterfall engine to store the collateral data, including the collateral cash flows from the assets, and distributions of the cash flow to the liability structure based on the payment priorities, and discounts them back using proper discount rates that incorporate all the risk factors. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

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. The changes to GAAP from the application of ASC 820 relate to the definition of fair value, the framework for measuring fair value, and the expanded disclosures about fair value measurements. ASC 820 applies to fair value measurements already required or permitted by other standards. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

*Valuation of Other Financial Assets and Financial Liabilities*

ASC Subtopic 820-10-05-1, *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 820-10-05-1") permits an entity to elect fair value as the initial and subsequent measurement attribute for many assets and liabilities. We have elected not to value other assets and liabilities at fair value as would be permitted by ASC 820-10-05-1.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 2. Significant Accounting Policies (Continued)**

*Senior Convertible Notes*

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

*Revenue Recognition*

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income.

Interest income from investments in the residual interest 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*. Adjustments resulting from recording the interest income based on the effective yield are recorded to the cost basis of the investment. We monitor the expected cash inflows from our CLO equity investments, including the expected residual payments and the effective yield is determined and updated periodically.

Dividend income is recorded on the ex-dividend date.

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

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will not be collected in accordance with the terms of the investment. 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.

*Federal and State Income Taxes*

We have elected to be treated as a regulated investment company and intend to continue to comply with the requirements of the Internal Revenue Code, applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 2. Significant Accounting Policies (Continued)**

income and net capital gains to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income. For the calendar year ended December 31, 2012, we elected to retain a portion of our annual taxable income and have paid \$4,500 for the excise tax due with the filing of the return. As of March 31, 2013, we have \$1,000 accrued as an estimate of one quarter of the excise tax due for the calendar year ending December 31, 2013.

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

We follow ASC 740, *Income Taxes* ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of March 31, 2013 and for the three and

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 2. Significant Accounting Policies (Continued)**

nine months then ended, we did not have a liability for any unrecognized tax expense. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

*Dividends and Distributions*

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

*Financing Costs*

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

*Deferred Costs*

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.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 2. Significant Accounting Policies (Continued)**

*Recent Accounting Pronouncements*

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 were effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The adoption of the amended guidance in ASU 2011-04 did not have a significant effect on our financial statements. See Note 3 for the disclosure required by ASU 2011-04.

In August 2012, the FASB issued Accounting Standards Update 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114 ("SAB No. 114"), Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 ("ASU 2012-03")*. The update amends various SEC paragraphs pursuant to the issuance of SAB No. 114 and is effective upon issuance. The adoption of the amended guidance in ASU 2012-03 did not have a significant effect on our financial statements.

In October 2012, the FASB issued Accounting Standards Update 2012-04, *Technical Corrections and Improvements* ("ASU 2012-04"). The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The adoption of the amended guidance in ASU 2012-04 did not have a significant effect on our financial statements.

**Note 3. Portfolio Investments**

At March 31, 2013, we had invested in 120 long-term portfolio investments, which had an amortized cost of \$3,795,113 and a fair value of \$3,707,722 and at June 30, 2012, we had invested in 85

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2013****(Unaudited)****(In thousands, except share and per share data)****Note 3. Portfolio Investments (Continued)**

long-term portfolio investments, which had an amortized cost of \$2,099,313 and a fair value of \$2,094,221.

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

The composition of our investments and money market funds as of March 31, 2013 and June 30, 2012 at cost and fair value was as follows:

	<b>March 31, 2013</b>		<b>June 30, 2012</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Revolving Line of Credit	\$ 10,545	\$ 9,930	\$ 1,145	\$ 868
Senior Secured Debt	1,944,699	1,878,542	1,146,454	1,088,019
Subordinated Secured Debt	916,981	876,859	536,900	480,147
Unsecured Debt	189,133	189,653	72,617	73,195
CLO Debt	27,562	29,844	27,258	27,717
CLO Residual Interest	571,668	582,939	214,559	218,009
Equity	134,525	139,955	100,380	206,266
<b>Total Investments</b>	<b>3,795,113</b>	<b>3,707,722</b>	<b>2,099,313</b>	<b>2,094,221</b>
<b>Money Market Funds</b>	<b>253,332</b>	<b>253,332</b>	<b>118,369</b>	<b>118,369</b>
<b>Total Investments and Money Market Funds</b>	<b>\$ 4,048,445</b>	<b>\$ 3,961,054</b>	<b>\$ 2,217,682</b>	<b>\$ 2,212,590</b>

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 3. Portfolio Investments (Continued)**

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

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Revolving Line of Credit	\$	\$	\$ 9,930	\$ 9,930
Senior Secured Debt			1,878,542	1,878,542
Subordinated Secured Debt			876,859	876,859
Unsecured Debt			189,653	189,653
CLO Debt			29,844	29,844
CLO Residual Interest			582,939	582,939
Equity	115		139,840	139,955
<b>Total Investments</b>	<b>115</b>		<b>3,707,607</b>	<b>3,707,722</b>
Money Market Funds		253,332		253,332
<b>Total Investments and Money Market Funds</b>	<b>\$ 115</b>	<b>\$ 253,332</b>	<b>\$ 3,707,607</b>	<b>\$ 3,961,054</b>

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Investments at fair value				
Control investments	\$	\$	\$ 675,305	\$ 675,305
Affiliate investments			41,745	41,745
Non-control/non-affiliate investments	115		2,990,557	2,990,672
	115		3,707,607	3,707,722
Investments in money market funds		253,332		253,332
<b>Total investments reported at fair value</b>	<b>\$ 115</b>	<b>\$ 253,332</b>	<b>\$ 3,707,607</b>	<b>\$ 3,961,054</b>

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 3. Portfolio Investments (Continued)**

The fair values of our investments and money market funds as of June 30, 2012 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Revolving Line of Credit	\$	\$	\$ 868	\$ 868
Senior Secured Debt			1,088,019	1,088,019
Subordinated Secured Debt			480,147	480,147
Unsecured Debt			73,195	73,195
CLO Debt			27,717	27,717
CLO Residual Interest			218,009	218,009
Equity	129		206,137	206,266
<b>Total Investments</b>	<b>129</b>		<b>2,094,092</b>	<b>2,094,221</b>
Money Market Funds		118,369		118,369
<b>Total Investments and Money Market Funds</b>	<b>\$ 129</b>	<b>\$ 118,369</b>	<b>\$ 2,094,092</b>	<b>\$ 2,212,590</b>

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Investments at fair value				
Control investments	\$	\$	\$ 564,489	\$ 564,489
Affiliate investments			46,116	46,116
Non-control/non-affiliate investments	129		1,483,487	1,483,616
	129		2,094,092	2,094,221
Investments in money market funds		118,369		118,369
<b>Total investments reported at fair value</b>	<b>\$ 129</b>	<b>\$ 118,369</b>	<b>\$ 2,094,092</b>	<b>\$ 2,212,590</b>

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 3. Portfolio Investments (Continued)**

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

	Fair Value Measurements Using Unobservable Inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-Control/ Non-Affiliate Investments	Total
Fair value as of June 30, 2012	\$ 564,489	\$ 46,116	\$ 1,483,487	\$ 2,094,092
Total realized loss (gain), net	(12,117)		(371)	(12,488)
Change in unrealized appreciation (depreciation)	(86,469)	(9,090)	13,275	(82,284)
Net realized and unrealized gain (loss)	(98,586)	(9,090)	12,904	(94,772)
Purchases of portfolio investments	241,018	30,000	2,026,413	2,297,431
Payment-in-kind interest	839	569	5,617	7,025
Amortization of discounts and premiums		677	12,947	13,624
Repayments and sales of portfolio investments	(32,455)	(26,527)	(550,811)	(609,793)
Transfers within Level 3				
Transfers in (out) of Level 3				
Fair value as of March 31, 2013	\$ 675,305	\$ 41,745	\$ 2,990,557	\$ 3,707,607

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March 31, 2013

(Unaudited)

(In thousands, except share and per share data)

**Note 3. Portfolio Investments (Continued)**

	Fair Value Measurements Using Unobservable Inputs (Level 3)							Total
	Revolver	Senior Secured Debt	Subordinated Secured Debt	Unsecured Debt	CLO Debt	Residual Interest	Equity	
Fair value as of June 30, 2012	\$ 868	\$ 1,093,019	\$ 475,147	\$ 73,195	\$ 27,717	\$ 218,009	\$ 206,137	\$ 2,094,092
Total realized loss (gain), net		20	(22,118)				9,610	(12,488)
Change in unrealized (depreciation) appreciation	(338)	(7,722)	16,626	(58)	1,825	7,824	(100,441)	(82,284)
Net realized and unrealized (loss) gain	(338)	(7,702)	(5,492)	(58)	1,825	7,824	(90,831)	(94,772)
Purchases of portfolio investments	12,200	1,191,796	591,875	114,000		347,278	40,282	2,297,431
Payment-in-kind interest		1,874	2,693	2,458				7,025
Amortization of discounts and premiums		1,451	1,985	58	302	9,828		13,624
Repayments and sales of portfolio investments	(2,800)	(401,896)	(189,349)				(15,748)	(609,793)
Transfers within Level 3								
Transfers in (out) of Level 3								
Fair value as of March 31, 2013	\$ 9,930	\$ 1,878,542	\$ 876,859	\$ 189,653	\$ 29,844	\$ 582,939	\$ 139,840	\$ 3,707,607

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

	Fair Value Measurements Using Unobservable Inputs (Level 3)			Total
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	
Fair value as of June 30, 2011	\$ 310,072	\$ 72,337	\$ 1,080,421	\$ 1,462,830
Total realized loss (gain), net	36,939		(13,227)	23,712
Change in unrealized appreciation (depreciation)	45,328	(7,529)	(29,315)	8,484
Net realized and unrealized gain (loss)	82,267	(7,529)	(42,542)	32,196
Purchases of portfolio investments	44,043	2,300	496,503	542,846
Payment-in-kind interest	219	407	3,873	4,499
Accretion of purchase discount	50	1,702	1,989	3,741
Repayments and sales of portfolio investments	(110,825)	(1,636)	(242,208)	(354,669)
Transfers within Level 3	(2,040)		2,040	
Transfers in (out) of Level 3				
Fair value as of March 31, 2012	\$ 323,786	\$ 67,581	\$ 1,300,076	\$ 1,691,443



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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 3. Portfolio Investments (Continued)**

	Fair Value Measurements Using Unobservable Inputs (Level 3)							
	Revolver	Senior Secured Debt	Subordinated Secured Debt	Unsecured Debt	CLO Debt	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2011	\$ 7,278	\$ 789,981	\$ 448,675	\$ 55,336	\$	\$	\$ 161,560	\$ 1,462,830
Total realized loss (gain), net		(221)	(14,606)				38,539	23,712
Change in unrealized (depreciation) appreciation	(113)	(22,146)	(15,145)	(162)	3,499	1,714	40,837	8,484
Net realized and unrealized (loss) gain	(113)	(22,367)	(29,751)	(162)	3,499	1,714	79,376	32,196
Purchases of portfolio investments	1,500	259,414	161,243	15,000	27,072	77,228	1,389	542,846
Payment-in-kind interest		219	3,632	648				4,499
Accretion of purchase discount	49	1,582	1,969	50	91			3,741
Repayments and sales of portfolio investments	(6,185)	(232,097)	(74,832)				(41,555)	(354,669)
Transfers within Level 3								
Transfers in (out) of Level 3								
Fair value as of March 31, 2012	\$ 2,529	\$ 796,732	\$ 510,936	\$ 70,872	\$ 30,662	\$ 78,942	\$ 200,770	\$ 1,691,443

For the nine months ended March 31, 2013 and 2012, the net change in unrealized appreciation on the investments that use Level 3 inputs was \$84,296 and \$40,889 for assets still held as of March 31, 2013 and 2012, respectively.

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

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior	\$ 1,888,472	Yield Analysis	Market Yield	5.9% - 16.6%	10.5%
Subordinated Secured	876,859	Yield Analysis	Market Yield	7.4% - 17.7%	11.6%
Unsecured	189,653	Yield Analysis	Market Yield	7.0% - 15.7%	12.3%
CLO Debt	29,844	Discounted Cash Flow	Discount Rate	11.2% - 18.9%	14.7%
CLO Residual Interest	582,939	Discounted Cash Flow	Discount Rate	10.0% - 18.5%	14.3%
Equity	134,775	EV Market Multiple Analysis	EV Market Multiple Analysis	3.5x - 9.0x	7.1x
Escrow	5,065	Discounted Cash Flow	Discount Rate	6.5% - 7.0%	6.8%

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Total \$ 3,707,607

The significant unobservable input used in the market approach of fair value measurement of our investments are the market multiples of earnings before income tax, depreciation and amortization ("EBITDA") of the comparable guideline public companies. The independent valuation firm selects a population of public companies for each investment with similar operations and attributes of the subject company. Using these guideline public companies' data, a range of multiples of enterprise value

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**Note 3. Portfolio Investments (Continued)**

to EBITDA is calculated. The independent valuation firm selects percentages from the range of multiples for purposes of determining the subject company's estimated enterprise value based on said multiple and generally the latest twelve months EBITDA of the subject company (or other meaningful measure). Significant increases or decreases in the multiple will result in an increase or decrease in enterprise value, resulting in an increase or decrease in the fair value estimate of the equity investment.

The significant unobservable input used in the income approach of fair value measurement of our investments is the discount rate used to discount the estimated future cash flows expected to be received from the underlying investment, which include both future principal and interest payments. Significant increases or decreases in the discount rate would result in a decrease or increase in the fair value measurement. Included in the consideration and selection of discount rates are the following factors: risk of default, rating of the investment and comparable company investments, and call provisions.

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

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

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

During the nine months ended March 31, 2013, the valuation methodology for Airmall changed to incorporate the income method (discounted cash flow analysis) in addition to the market method (public comparable company analysis) used in previous quarters. Management adopted the income method to incorporate current financial projections in recognition of the time elapsed since the initial acquisition of the company in June 2010. As a result of this change and in recognition of recent company performance we increased the fair value of our investment in AIRMALL to \$51,694 as of March 31, 2013, a premium of \$374 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

During the nine months ended March 31, 2013, the valuation methodology for First Tower changed to incorporate the income method (discounted cash flow analysis) in addition to the market method (public comparable company analysis) used in previous quarters. Management adopted the income method in consideration of management forecasts not previously available. As a result of this change



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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

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**Note 3. Portfolio Investments (Continued)**

and in recognition of recent company performance and current market conditions we decreased the fair value of our investment in First Tower to \$295,198 as of March 31, 2013, a discount of \$12,755 to its amortized cost, compared to \$287,953 as of June 30, 2012, equal to its amortized cost at that time.

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry. As part of the reorganization, our equity interests in Change Clean Energy Holdings, Inc. and Change Clean Energy, Inc., Freedom Marine Holdings, LLC, a subsidiary of Energy Solutions ("Freedom Marine") and Yatesville Coal Holdings, Inc., a subsidiary of Energy Solutions ("Yatesville"), was transferred to Energy Solutions to consolidate all of our energy holdings under one management team strategically expanding Energy Solutions across energy sectors.

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. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$158,687 in cash. Currently, a portion of our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were 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. During the nine months ended March 31, 2013, Energy Solutions repaid \$24,250 of senior secured debt. We received a \$16,952 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income during the nine months ended March 31, 2013. During the nine months ended March 31, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. We received no such distributions during the three months ended March 31, 2013. Energy Solutions continues to hold \$23,576 of cash for future investment and repayment of debt.

At March 31, 2013 and June 30, 2012, nine loan investments were on non-accrual status: Borga, Freedom Marine, H&M Oil and Gas, LLC, THS, formerly a subsidiary of Integrated Contract Services, Inc. ("ICS"), Manx, Stryker Energy, LLC, Wind River Resources Corp. and Wind River II Corp., Wolf and Yatesville. The loan principal of these loans amounted to \$163,018 and \$171,149 as of March 31, 2013 and June 30, 2012, respectively. The fair value of these loans amounted to \$51,053 and \$43,641 as of March 31, 2013 and June 30, 2012, respectively. The fair values of these investments represent approximately 2.0% and 2.9% of our net assets as of March 31, 2013 and June 30, 2012, respectively. For the three months ended March 31, 2013 and March 31, 2012, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$6,390 and \$6,366, respectively. For the nine months ended March 31, 2013 and March 31, 2012, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$20,146 and \$18,363, respectively.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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**Note 3. Portfolio Investments (Continued)**

During the nine months ended March 31, 2012, Deb Shops, Inc. ("Deb Shops") filed for bankruptcy and a plan for reorganization was proposed. The plan 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 and recorded a realized loss of \$14,607 during the quarter ended December 31, 2011 for the full amount of the amortized cost. The asset was completely written off when the plan of reorganization was approved.

On December 28, 2011, we made a secured debt investment of \$37,218 to support the recapitalization of NRG Manufacturing, Inc. ("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 held by us back to NRG for \$13,266, realizing a gain of \$12,131. Our remaining 408 shares of NRG common stock were sold on February 2, 2012.

In December 2012, we determined that the impairment of ICS was other-than-temporary and recorded a realized loss of \$12,198 for the amount that the amortized cost exceeded the fair market value. Our remaining investment in THS, an affiliate of ICS, was valued at zero as of March 31, 2013 and continues to provide staffing solutions for health care facilities and security staffing.

On March 28, 2013, we sold our investment in New Meatco Provisions, LLC for net proceeds of approximately \$1,965, recognizing a realized loss of \$10,814 on the sale.

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled \$781,417 and \$168,903 during the three months ended March 31, 2013 and March 31, 2012, respectively. These placements and acquisitions totaled \$2,297,431 and \$542,846 during the nine months ended March 31, 2013 and March 31, 2012, respectively. Debt repayments and sales of equity securities with a cost basis of \$108,541 and \$163,587 were received during the three months ended March 31, 2013 and March 31, 2012, respectively. These repayments and sales amounted to \$610,083 and \$330,957 during the nine months ended March 31, 2013 and March 31, 2012, respectively.

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

During the three and nine months ended March 31, 2012, we recognized \$964 and \$3,348 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. Included in the \$964 recorded during the three months ended March 31, 2012 is \$726 of normal accretion and \$238 of accelerated accretion resulting from the repayment of ROM Acquisition Corp ("ROM"). Included in the \$3,348 recorded during the nine months ended March 31, 2012 is \$2,417 of normal accretion and \$931 of accelerated accretion resulting from the repayments of Mac & Massey Holdings, LLC and ROM.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 3. Portfolio Investments (Continued)**

On November 30, 2012 we made a secured second lien investment of \$9,500 to support the recapitalization of R-V. As part of the recapitalization, we received a dividend of \$11,073 for our investment in R-V's common stock.

As of March 31, 2013, \$812 of purchase discount from the assets acquired from Patriot remains to be accreted as interest income, of which \$271 is expected to be amortized during the three months ending June 30, 2013.

As of March 31, 2013, \$2,504,674 of our loans bear interest at floating rates, \$2,474,830 of which have Libor floors ranging from 1.25% to 6.00%.

Undrawn committed revolvers incur commitment and unused fees ranging from 0.50% to 2.00%. As of March 31, 2013 and June 30, 2012, we have \$200,539 and \$180,646 of undrawn revolver commitments to our portfolio companies, respectively.

**Note 4. Revolving Credit Agreements**

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 2010 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 2010 Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$552,500 under the 2012 Facility as of March 31, 2013. 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 March 31, 2013, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**Note 4. Revolving Credit Agreements (Continued)**

equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of March 31, 2013 and June 30, 2012, we had \$430,094 and \$451,252, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was zero and \$96,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of \$552,500. At March 31, 2013, the cash and investments used as collateral for the 2012 Facility had an aggregate market value of \$718,974, which represents 28.1% 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, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at market value as of March 31, 2013. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the 2012 Facility, we incurred \$10,955 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 \$7,481 remains to be amortized as of March 31, 2013.

During the three months ended March 31, 2013 and March 31, 2012, we recorded \$2,305 and \$4,484 of interest costs and amortization of financing costs on the Syndicated Facility as interest expense, respectively. During the nine months ended March 31, 2013 and March 31, 2012, we recorded \$6,700 and \$2,706 of interest costs and amortization of financing costs on the Syndicated Facility as interest expense, respectively.

**Note 5. Senior Convertible Notes**

On December 21, 2010, we issued \$150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds (after deducting 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 March 31, 2013 of 88.0902 and 88.1429 shares, respectively, of common stock 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 March 31, 2013 was last calculated on the anniversary of the issuance (December 21, 2012) 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 is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101125 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. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our

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**Note 5. Senior Convertible Notes (Continued)**

2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012. Interest on the remaining \$167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2013 of 78.3699 and 78.5395 shares, respectively, of common stock per \$1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.76 and \$12.73 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at March 31, 2013 was last calculated on the anniversary of the issuance (February 14, 2012) 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 is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101150 per share.

On April 16, 2012, we issued \$130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds 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 March 31, 2013 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 been adjusted on the anniversary date of the issuance (April 16, 2012) 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 in effect at April 16, 2013 is 86.1156 shares of common stock per \$1 principal amount of 2017 Notes which is equivalent to the conversion price of \$11.61 per share of common stock. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10150 per share.

On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds 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 and conversion rate at March 31, 2013 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 price has not been adjusted since the issuance (August 14, 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 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10160 per share.

On December 21, 2012, we issued \$200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds following underwriting and other

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**Note 5. Senior Convertible Notes (Continued)**

expenses of approximately \$193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2013 of 79.7766 shares of common stock per \$1 principal amount of 2019 Notes, which is equivalent to a conversion price of approximately \$12.54 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (December 21 2012) and will 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 2019 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.110025 per share.

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

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

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**Note 5. Senior Convertible Notes (Continued)**

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

In connection with the issuance of the Senior Convertible Notes, we incurred \$27,300 of fees which are being amortized over the terms of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$21,633 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities as of March 31, 2013.

During the three months ended March 31, 2013 and March 31, 2012, we recorded \$13,299 and \$5,133 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense. During the nine months ended March 31, 2013 and March 31, 2012, we recorded \$32,529 and \$15,553 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense.

**Note 6. Senior Unsecured Notes**

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

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

In connection with the issuance of the 2022 Notes and 2023 Notes (collectively the "Senior Unsecured Notes"), we incurred \$7,487 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$7,254 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

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

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**Note 7. Prospect Capital InterNotes®**

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

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

During the nine months ended March 31, 2013, we issued \$178,763 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$174,260. These notes were issued with stated interest rates ranging from 4.00% to 6.63% with a weighted average rate of 5.70%. These notes mature between July 15, 2019 and March 15, 2043.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

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(In thousands, except share and per share data)

**Note 7. Prospect Capital InterNotes® (Continued)**

The bonds outstanding as of March 31, 2013 are:

Date of Issuance	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date
March 1, 2012 - March 8, 2012	\$ 5,465	6.90% - 7.00%	6.97%	March 15, 2022
April 5, 2012 - April 26, 2012	8,516	6.50% - 6.85%	6.72%	April 15, 2022
June 14, 2012	2,657	6.95%	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	6.55%	June 15, 2019
July 6, 2012 - July 26, 2012	20,928	6.20% - 6.45%	6.31%	July 15, 2019
August 2, 2012 - August 23, 2012	17,545	6.05% - 6.15%	6.09%	August 15, 2019
September 7, 2012 - September 27, 2012	29,406	5.85% - 6.00%	5.92%	September 15, 2019
October 4, 2012	7,172	5.70%	5.70%	October 19, 2019
November 23, 2012 - November 29, 2012	13,754	5.00% - 5.13%	5.09%	November 15, 2019
November 29, 2012	1,979	5.75%	5.75%	November 15, 2032
November 23, 2012 - November 29, 2012	16,437	6.50% - 6.63%	6.58%	November 15, 2042
December 6, 2012 - December 28, 2012	9,339	4.50% - 4.86%	4.73%	December 15, 2019
December 6, 2012	1,127	5.63%	5.63%	December 15, 2032
December 13, 2012 - December 28, 2012	3,702	5.00% - 5.13%	5.11%	December 15, 2030
December 6, 2012 - December 28, 2012	22,966	6.00% - 6.38%	6.21%	December 15, 2042
January 4, 2013 - January 31, 2013	4,427	4.00% - 4.375%	4.15%	January 15, 2020
January 4, 2013 - January 31, 2013	2,388	4.50% - 4.875%	4.74%	January 15, 2031
January 4, 2013 - January 31, 2013	9,338	5.50% - 5.875%	5.63%	January 15, 2043
February 4, 2013 - February 28, 2013	2,619	4.00%	4.00%	February 15, 2020
February 4, 2013 - February 28, 2013	664	4.50%	4.50%	February 15, 2031
February 4, 2013 - February 28, 2013	4,623	5.50%	5.50%	February 15, 2043
March 4, 2013 - March 28, 2013	3,832	4.00%	4.00%	March 15, 2020
March 4, 2013 - March 28, 2013	984	4.125% - 4.5%	4.24%	March 15, 2031
March 4, 2013 - March 28, 2013	4,308	5.50%	5.50%	March 15, 2043
March 14, 2013 - March 28, 2013(1)	1,225	L+3.00%	3.27%	March 15, 2023
	\$ 199,401			

(1)

Rate as of March 31, 2013 was 3.00% plus the Libor spot rate at issuance.

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$5,975 of fees which are being amortized over the term of

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the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$5,784 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three and nine months ended March 31, 2013, we recorded \$2,784 and \$5,462 of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense, respectively.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 8. Financial Instruments Disclosed, But Not Carried, At Fair Value**

The fair values of our financial liabilities disclosed, but not carried, at fair value as of March 31, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Credit facility payable(1)	\$	\$	\$	\$
Senior convertible notes(2)		894,120		894,120
Senior unsecured notes(2)	105,960	249,375		355,335
Prospect Capital InterNotes®(3)		215,191		215,191
<b>Total</b>	<b>\$ 105,960</b>	<b>\$ 1,358,686</b>	<b>\$</b>	<b>\$ 1,464,646</b>

- 
- (1) The carrying value of our credit facility payable approximates the fair value.
- (2) We use available market quotes to estimate the fair value of the Senior Convertible Notes and Senior Unsecured Notes.
- (3) The fair value of our Prospect Capital InterNotes® is estimated by discounting remaining payments using estimated current market rates.

The fair values of our financial liabilities disclosed, but not carried, at fair value as of June 30, 2012 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Credit facility payable(1)	\$	\$ 96,000	\$	\$ 96,000
Senior convertible notes(2)		456,671		456,671
Senior unsecured notes(2)	99,560			99,560
Prospect Capital InterNotes®(3)		20,280		20,280
<b>Total</b>	<b>\$ 99,560</b>	<b>\$ 572,951</b>	<b>\$</b>	<b>\$ 672,511</b>

- 
- (1) The carrying value of our credit facility payable approximates the fair value.
- (2)

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

(3)

The fair value of our Prospect Capital InterNotes® is estimated by discounting remaining payments using estimated current market rates.

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## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(Unaudited)

(In thousands, except share and per share data)

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

We issued 97,916,280 and 13,500,000 shares of our common stock during the nine months ended March 31, 2013 and March 31, 2012, respectively. The proceeds raised, the related underwriting fees, the offering expenses and the prices at which these shares were issued are as follows:

Issuances of Common Stock	Number of Shares Issued	Gross Proceeds Raised	Underwriting Fees	Offering Expenses	Average Offering Price
During the nine months ended March 31, 2013:					
July 2, 2012 July 12, 2012(1)	2,247,275	\$ 26,040	\$ 260	\$ 300	\$ 11.59
July 16, 2012	21,000,000	\$ 234,150	\$ 2,100	\$ 300	\$ 11.15
July 27, 2012	3,150,000	\$ 35,123	\$ 315	\$ 638	\$ 11.15
September 13, 2012 October 9, 2012(2)	8,010,357	\$ 94,610	\$ 946	\$ 814	\$ 11.81
November 7, 2012	35,000,000	\$ 388,500	\$ 4,550	\$ 814	\$ 11.10
December 13, 2012(3)	467,928	\$ 5,021	\$	\$	\$ 10.73
December 28, 2012(3)	897,906	\$ 9,581	\$	\$	\$ 10.67
December 31, 2012(3)	4,141,547	\$ 44,650	\$	\$	\$ 10.78
January 7, 2013 February 5, 2013(4)	10,248,051	\$ 115,315	\$ 1,153	\$ 56	\$ 11.25
February 14, 2013 March 28, 2013(5)	12,753,216	\$ 142,953	\$ 1,430	\$ 360	\$ 11.21
During the nine months ended March 31, 2012:					
July 18, 2011	1,500,000	\$ 15,225	\$ 165	\$ 137	\$ 10.15
February 28, 2012	12,000,000	\$ 131,400	\$ 1,560	\$ 360	\$ 10.95

- (1) On June 1, 2012, we established a fifth at-the-market program through which we may sell, from time to time and at our sole discretion 9,500,000 shares of our common stock. Through this program we issued 5,199,764 shares of our common stock at an average price of \$11.38 per share, raising \$59,170 of gross proceeds, from June 12, 2012 through July 12, 2012.
- (2) On September 10, 2012, we established a sixth at-the-market program through which we may sell, from time to time and at our sole discretion 9,750,000 shares of our common stock. Through this program we issued 8,010,357 shares of our common stock at an average price of \$11.81 per share, raising \$94,610 of gross proceeds, from September 13, 2012 through October 9, 2012.
- (3) On December 13, 2012, December 28, 2012 and December 31, 2012, we issued 467,928, 897,906 and 4,141,547 shares of our common stock, respectively, in conjunction with investments in controlled portfolio companies.
- (4) On December 21, 2013, we established a seventh at-the-market program through which we may sell, from time to time and at our sole discretion 17,500,000 shares of our common stock. Through this program we issued 10,248,051 shares of our common stock at an average price of \$11.25 per share, raising \$115,315 of gross proceeds, from January 7, 2013 February 5, 2013.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)**

(5)

On February 11, 2013, we established an eighth at-the-market program through which we may sell, from time to time and at our sole discretion 45,000,000 shares of our common stock. Through this program we issued 12,753,216 shares of our common stock at an average price of \$11.21 per share, raising \$142.953 of gross proceeds, from February 14, 2013 through March 28, 2013.

Our shareholders' equity accounts at March 31, 2013 and June 30, 2012 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, through a registered direct offering, through the exercise of over-allotment options on the part of the underwriters, as payment for investments, and through our dividend reinvestment plan. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value. We have not made any purchases of our common stock during the period from August 24, 2011 to March 31, 2013 pursuant to this plan. Prior to any repurchase we are required to notify shareholders of our intention to purchase our common stock. This notice lasts for six months after notice is given. The last notice was more than six months ago, therefore notice would be necessary before such repurchase could be effected.

On February 7, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110050 per share for February 2013 to holders of record on February 28, 2013 with a payment date of March 21, 2013;

\$0.110075 per share for March 2013 to holders of record on March 29, 2013 with a payment date of April 18, 2013; and

\$0.110100 per share for April 2013 to holders of record on April 30, 2013 with a payment date of May 23, 2013.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, as of March 31, 2013 we can issue up to \$2,004,070 of additional debt and equity securities in the public market.

During the nine months ended March 31, 2013 and March 31, 2012, we issued 1,077,887 and 817,241 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

At March 31, 2013, we have reserved 70,111,338 shares of our common stock for issuance upon conversion of the Senior Convertible Notes (See Note 5).

**Note 10. Other Investment Income**

Other investment income consists of structuring fees, overriding royalty interests, settlement of net profit interests, administrative agent fee, and other miscellaneous and sundry cash receipts. Income



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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 10. Other Investment Income (Continued)**

from such sources for the three and nine months ended March 31, 2013 and March 31, 2012 were as follows:

Income Source	For The Three Months Ended March 31,		For The Nine Months Ended March 31,	
	2013	2012	2013	2012
Structuring, advisory and amendment fees	\$ 9,630	\$ 15,085	\$ 34,470	\$ 22,853
Overriding royalty interests	781	23	2,121	140
Administrative agent fee	89	92	241	210
Other Investment Income	\$ 10,500	\$ 15,200	\$ 36,832	\$ 23,203

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

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

	For The Three Months Ended March 31,		For The Nine Months Ended March 31,	
	2013	2012	2013	2012
Net increase in net assets resulting from operations	\$ 44,429	\$ 50,209	\$ 138,167	\$ 154,601
Weighted average common shares outstanding	226,587,578	114,146,939	194,657,279	110,868,177
Net increase in net assets resulting from operations per common share	\$ 0.20	\$ 0.44	\$ 0.71	\$ 1.39

**Note 12. Related Party Agreements and Transactions***Investment Advisory Agreement*

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



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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 12. Related Party Agreements and Transactions (Continued)**

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

The total base management fees incurred to the favor of the Investment Adviser for the three months ended March 31, 2013 and March 31, 2012 were \$18,966, and \$8,949, respectively. The fees incurred for the nine months ended March 31, 2013 and March 31, 2012 were \$48,500, and \$25,985, respectively.

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

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

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

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

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 12. Related Party Agreements and Transactions (Continued)**

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

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

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

For the three months ended March 31, 2013 and March 31, 2012, income incentive fees of \$14,896 and \$14,518, respectively, were incurred. For the nine months ended March 31, 2013 and March 31, 2012, income incentive fees of \$58,207 and \$30,614, respectively, were incurred. No capital gains incentive fees were incurred for the three or nine months ended March 31, 2013 and March 31, 2012.

*Administration Agreement*

We have also entered into an Administration Agreement with Prospect Administration, LLC ("Prospect Administration") under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our chief compliance officer and chief financial officer and his

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

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**Note 12. Related Party Agreements and Transactions (Continued)**

staff. For the three months ended March 31, 2013 and 2012, the reimbursement was approximately \$2,957 and \$2,910, respectively. For the nine months ended March 31, 2013 and 2012, the reimbursement was approximately \$7,280 and \$5,143, respectively. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf legal and managerial assistance to those portfolio companies to which we are required to provide such assistance, for which the fees collected are used to reduce the costs reimbursed by us. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Prospect Administration is a wholly owned subsidiary of our Investment Adviser.

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

*Managerial Assistance*

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. As of March 31, 2013 and June 30, 2012, \$337 and \$165 of managerial assistance fees remain on the consolidated statements of assets and liabilities as a payable to the Administrator.

**Note 13. Litigation**

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any such material litigation as of March 31, 2013.

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## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Unaudited)

(In thousands, except share and per share data)

## Note 14. Financial Highlights

	For The Three Months Ended		For The Nine Months Ended	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
<b>Per Share Data(1):</b>				
Net asset value at beginning of period	\$ 10.81	\$ 10.69	\$ 10.83	\$ 10.36
Net investment income	0.26	0.51	1.20	1.10
Net realized (loss) gain	(0.03)	0.22	(0.06)	0.21
Net unrealized (depreciation) appreciation	(0.04)	(0.29)	(0.42)	0.08
Net increase in net assets as a result of public offerings	0.04		0.14	
Dividends declared and paid	(0.33)	(0.31)	(0.98)	(0.93)
Net asset value at end of period	\$ 10.71	\$ 10.82	\$ 10.71	\$ 10.82
Per share market value at end of period	\$ 10.91	\$ 10.98	\$ 10.91	\$ 10.98
Total return based on market value(2)	3.40%	21.47%	4.14%	19.44%
Total return based on net asset value(2)	2.07%	4.02%	7.51%	14.85%
Shares outstanding at end of period	238,628,037	121,923,931	238,628,037	121,923,931
Average weighted shares outstanding for period	226,587,578	114,146,939	194,657,279	110,868,177
<b>Ratio / Supplemental Data:</b>				
Net assets at end of period (in thousands)	\$ 2,555,513	\$ 1,318,806	\$ 2,555,513	\$ 1,318,806
Annualized ratio of operating expenses to average net assets	9.93%	12.06%	10.47%	10.55%
Annualized ratio of net operating income to average net assets	9.76%	18.65%	13.77%	13.49%

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## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(Unaudited)

(In thousands, except share and per share data)

**Note 14. Financial Highlights**

	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2009	Year Ended June 30, 2008
<b>Per Share Data(1):</b>					
Net asset value at beginning of period	\$ 10.36	\$ 10.30	\$ 12.40	\$ 14.55	\$ 15.04
Costs related to the secondary public offering					(0.07)
Net investment income	1.63	1.10	1.13	1.87	1.91
Realized gain (loss)	0.32	0.19	(0.87)	(1.24)	(0.69)
Net unrealized (depreciation) appreciation	(0.28)	0.09	0.07	0.48	(0.05)
Net (decrease) increase in net assets as a result of public offering	0.04	(0.08)	(0.85)	(2.11)	
Net increase in net assets as a result of shares issued for Patriot acquisition			0.12		
Dividends to shareholders	(1.24)	(1.24)	(1.70)	(1.15)	(1.59)
Net asset value at end of period	\$ 10.83	\$ 10.36	\$ 10.30	\$ 12.40	\$ 14.55
Per share market value at end of period	\$ 11.39	\$ 10.11	\$ 9.65	\$ 9.20	\$ 13.18
Total return based on market value(2)	27.21%	17.22%	17.66%	(18.60%)	(15.90%)
Total return based on net asset value(2)	18.03%	12.54%	(6.82%)	(0.61%)	7.84%
Shares outstanding at end of period	139,633,870	107,606,690	69,086,862	42,943,084	29,520,379
Average weighted shares outstanding for period	114,394,554	85,978,757	59,429,222	31,559,905	23,626,642
<b>Ratio / Supplemental Data:</b>					
Net assets at end of period	\$ 1,511,974	\$ 1,114,357	\$ 711,424	\$ 532,596	\$ 429,623
Portfolio turnover rate	29.06%	27.63%	21.61%	4.99%	31.07%
Annualized ratio of operating expenses to average net assets	10.73%	8.47%	7.54%	9.03%	9.62%
Annualized ratio of net investment income to average net assets	14.92%	10.60%	10.69%	13.14%	12.66%

(1) Financial highlights are based on weighted average shares.

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

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## PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(Unaudited)

(In thousands, except share and per share data)

## Note 15. Selected Quarterly Financial Data (Unaudited)

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized Gains (Losses)		Net Increase (Decrease) in Net Assets from Operations	
	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)
September 30, 2010	35,212	0.47	20,995	0.28	4,585	0.06	25,580	0.34
December 31, 2010	33,300	0.40	19,080	0.23	12,861	0.16	31,940	0.38
March 31, 2011	44,573	0.51	23,956	0.27	9,803	0.11	33,759	0.38
June 30, 2011	56,391	0.58	30,190	0.31	(3,232)	(0.03)	26,959	0.28
September 30, 2011	55,342	0.51	27,877	0.26	12,023	0.11	39,900	0.37
December 31, 2011	67,263	0.61	36,508	0.33	27,984	0.26	64,492	0.59
March 31, 2012	95,623	0.84	58,072	0.51	(7,863)	(0.07)	50,209	0.44
June 30, 2012	102,682	0.82	64,227	0.52	(27,924)	(0.22)	36,303	0.29
September 30, 2012	123,636	0.76	74,027	0.46	(26,778)	(0.17)	47,249	0.29
December 31, 2012	166,035	0.85	99,216	0.51	(52,727)	(0.27)	46,489	0.24
March 31, 2013	120,195	0.53	59,585	0.26	(15,156)	(0.07)	44,429	0.20

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

(2) As adjusted for increase in earnings from Patriot.

## Note 16. Subsequent Events

During the period from April 4, 2013 to May 2, 2013, we issued \$64,216 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$62,586.

During the period from April 1, 2013 to May 3, 2013, we sold 4,477,037 shares of our common stock at an average price of \$10.93 per share, and raised \$48,944 of gross proceeds, under the ATM Program. Net proceeds were \$48,586 after commissions to the broker-dealer on shares sold and offering costs.

On April 1, 2013, we refinanced our existing \$38,472 senior secured loans to Ajax, increasing the size of our debt investment to \$38,537.

On April 18, 2013, we issued 138,087 shares of our common stock in connection with the dividend reinvestment plan.

On April 19, 2013, we made an investment of \$43,650 to purchase 97% of the subordinated notes in Mountain View CLO 2013-I Ltd.

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On April 22, 2013, we provided \$34,375 of senior secured financing to support the carve-out acquisition of Pegasus Financial Services ("PFS") by investment funds managed by H.I.G. Capital. PFS is the world's largest processor of commissions paid by hotels to travel agencies.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2013**

**(Unaudited)**

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

**Note 16. Subsequent Events (Continued)**

On April 25, 2013, we made an investment of \$26,000 to purchase 50.9% of the subordinated notes in Brookside Mill CLO Ltd.

On April 30, 2013, we made a \$21,247 follow-on investment in APH, to acquire Lofton Place Apartments and Vista at Palma Sola, residential properties located in Florida. We invested \$3,247 of equity and \$18,000 of debt in APH.

On April 30, 2013, we sold our investment in Fischbein, LLC for net proceeds of \$3,168, recognizing a realized gain of \$2,293 on the sale. In addition, there is \$310 being held in escrow which will be recognized as additional gain when and if received.

On May 6, 2013, we sold an additional \$21,825 in aggregate principal amount of our Prospect Capital InterNotes® with a settlement date of May 9, 2013 for net proceeds of \$21,212.

On May 6, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;

\$0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013; and

\$0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and

\$0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

On May 8, 2013, we made a \$6,119 follow-on investment in APH, to acquire Arlington Park Marietta, LLC, a residential property located in Marietta, Georgia. We invested \$2,119 of equity and \$4,000 of debt in APH.



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**\$3,000,000,000**

**PROSPECT CAPITAL CORPORATION**

**Common Stock  
Preferred Stock  
Debt Securities  
Subscription Rights  
Warrants  
Units**

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$3,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities, collectively, the Securities, to provide us with additional capital. Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

We may offer shares of common stock, subscription rights, units, warrants, options or rights to acquire shares of common stock, at a discount to net asset value per share in certain circumstances. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. At our 2011 annual meeting, held on December 8, 2011, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. We are currently seeking stockholder approval at our 2012 annual meeting, to be held on December 7, 2012, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering.

Our Securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of the prospectus and a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market under the symbol "PSEC." As of October 25, 2012, the last reported sales price for our common stock was \$11.93.

Prospect Capital Corporation, or the Company, is a company that lends to and invests in middle market privately-held companies. Prospect Capital Corporation, a Maryland corporation, has been organized as a closed-end investment company since April 13, 2004 and has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act, and is a non-diversified investment company within the meaning of the 1940 Act.

Prospect Capital Management LLC, our investment adviser, manages our investments and Prospect Administration LLC, our administrator, provides the administrative services necessary for us to operate.

**Investing in our Securities involves a heightened risk of total loss of investment. Before buying any Securities, you should read the discussion of the material risks of investing in our Securities in "Risk Factors"**

**beginning on page 11 of this prospectus.**

This prospectus contains important information about us that you should know before investing in our Securities. Please read it before making an investment decision 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. You may make inquiries or obtain this information free of charge by writing to Prospect Capital Corporation at 10 East 40th Street, 44th Floor, New York, NY 10016, or by calling 212-448-0702. Our Internet address is <http://www.prospectstreet.com>. Information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website to be a part of this prospectus. You may also obtain information about us from our website and the SEC's website (<http://www.sec.gov>).

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

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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The date of this Prospectus is October 29, 2012.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time on a delayed basis, up to \$3,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities, on the terms to be determined at the time of the offering. The Securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the heading "Available Information" and the section under the heading "Risk Factors" before you make an investment decision.

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**PROSPECTUS SUMMARY**

*The following summary contains basic information about this offering. It does not contain all the information that may be important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred.*

*Information contained or incorporated by reference in this prospectus may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which are statements about the future that may be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "plans," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. 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. The matters described in "Risk Factors" and certain other factors noted throughout this prospectus and in any exhibits to the registration statement of which this prospectus is a part, constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements. The Company reminds all investors that no forward-looking statement can be relied upon as an accurate or even mostly accurate forecast because humans cannot forecast the future.*

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

**The Company**

We are a financial services company that lends to and invests in middle market privately-held companies. In this prospectus, we use the term "middle-market" to refer to companies typically with annual revenues between \$50 million and \$2 billion.

From our inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy, which consists of companies in the discovery, production, transportation, storage and use of energy resources as well as companies that sell products and services to, or acquire products and services from, these companies. Since then, we have widened our strategy to focus on other sectors of the economy and continue to broaden our portfolio holdings.

We have been organized as a closed-end investment company since April 13, 2004 and have filed an election to be treated as a business development company under the 1940 Act. We are a non-diversified company within the meaning of the 1940 Act. Our headquarters are located at 10 East 40th Street, 44th Floor, New York, NY 10016, and our telephone number is (212) 448-0702.

**The Investment Adviser**

Prospect Capital Management, an affiliate of the Company, manages our investment activities. Prospect Capital Management is an investment adviser that has been registered under the Investment Advisers Act of 1940, or the Advisers Act, since March 31, 2004. Under an investment advisory and management agreement between us and Prospect Capital Management, or the Investment Advisory Agreement, we have agreed to pay Prospect Capital Management investment advisory fees, which will consist of an annual base management fee based on our gross assets, which we define as total assets without deduction for any liabilities (and, accordingly, includes the value of assets acquired with proceeds from borrowings), as well as a two-part incentive fee based on our performance.

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**Our Investment Objective and Policies**

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We focus on making investments in private companies. We are a non-diversified company within the meaning of the 1940 Act.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments have generally ranged between \$5 million and \$75 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

We also 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."

**The Offering**

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$3,000,000,000 of our Securities, which we expect to use initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objectives.

Our Securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to a particular offering will disclose the terms of that offering, including the name or names of any agents, underwriters or dealers involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

We may sell our common stock, subscription rights, units, warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock upon approval of our directors, including a majority of our independent directors, in certain circumstances. Our stockholders approved our ability to issue warrants, options or rights to acquire our common stock at our 2008 annual meeting of stockholders for an unlimited time period and in accordance with the 1940 Act which provides that the conversion or exercise price of such warrants, options or rights may be less than net asset value per share at the date such securities are issued or at the date such securities are converted into or exercised for shares of our common stock. At our 2011 annual meeting, held on December 8, 2011, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of the stockholder approval. We are currently seeking stockholder approval at our 2012 annual meeting, to be held on December 7, 2012, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is

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limited to 25% of our then outstanding common stock immediately prior to each such offering. See "Sales of Common Stock Below Net Asset Value" in this prospectus and in the prospectus supplement, if applicable. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. We have no current intention of engaging in a rights offering, although we reserve the right to do so in the future.

Set forth below is additional information regarding the offering of our Securities:

**Use of proceeds**

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. Interest on borrowings under the credit facility is one-month LIBOR plus 275 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. See "Use of Proceeds."

**Distributions**

In June 2010, our Board of Directors approved a change in dividend policy from quarterly distributions to monthly distributions. Since that time, we have paid monthly distributions to the holders of our common stock and generally intend to continue to do so. The amount of the monthly distributions is determined by our Board of Directors and is based on our estimate of our investment company taxable income and net short-term capital gains. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the month as a result of our deliberate planning or accounting reclassifications. Distributions in excess of our current or accumulated earnings or profits constitute a return of capital and will reduce the stockholder's adjusted tax basis in such stockholder's common stock. A return of capital (1) is a return of the original amount invested, (2) does not constitute earnings or profits and (3) while such returns are initially tax free, they will have the effect of reducing the basis such that when a stockholder sells its shares, it may be subject to additional tax even if the shares are sold for less than the original purchase price. After the adjusted basis is reduced to zero, these distributions will constitute capital gains to such stockholders. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of Securities will likely pay distributions in accordance with their terms. See "Price Range of Common Stock," "Distributions" and "Material U.S. Federal Income Tax Considerations."



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<b>Taxation</b>	We have qualified and elected to be treated for U.S. federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or the Code. As a RIC, we generally do not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our qualification as a RIC and obtain RIC tax treatment, we must satisfy certain source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See "Distributions" and "Material U.S. Federal Income Tax Considerations."
<b>Dividend reinvestment plan</b>	We have a dividend reinvestment plan for our stockholders. This is an "opt out" dividend reinvestment plan. As a result, when we declare a dividend, the dividends are automatically reinvested in additional shares of our common stock, unless a stockholder specifically "opts out" of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan."
<b>The NASDAQ Global Select Market Symbol</b>	PSEC
<b>Anti-takeover provisions</b>	Our charter and bylaws, as well as certain statutory and regulatory requirements, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. See "Description Of Our Capital Stock."
<b>Management arrangements</b>	Prospect Capital Management serves as our investment adviser. Prospect Administration serves as our administrator. For a description of Prospect Capital Management, Prospect Administration and our contractual arrangements with these companies, see "Business Management Services Investment Advisory Agreement," and "Business Management Services Administration Agreement."

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**Risk factors**

Investment in our Securities involves certain risks relating to our structure and investment objective that should be considered by prospective purchasers of our Securities. In addition, as a business development company, our portfolio primarily includes securities issued by privately-held companies. These investments generally involve a high degree of business and financial risk, and are less liquid than public securities. We are required to mark the carrying value of our investments to fair value on a quarterly basis, and economic events, market conditions and events affecting individual portfolio companies can result in quarter-to-quarter mark-downs and mark-ups of the value of individual investments that collectively can materially affect our net asset value, or NAV. Also, our determinations of fair value of privately-held securities may differ materially from the values that would exist if there was a ready market for these investments. A large number of entities compete for the same kind of investment opportunities as we do. Moreover, our business requires a substantial amount of capital to operate and to grow and we seek additional capital from external sources. In addition, the failure to qualify as a RIC eligible for pass-through tax treatment under the Code on income distributed to stockholders could have a materially adverse effect on the total return, if any, obtainable from an investment in our Securities. See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Securities.

**Plan of distribution**

We may offer, from time to time, up to \$3,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities on the terms to be determined at the time of the offering. Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. We may not sell Securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such Securities. For more information, see "Plan of Distribution."

**Fees and Expenses**

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$1.351 billion. We do not intend to issue preferred stock during the year. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the

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Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

**Stockholder transaction expenses:**

Sales load (as a percentage of offering price)(1)	3.00%
Offering expenses borne by the Company (as a percentage of offering price)(2)	0.20%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)(4)	3.20%

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

Management fees(5)	3.63%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	3.09%

Total advisory fees	6.72%
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Total interest expense(7)	4.30%
Acquired Fund Fees and Expenses(8)	0.01%
Other expenses(9)	1.43%

Total annual expenses(6)(9)	12.46%
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**Example**

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed \$1.351 billion, that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 102.68	\$ 239.20	\$ 369.51	\$ 669.92

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

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

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- (1) In the event that the Securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the estimated applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the estimated offering expenses borne by us as a percentage of the offering price.
- (3) The expenses of the dividend reinvestment plan are included in "other expenses."
- (4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.
- (5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non-investment purposes, for which purpose we have not and have no intention of borrowing). Although we have no intent to borrow the entire amount available under our line of credit, assuming that we borrowed \$1.351 billion, the 2% management fee of gross assets equals approximately 3.62% of net assets. Based on our borrowings as of October 25, 2012 of \$853.2 million, the 2% management fee of gross assets equals approximately 2.97% of net assets. See "Business Management Services Investment Advisory Agreement" and footnote 6 below.
- (6) Based on the incentive fee paid during our fiscal year ended June 30, 2012, all of which consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre-incentive fee income. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services Investment Advisory Agreement" in this prospectus.
- (7) On December 21, 2010, the Company issued \$150 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the 2015 Notes. See "Business General" and "Risk Factors Risks Related to our Business" for more detail on the 2015 Notes. On February 18, 2011, the Company issued \$172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the 2016 Notes. See "Business General" and "Risk Factors Risks Related to our Business" for more detail on the 2016 Notes. On April 16, 2012, the Company issued \$130 million in aggregate principal amount of 5.375% Convertible Senior Notes due 2017, which we refer to as the 2017 Notes. On August 14, 2012, the Company issued \$200 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018, which we refer to as the 2018 Notes. The 2015 Notes, 2016 Notes, 2017 Notes and 2018 Notes are referred to collectively as the Senior Convertible Notes. On May 1, 2012, the Company issued \$100 million in aggregate principal amount of 6.95% Senior Notes due 2022, which we refer to as the 2022 Notes. Since February 2012, the Company issued \$95.7 million in aggregate principal amount of our Prospect Capital InterNotes®. The Senior Convertible Notes, the 2022 Notes and the Prospect Capital InterNotes® are referred to collectively as the Notes.
- (8) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of June 30, 2012. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may

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be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately \$1.512 billion as of June 30, 2012.

(9)

"Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended June 30, 2012 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement."

Table of Contents**SELECTED CONDENSED FINANCIAL DATA**

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this 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 36 for more information.

	<b>For the Year/Period Ended June 30,</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands except data relating to shares, per share and number of portfolio companies)</b>				
<b>Performance Data:</b>					
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
<b>Total investment income</b>	<b>320,910</b>	<b>169,476</b>	<b>114,559</b>	<b>100,481</b>	<b>79,402</b>
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)
<b>Total expenses</b>	<b>(134,226)</b>	<b>(75,255)</b>	<b>(47,369)</b>	<b>(41,318)</b>	<b>(34,289)</b>
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
<b>Per Share Data:</b>					
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
<b>Assets and Liabilities Data:</b>					
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
<b>Total assets</b>	<b>2,255,524</b>	<b>1,549,317</b>	<b>832,695</b>	<b>667,025</b>	<b>541,778</b>
Amount drawn on credit facility	96,000	84,200	100,300	124,800	91,167
Senior Convertible Notes	447,500	322,500			
2022 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
<b>Total liabilities</b>	<b>743,280</b>	<b>434,960</b>	<b>121,271</b>	<b>134,429</b>	<b>112,155</b>
Net assets	\$ 1,511,974	\$ 1,114,357	\$ 711,424	\$ 532,596	\$ 429,623
<b>Investment Activity Data:</b>					

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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**

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

**Risks Relating To Our Business**

***We may suffer credit losses.***

Investment in small and middle-market companies is highly speculative and involves a high degree of risk of credit loss. These risks are likely to increase during volatile economic periods, such as the US and many other economies have recently been experiencing. See "Risks Related to Our Investments."

***Our financial condition and results of operations will depend on our ability to manage our future growth effectively.***

Prospect Capital Management has been registered as an investment adviser since March 31, 2004, and we have been organized as a closed-end investment company since April 13, 2004. Our ability to achieve our investment objective depends on our ability to grow, which depends, in turn, on our Investment Adviser's ability to continue to identify, analyze, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Investment Adviser's structuring of investments, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. As we continue to grow, Prospect Capital Management will need to continue to hire, train, supervise and manage new employees. Failure to manage our future growth effectively could have a materially adverse effect on our business, financial condition and results of operations.

***We are dependent upon Prospect Capital Management's key management personnel for our future success.***

We depend on the diligence, skill and network of business contacts of the senior management of our Investment Adviser. We also depend, to a significant extent, on our Investment Adviser's access to the investment professionals and the information and deal flow generated by these investment professionals in the course of their investment and portfolio management activities. The senior management team of the Investment Adviser evaluates, negotiates, structures, closes, monitors and services our investments. Our success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior management team could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain our investment adviser or that we will continue to have access to its investment professionals or its information and deal flow.

***We operate in a highly competitive market for investment opportunities.***

A large number of entities compete with us to make the types of investments that we make in target companies. We compete with other business development companies, public and private funds, commercial and investment banks and commercial financing companies. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in,



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including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified, a trend we expect to continue.

Many of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more or fuller relationships with borrowers and sponsors than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. We cannot assure you that the competitive pressures we face will not have a materially adverse effect on our business, financial condition and results of operations. Also, as a result of existing and increasing competition and our competitors ability to provide a total package solution, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We do not seek to compete primarily based on the interest rates that we offer, and we believe that some of our competitors make loans with interest rates that are comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

***Most of our portfolio investments are recorded at fair value as determined in good faith by our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments.***

A large percentage of our portfolio investments consist of securities of privately held companies. Hence, market quotations are generally not readily available for determining the fair values of such investments. The determination of fair value, and thus the amount of unrealized losses we may incur in any year, is to a degree subjective, and the Investment Adviser has a conflict of interest in making the determination. We value these securities quarterly at fair value as determined in good faith by our Board of Directors based on input from our Investment Adviser, our Administrator, third party independent valuation firms and our audit committee. Our Board of Directors utilizes the services of independent valuation firms to aid it in determining the fair value of any securities. The types of factors that may be considered in determining the fair values of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow, current market interest rates and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, the valuations may fluctuate significantly over short periods of time due to changes in current market conditions. The determinations of fair value by our Board of Directors may differ materially from the values that would have been used if an active market and market quotations existed for these investments. Our NAV could be adversely affected if the determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

In addition, decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Unprecedented declines in prices and liquidity in the corporate debt markets experienced during the recent financial crises resulted in significant net unrealized depreciation in our portfolio in the past. The effect of all of these factors on our portfolio reduced our NAV by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may continue to suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations. We have no policy regarding holding a minimum level of liquid assets. As such, a high

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percentage of our portfolio generally is not liquid at any given point in time. See " The lack of liquidity may adversely affect our business."

***Senior securities, including debt, expose us to additional risks, including the typical risks associated with leverage and could adversely affect our business, financial condition and results of operations.***

We currently use our revolving credit facility to leverage our portfolio and we expect in the future to borrow from and issue senior debt securities to banks and other lenders and may securitize certain of our portfolio investments. We also have the Notes outstanding, which are a form of leverage and are senior in payment to our common stock.

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

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

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

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

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

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

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

Making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;

The occurrence of an event of default if we fail to comply with the financial and/or other restrictive covenants contained in our debt agreements, including the credit agreement and each indenture governing the Notes, which event of default could result in all or some of our debt becoming immediately due and payable;

Reduced 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;

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

Reduced 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.

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For example, the amount we may borrow under our revolving credit facility is determined, in part, by the fair value of our investments. If the fair value of our investments declines, we may be forced to sell investments at a loss to maintain compliance with our borrowing limits. Other debt facilities we may enter into in the future may contain similar provisions. Any such forced sales would reduce our

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NAV and also make it difficult for the net asset value to recover. Our Investment Adviser and our Board of Directors in their best judgment nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks.

In addition, our ability to meet our payment and other obligations of the Notes and our credit facility 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 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 the Notes, 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.

*Illustration.* The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$2.6 billion in total assets, (ii) an average cost of funds of 5.93%, (iii) \$800 million in debt outstanding and (iv) \$1.8 billion of shareholders' equity.

<b>Assumed Return on Our Portfolio (net of expenses)</b>	<b>(10)%</b>	<b>(5)%</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
Corresponding Return to Stockholder	(17.1)%	(9.9)%	(2.6)%	4.6%	11.8%

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

***The Senior Convertible Notes and the 2022 Notes present other risks to holders of our common stock, including the possibility that such Notes could discourage an acquisition of the Company by a third party and accounting uncertainty.***

Certain provisions of the Senior Convertible Notes and the 2022 Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Senior Convertible Notes and the 2022 Notes will have the right, at their option, to require us to repurchase all of their Senior Convertible Notes and the 2022 Notes or any portion of the principal amount of such Senior Convertible Notes and the 2022 Notes in integral multiples of \$1,000, in the case of the Senior Convertible Notes, and \$25, in the case of the 2022 Notes. We may also be required to increase the conversion rate or provide for conversion into the acquirer's capital stock in the event of certain fundamental changes with respect to the Senior Convertible Notes. These provisions could discourage an acquisition of us by a third party.

The accounting for convertible debt securities is subject to frequent scrutiny by the accounting regulatory bodies and is subject to change. We cannot predict if or when any such change could be made and any such change could have an adverse impact on our reported or future financial results. Any such impacts could adversely affect the market price of our common stock.

***We fund a portion of our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.***

Borrowings and other types of financing, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities.

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Our lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our assets increases, then leveraging would cause the net asset value to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

***We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.***

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

***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.***

The agreement governing our credit facility requires us to comply with certain financial and operational covenants. These covenants include:

restrictions on the level of indebtedness that we are permitted to incur in relation to the value of our assets;

restrictions on our ability to incur liens; and

maintenance of a minimum level of stockholders' equity.

As of October 25, 2012, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

***Failure to extend our existing credit facility, the revolving period of which is currently scheduled to expire on March 27, 2015, could have a material adverse effect on our results of operations and financial position and our ability to pay expenses and make distributions.***

The revolving period for our credit facility with a syndicate of lenders is currently scheduled to terminate on March 27, 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. If the credit facility is not renewed or extended by the participant banks by March 27, 2015, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on March 27, 2017. At October 25, 2012 we had \$10.0 million of outstanding borrowings under our credit facility. Interest on borrowings under the credit facility is

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one-month LIBOR plus 275 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The credit facility requires us to pledge assets as collateral in order to borrow under the credit facility. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the two-year term-out period through one or more of the following: (1) principal collections on our securities pledged under the facility, (2) at our option, interest collections on our securities pledged under the facility and cash collections on our securities not pledged under the facility, or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position and may force us to decrease or stop paying certain expenses and making distributions until the facility is repaid. In addition, our stock price could decline significantly, we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

***Failure to refinance our existing Notes, could have a material adverse effect on our results of operations and financial position.***

Our Notes mature at various dates from December 15, 2015 to November 15, 2022. If we are unable to refinance our Notes or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding at maturity under the facility during the two-year term-out period through one or more of the following: (1) borrowing additional funds under our then current credit facility, (2) issuance of additional common stock or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position. In addition, our stock price could decline significantly; we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

***Changes in interest rates may affect our cost of capital and net investment income.***

A significant portion of the debt investments we make bears interest at fixed rates and the value of these investments could be negatively affected by increases in market interest rates. In addition, as the interest rate on our revolving credit facility is at a variable rate based on an index, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, a significant increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which would reduce our net investment income.

***We need to raise additional capital to grow because we must distribute most of our income.***

We need additional capital to fund growth in our investments. A reduction in the availability of new capital could limit our ability to grow. We must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders to maintain our status as a regulated investment company, or RIC, for U.S. federal income tax purposes. As a result, such earnings are not available to fund investment originations. We have sought additional capital by borrowing from financial institutions and may issue debt securities or additional equity securities. If we fail to obtain funds from such sources or from other sources to fund our investments, we could be limited in our ability to grow, which may have an adverse effect on the value of our common stock. In addition, as a business development company, we are generally required to maintain a ratio of total assets to total borrowings and other senior securities of at least 200%, which may restrict our ability to borrow in certain circumstances.

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***The lack of liquidity in our investments may adversely affect our business.***

We generally make investments in private companies. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or our Investment Adviser has material non-public information regarding such portfolio company.

***We may experience fluctuations in our quarterly results.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest or dividend rates payable on the debt or equity securities we hold, the default rate on debt securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Our most recent NAV was calculated as of June 30, 2012 and our NAV when calculated as of September 30, 2012 may be higher or lower.***

Our most recently estimated NAV per share is \$10.83 determined by us as of June 30, 2012. NAV per share as of September 30, 2012, may be higher or lower than \$10.83 based on potential changes in valuations, issuances of securities and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2012. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, our Investment Adviser, our Administrator and the audit committee of our Board of Directors.

***Potential conflicts of interest could impact our investment returns.***

Our executive officers and directors, and the executive officers of Prospect Capital Management may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our best interests or those of our stockholders. Nevertheless, it is possible that new investment opportunities that meet our investment objective may come to the attention of one of these entities in connection with another investment advisory client or program, and, if so, such opportunity might not be offered, or otherwise made available, to us. However, as an investment adviser, Prospect Capital Management has a fiduciary obligation to act in the best interests of its clients, including us. To that end, if Prospect Capital Management or its affiliates manage any additional investment vehicles or client accounts in the future, Prospect Capital Management will endeavor to allocate investment opportunities in a fair and equitable manner over time so as not to discriminate unfairly against any client. If Prospect Capital Management chooses to establish another investment fund in the future, when the investment professionals of Prospect Capital Management identify an investment, they will have to choose which investment fund should make the investment.

In the course of our investing activities, under the Investment Advisory Agreement we pay base management and incentive fees to Prospect Capital Management, and reimburse Prospect Capital Management for certain expenses it incurs. As a result of the Investment Advisory Agreement, there may be times when the senior management team of Prospect Capital Management has interests that differ from those of our stockholders, giving rise to a conflict.

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Prospect Capital Management receives a quarterly income incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income incentive fee is subject to a fixed quarterly hurdle rate before providing an income incentive fee return to Prospect Capital Management. This fixed hurdle rate was determined when then current interest rates were relatively low on a historical basis. Thus, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that Prospect Capital Management will receive an income incentive fee than if interest rates on our investments remained constant or decreased. Subject to the receipt of any requisite stockholder approval under the 1940 Act, our Board of Directors may adjust the hurdle rate by amending the Investment Advisory Agreement.

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that has a deferred interest feature, it is possible that interest accrued under such loan that has previously been included in the calculation of the income incentive fee will become uncollectible. If this happens, Prospect Capital Management is not required to reimburse us for any such income incentive fee payments. If we do not have sufficient liquid assets to pay this incentive fee or distributions to stockholders on such accrued income, we may be required to liquidate assets in order to do so. This fee structure could give rise to a conflict of interest for Prospect Capital Management to the extent that it may encourage Prospect Capital Management to favor debt financings that provide for deferred interest, rather than current cash payments of interest.

We have entered into a royalty-free license agreement with Prospect Capital Management. Under this agreement, Prospect Capital Management agrees to grant us a non-exclusive license to use the name "Prospect Capital." Under the license agreement, we have the right to use the "Prospect Capital" name for so long as Prospect Capital Management or one of its affiliates remains our investment adviser. In addition, we rent office space from Prospect Administration, an affiliate of Prospect Capital Management, and pay Prospect Administration our allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations as Administrator under the Administration Agreement, including rent and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. This may create conflicts of interest that our Board of Directors monitors.

***Our incentive fee could induce Prospect Capital Management to make speculative investments.***

The incentive fee payable by us to Prospect Capital Management may create an incentive for our Investment Adviser to make investments on our behalf that are more speculative or involve more risk than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable is determined (calculated as a percentage of the return on invested capital) may encourage the Investment Adviser to use leverage to increase the return on our investments. Increased use of leverage and this increased risk of replacement of that leverage at maturity, would increase the likelihood of default, which would disfavor holders of our common stock. Similarly, because the Investment Adviser will receive an incentive fee based, in part, upon net capital gains realized on our investments, the Investment Adviser may invest more than would otherwise be appropriate in companies whose securities are likely to yield capital gains, as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to Prospect Capital Management could create an incentive for our Investment Adviser to invest on our behalf in instruments, such as zero coupon bonds, that have a deferred interest feature. Under these investments, we would accrue interest income over the life of the investment but would not receive payments in cash on the investment until the end of the term. Our net investment income used to calculate the income incentive fee, however, includes accrued interest.



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For example, accrued interest, if any, on our investments in zero coupon bonds will be included in the calculation of our incentive fee, even though we will not receive any cash interest payments in respect of payment on the bond until its maturity date. Thus, a portion of this incentive fee would be based on income that we may not have yet received in cash in the event of default may never receive.

***We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.***

Our investment adviser is entitled to incentive compensation for each fiscal quarter based, in part, on our pre-incentive fee net investment income if any, for the immediately preceding calendar quarter above a performance threshold for that quarter. Accordingly, since the performance threshold is based on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay Prospect Capital Management incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

***Changes in the laws or regulations governing our business or the businesses of our portfolio companies and any failure by us or our portfolio companies to comply with these laws or regulations, could negatively affect the profitability of our operations or of our portfolio companies.***

We are subject to changing rules and regulations of federal and state governments, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and The NASDAQ Global Select Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations. In particular, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply, or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, financial condition and results of operations.

***Foreign and domestic political risk may adversely affect our business.***

We are exposed to political risk to the extent that Prospect Capital Management, on its behalf and subject to its investment guidelines, transacts in securities in the U.S. and foreign markets. The governments in any of these jurisdictions could impose restrictions, regulations or other measures, which may have a material adverse impact on our strategy.

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

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

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

Given the recent extreme volatility and dislocation in the capital markets, many business development companies have faced, and may in the future face, a challenging environment in which to raise capital. Recent significant changes in the capital markets affecting our ability to raise capital have affected the pace of our investment activity. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

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

On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

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

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

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

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

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

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these EU "peripheral nations" to continue to service their sovereign debt obligations. Despite assistance packages to Greece, Ireland and Portugal, the creation of a joint EU-IMF European Financial Stability Facility in May 2010, and a recently announced plan to expand financial assistance to Greece, uncertainty over the outcome of the EU governments' financial support programs and worries about sovereign finances persist. Risks and ongoing concerns about the debt crisis in Europe could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may continue to affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and

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home prices, among other factors. There can be no assurance that the market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely affected.

**Risks Relating To Our Operation As A Business Development Company**

*A failure on our part to maintain our status as a business development company would significantly reduce our operating flexibility.*

If we do not continue to qualify as a business development company, we might be regulated as a registered closed-end investment company under the 1940 Act; our failure to qualify as a BDC would make us subject to additional regulatory requirements, which may significantly decrease our operating flexibility by limiting our ability to employ leverage and issue common stock.

*If we fail to qualify as a RIC, we will have to pay corporate-level taxes on our income, and our income available for distribution would be reduced.*

To maintain our qualification for U.S. federal income tax purposes as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code, and obtain RIC tax treatment, we must meet certain source of income, asset diversification and annual distribution requirements.

The source of income requirement is satisfied if we derive at least 90% of our annual gross income from interest, dividends, payments with respect to certain securities loans, gains from the sale or other disposition of securities or options thereon or foreign currencies, or other income derived with respect to our business of investing in such securities or currencies, and net income from interests in "qualified publicly traded partnerships," as defined in the Code.

The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify for RIC tax treatment. If we are unable to obtain cash from other sources, we may fail to qualify for RIC tax treatment and, thus, may be subject to corporate-level income tax on all of our taxable income.

To maintain our qualification as a RIC, we must also meet certain asset diversification requirements at the end of each quarter of our taxable year. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses.

If we fail to qualify as a RIC for any reason or become subject to corporate income tax, the resulting corporate taxes would substantially reduce our net assets, the amount of income available for distribution, and the actual amount of our distributions. Such a failure would have a materially adverse effect on us and our stockholders. For additional information regarding asset coverage ratio and RIC requirements, see "Regulation Senior Securities" and "Material U.S. Federal Income Tax Considerations".

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***We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.***

For U.S. federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount or payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such amounts could be significant relative to our overall investment activities. We also may be required to include in taxable income certain other amounts that we do not receive in cash. While we focus primarily on investments that will generate a current cash return, our investment portfolio currently includes, and we may continue to invest in, securities that do not pay some or all of their return in periodic current cash distributions.

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the income incentive fee will become uncollectible.

Since in some cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty distributing at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, as required to maintain RIC tax treatment. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC treatment and thus become subject to corporate-level income tax. See "Regulation Senior Securities" and "Material U.S. Federal Income Tax Considerations".

***Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital.***

We have incurred indebtedness under our revolving credit facility and through the issuance of the Notes and, in the future, may issue preferred stock and/or borrow additional money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test, which would prohibit us from paying dividends and could prohibit us from qualifying as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments or sell additional shares of common stock at a time when such sales may be disadvantageous in order to repay a portion of our indebtedness. In addition, issuance of additional common stock could dilute the percentage ownership of our current stockholders in us.

As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share without stockholder approval. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain circumstances, including if (i)(1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders' best interests and (b) in consultation with any underwriter or underwriters of the offering,

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make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at our annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share. At our 2011 annual meeting of stockholders held on December 8, 2011, we obtained the first method of approval from our shareholders to sell subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, an unlimited number of shares of common stock at any discount to net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. We are currently seeking stockholder approval at our 2012 annual meeting, to be held on December 7, 2012, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering. We will not sell shares of common stock under a prospectus supplement to the registration statement (the "current registration statement") if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. See "If we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material" discussed below.

To generate cash for funding new investments, we pledged a substantial portion of our portfolio investments under our revolving credit facility. These assets are not available to secure other sources of funding or for securitization. Our ability to obtain additional secured or unsecured financing on attractive terms in the future is uncertain.

Alternatively, we may securitize our future loans to generate cash for funding new investments. See " Securitization of our assets subjects us to various risks."

***Securitization of our assets subjects us to various risks.***

We may securitize assets to generate cash for funding new investments. We refer to the term securitize to describe a form of leverage under which a company such as us (sometimes referred to as an "originator" or "sponsor") transfers income producing assets to a single-purpose, bankruptcy-remote subsidiary (also referred to as a "special purpose entity" or SPE), which is established solely for the purpose of holding such assets and entering into a structured finance transaction. The SPE then issues notes secured by such assets. The special purpose entity may issue the notes in the capital markets either publicly or privately to a variety of investors, including banks, non-bank financial institutions and other investors. There may be a single class of notes or multiple classes of notes, the most senior of which carries less credit risk and the most junior of which may carry substantially the same credit risk as the equity of the SPE.

An important aspect of most debt securitization transactions is that the sale and/or contribution of assets into the SPE be considered a true sale and/or contribution for accounting purposes and that a reviewing court would not consolidate the SPE with the operations of the originator in the event of the originator's bankruptcy based on equitable principles. Viewed as a whole, a debt securitization seeks to lower risk to the note purchasers by isolating the assets collateralizing the securitization in an SPE that is not subject to the credit and bankruptcy risks of the originator. As a result of this perceived reduction of risk, debt securitization transactions frequently achieve lower overall leverage costs for originators as compared to traditional secured lending transactions.

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In accordance with the above description, to securitize loans, we may create a wholly owned subsidiary and contribute a pool of our assets to such subsidiary. The SPE may be funded with, among other things, whole loans or interests from other pools and such loans may or may not be rated. The SPE would then sell its notes to purchasers who we would expect to be willing to accept a lower interest rate and the absence of any recourse against us to invest in a pool of income producing assets to which none of our creditors would have access. We would retain all or a portion of the equity in the SPE. An inability to successfully securitize portions of our portfolio or otherwise leverage our portfolio through secured and unsecured borrowings could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings, if any. However, the successful securitization of portions of our portfolio exposes us to a risk of loss for the equity we retain in the SPE and might expose us to greater risk on our remaining portfolio because the assets we retain may tend to be those that are riskier and more likely to generate losses. A successful securitization may also impose financial and operating covenants that restrict our business activities and may include limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. The 1940 Act may also impose restrictions on the structure of any securitizations.

Interests we hold in the SPE, if any, will be subordinated to the other interests issued by the SPE. As such, we will only receive cash distributions on such interests if the SPE has made all cash interest and other required payments on all other interests it has issued. In addition, our subordinated interests will likely be unsecured and rank behind all of the secured creditors, known or unknown, of the SPE, including the holders of the senior interests it has issued. Consequently, to the extent that the value of the SPE's portfolio of assets has been reduced as a result of conditions in the credit markets, or as a result of defaults, the value of the subordinated interests we retain would be reduced. Securitization imposes on us the same risks as borrowing except that our risk in a securitization is limited to the amount of subordinated interests we retain, whereas in a borrowing or debt issuance by us directly we would be at risk for the entire amount of the borrowing or debt issuance.

Generally, we would expect the SPE not to be consolidated with us and in that event our only interest will be the value of our retained subordinated interest and the income allocated to us, which may be more or less than the cash we receive from the SPE, and none of the SPE's liabilities will be reflected as our liabilities. If the assets of the SPE are not consolidated with our assets and liabilities, then our interest in the SPE may be deemed not to be a qualifying asset for purposes of determining whether 70% of our assets are qualifying assets and the leverage incurred by such SPE may or may not be treated as borrowings by us for purposes of the requirement that we not issue senior securities in an amount in excess of our net assets.

We may also engage in transactions utilizing SPEs and securitization techniques where the assets sold or contributed to the SPE remain on our balance sheet for accounting purposes. If, for example, we sell the assets to the SPE with recourse or provide a guarantee or other credit support to the SPE, its assets will remain on our balance sheet. Consolidation would also generally result if we, in consultation with the SEC, determine that consolidation would result in a more accurate reflection of our assets, liabilities and results of operations. In these structures, the risks will be essentially the same as in other securitization transactions but the assets will remain our assets for purposes of the limitations described above on investing in assets that are not qualifying assets and the leverage incurred by the SPE will be treated as borrowings incurred by us for purposes of our limitation on the issuance of senior securities.

Our Investment Adviser may have conflicts of interest with respect to potential securitizations in as much as securitizations that are not consolidated may reduce our assets for purposes of determining its investment advisory fee although in some circumstances our investment adviser may be paid certain fees for managing the assets of the SPE so as to reduce or eliminate any potential bias against securitizations.