

Kelley Karen Dunn
Form 4
December 17, 2012

FORM 4

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

Check this box
if no longer
subject to
Section 16.
Form 4 or
Form 5
obligations
may continue.
See Instruction
1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF
SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB
Number: 3235-0287
Expires: January 31,
2005
Estimated average
burden hours per
response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Kelley Karen Dunn

(Last) (First) (Middle)

1555 PEACHTREE STREET
NE., SUITE 1800

(Street)

ATLANTA, GA 30309

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading
Symbol
Invesco Ltd. [IVZ]

3. Date of Earliest Transaction
(Month/Day/Year)
12/14/2012

4. If Amendment, Date Original
Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to
Issuer

(Check all applicable)

____ Director ____ 10% Owner
____X____ Officer (give title below) ____ Other (specify below)

Senior Managing Director

6. Individual or Joint/Group Filing(Check
Applicable Line)
____X____ Form filed by One Reporting Person
____ Form filed by More than One Reporting
Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
							\$
Common Shares	12/14/2012		S ⁽¹⁾		75,000	D	25.4 ⁽²⁾
							819,635
							D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of
information contained in this form are not
required to respond unless the form
displays a currently valid OMB control
number.**

SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

Edgar Filing: Kelley Karen Dunn - Form 4

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

Reporting Owners

Reporting Owner Name / Address	Relationships
	Director 10% Owner Officer Other
Kelley Karen Dunn 1555 PEACHTREE STREET NE, SUITE 1800 ATLANTA, GA 30309	Senior Managing Director

Signatures

Jonathan J. Doyle, as Attorney
in Fact 12/17/2012

__Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person effected multiple same-way open market sale transactions on the same day at different prices through a trade order executed by a broker-dealer. The reporting person has reported on a single line all such transactions that occurred within a one dollar price range. The reporting person hereby undertakes to provide upon request by the Securities and Exchange Commission staff, the issuer or a shareholder of the issuer, full information regarding the number of shares sold at each separate price.

(2) Reflects the weighted average purchase price. The range of prices for such transaction was \$25.350 to \$25.422.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 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 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

Edgar Filing: Kelley Karen Dunn - Form 4

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" on page S-59.

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.

S-17

Table of Contents

**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.

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 \$3,038,808 and \$2,094,221 as of December 31, 2012 and June 30, 2012, respectively. During the six months ended December 31, 2012, our net cost of investments increased by \$1,017,744, or 48.5%, as a result of 38 new investments, twelve follow-on investments and two revolver advances of \$1,491,741, accrued of payment-in-kind interest of \$4,048, structuring fees of \$24,273 and amortization of discounts and premiums of \$11,422, while we received full repayment on sixteen investments, sold three investments, impaired one investment, and received several partial prepayments, amortization payments and a revolver repayment totaling \$501,542.

Compared to the end of last fiscal year (ended June 30, 2012), net assets increased by \$814,661 or 53.9% during the six months ended December 31, 2012, from \$1,511,974 to \$2,326,635. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$827,989, dividend reinvestments of \$7,027, and \$93,738 from operations. These increases, in turn, were offset by \$114,093 in dividend distributions to our stockholders. The \$93,738 increase in net assets resulting from operations is net of the following: net investment income of \$173,243, net realized loss on investments of \$6,348, and a decrease in net assets due to changes in net unrealized depreciation of investments of \$73,157.

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. 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.

Table of Contents

Second Quarter Highlights

Investment Transactions

On October 3, 2012, we made a senior secured investment of \$21,500 to support the acquisition of CP Well Testing, LLC ("CP Well"), 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 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 11, 2012, we made a secured second lien investment of \$12,000 in Deltek, Inc. ("Deltek"), 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 ("Gulf Coast"), a preferred provider of value-added 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 16, 2012, Blue Coat Systems, Inc. ("Blue Coat") repaid the \$25,000 loan receivable to us.

On October 18, 2012, we made a follow-on senior secured debt investment of \$20,000 in First Tower Holdings of Delaware LLC ("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 18, 2012, Hi-Tech Testing Service, Inc. and Wilson Inspection X-Ray Services, Inc. ("Hi-Tech") repaid the \$7,200 loan receivable to us.

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

On October 24, 2012, we made an investment of \$7,809 in APH Property Holdings, LLC ("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 8.50% and interest in kind of 2.0% and has a final maturity of October 24, 2020.

On October 31, 2012, Shearer's Foods, Inc. ("Shearer's") repaid the \$37,999 loan receivable to us.

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 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. ("Potters") repaid the \$15,000 loan receivable to us.

On November 9, 2012 we made a secured second lien investment of \$22,000 to support the recapitalization of EIG Investors Corp ("EIG"). Concurrent with the financing, we received a

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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 15, 2012, Renaissance Learning, Inc. ("Renaissance") repaid the \$6,000 loan receivable to us.

On November 26, 2012 we made a secured second lien investment of \$22,000 in The Petroleum Place, Inc. ("Petroleum"), 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 Industries, Inc. ("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 3, 2012, VanDeMark Chemicals, Inc. ("VanDeMark") repaid the \$29,658 loan receivable to us.

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

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

On December 13, 2012, we completed a \$33,921 recapitalization of CCPI, Inc. ("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 Inc. ("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. ("Prince Mineral"), 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. ("Focus Brands"). 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 ("Coverall"), 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.

On December 17, 2012, we made a \$38,150 first-lien follow-on investment in Material Handling Services, LLC, d/b/a/ Total Fleet Solutions ("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 BNN Holdings Corp ("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. ("Grocery"), to support the recapitalization of a retailer of food, beverages and general

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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. ("Taco Bueno"), 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 Holdings, Inc. ("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, ST Products, LLC ("STP") repaid the \$23,162 loan receivable to us.

On December 21, 2012, SG Acquisition, Inc. ("Safe-Guard") repaid the \$83,242 loan receivable to us.

On December 21, 2012, we made a \$10,000 senior secured second-lien follow-on investment in Seaton Corp ("Seaton"). 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. ("Lasership"), 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 ("FPG"), 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 Metals, Inc. ("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. ("Aderant"), 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 \$9,593 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 8.5% 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. ("TransFirst"), 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.

On December 28, 2012, we completed a \$47,900 recapitalization of Credit Central Holdings, LLC ("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.

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

On December 28, 2012, we made a \$3,600 follow-on subordinated unsecured debt investment in Ajax Rolled Ring & Machine, Inc. ("Ajax"). The unsecured note bears interest in cash at the greater of 11.5% or Libor plus 8.50% and interest in kind of 6.0% 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 ("Spartan"), 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 ("System One"), 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 9.50% and has a final maturity of December 31, 2018.

On December 31, 2012, we funded a recapitalization of Valley Electric Co. of Mt. Vernon, Inc. ("Valley") with \$52,098 of combined debt and equity financing. Through the recapitalization, we acquired a controlling interest in Valley for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. The first lien note issued to Valley 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 I, Inc. ("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 ("Ryan"). 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%, and has a final maturity of June 30, 2018.

Equity Issuance

On September 10, 2012, we entered into a second equity distribution agreement with KeyBanc Capital Markets Inc. ("KeyBanc") relating to sales by us through KeyBanc, 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 net of commissions to the broker-dealer on shares sold and offering costs.

On October 24, 2012, November 22, 2012 and December 20, 2012, we issued shares of our common stock in connection with the dividend reinvestment plan of 83,200, 84,904 and 100,552, respectively.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, as of December 31, 2012 we can issue up to \$2,546,746 of additional debt and equity securities in the public market.

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. (See *Recent Developments*.) No sales were made under this program prior to December 31, 2012.

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.

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

Dividend

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

\$0.110000 per share for December 2012 (record date of December 31, 2012 and payment date of January 23, 2013); and

\$0.110025 per share for January 2013 (record date of January 31, 2013 and payment date of February 20, 2013).

These distributions replace the dividends for December 2012 and January 2013 that were previously announced on November 7, 2012.

Credit Facility

On December 19, 2012, we closed an increase of \$35,000 to our commitments to our credit facility. The commitments to the credit facility now stand at \$552,500.

Debt Issuance

During the period from October 4, 2012 to December 28 2012, we issued approximately \$76,476 in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$74,210, as follows:

Date of Issuance	Principal Amount	Interest Rate	Maturity Date
October 4, 2012	7,172	5.70%	October 15, 2019
November 23, 2012	10,018	5.13%	November 15, 2019
November 23, 2012	10,171	6.63%	November 15, 2042
November 29, 2012	3,736	5.00%	November 15, 2019
November 29, 2012	1,979	5.75%	November 15, 2032
November 29, 2012	6,266	6.50%	November 15, 2042
December 6, 2012	3,859	4.88%	December 15, 2019
December 6, 2012	1,127	5.63%	December 15, 2032
December 6, 2012	8,203	6.38%	December 15, 2042
December 13, 2012	1,822	4.75%	December 15, 2019
December 13, 2012	916	5.25%	December 15, 2030
December 13, 2012	3,474	6.25%	December 15, 2042
December 20, 2012	1,678	4.63%	December 15, 2019
December 20, 2012	1,314	5.13%	December 15, 2030
December 20, 2012	6,449	6.13%	December 15, 2042
December 28, 2012	1,980	4.50%	December 15, 2019
December 28, 2012	1,472	5.00%	December 15, 2030
December 28, 2012	4,840	6.00%	December 15, 2042

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 December 31, 2012 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 rate for the 2019 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.110025 per share.

Table of Contents**Investment Holdings**

As of December 31, 2012, we continue to pursue our diversified investment strategy. At December 31 2012, approximately \$3,038,808 or 130.6% of our net assets are invested in 106 long-term portfolio investments and CLOs and 18.5% of our net assets are invested in money market funds.

During the six months ended December 31, 2012, we originated \$1,531,484 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 increased from 13.9% as of June 30, 2012 to 14.7% as of December 31, 2012 across all performing interest bearing investments. This increase is due to the acquisition of First Tower and increased investments in CLOs. 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 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 December 31, 2012, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax, APH, AWCNC, LLC, Borga, Inc., CCPI, Credit Central, Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Delaware, Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), R-V, The Healing Staff, Inc. ("THS"), Valley and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in Biotronic, Boxercraft Incorporated and Smart, LLC.

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

Level of Control	December 31, 2012				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 666,360	21.4%	\$ 649,380	21.4%	\$ 518,015	24.7%	\$ 564,489	27.0%
Affiliate	48,659	1.6%	48,266	1.6%	44,229	2.1%	46,116	2.2%
Non-control/Non-affiliate	2,402,038	77.0%	2,341,162	77.0%	1,537,069	73.2%	1,483,616	70.8%
Total Portfolio	\$ 3,117,057	100.0%	\$ 3,038,808	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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

Type of Investment	Cost	December 31, 2012		Percent of Portfolio	Cost	June 30, 2012		Percent of Portfolio
		Percent of Portfolio	Fair Value			Percent of Portfolio	Fair Value	
Revolving Line of Credit	\$ 7,195	0.2%	\$ 6,872	0.2%	\$ 1,145	0.1%	\$ 868	0.0%
Senior Secured Debt	1,574,781	50.5%	1,508,131	49.6%	1,146,454	54.6%	1,088,019	52.0%
Subordinated Secured Debt	801,771	25.7%	755,831	24.9%	536,900	25.6%	480,147	22.9%
Subordinated Unsecured Debt	173,241	5.6%	173,781	5.7%	72,617	3.5%	73,195	3.5%
CLO Debt	27,459	0.9%	29,389	1.0%	27,258	1.3%	27,717	1.3%
CLO Residual Interest	405,300	13.0%	408,050	13.4%	214,559	10.2%	218,009	10.4%
Preferred Stock	31,323	1.0%	18,276	0.6%	31,323	1.5%	29,155	1.4%
Common Stock	92,384	3.0%	106,731	3.5%	61,459	2.9%	137,198	6.6%
Membership Interests	1,442	0.0%	8,798	0.3%	5,437	0.2%	13,844	0.7%
Overriding Royalty Interests		%	1,552	0.1%		%	1,623	0.1%
Escrows Receivable		%	14,427	0.5%		%	17,686	0.8%
Warrants	2,161	0.1%	6,970	0.2%	2,161	0.1%	6,760	0.3%
Total Portfolio	\$ 3,117,057	100.0%	\$ 3,038,808	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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

Level of Control	Cost	December 31, 2012		Percent of Debt Securities	Cost	June 30, 2012		Percent of Debt Securities
		Percent of Debt Securities	Fair Value			Percent of Debt Securities	Fair Value	
First Lien	\$ 1,581,976	52.9%	\$ 1,515,003	52.5%	\$ 1,147,599	57.4%	\$ 1,088,887	57.6%
Second Lien	801,771	26.8%	755,831	26.2%	536,900	26.9%	480,147	25.4%
Unsecured	173,241	5.8%	173,781	6.0%	72,617	3.6%	73,195	3.9%
CLO Residual Interest	405,300	13.6%	408,050	14.2%	214,559	10.7%	218,009	11.6%
CLO Debt	27,459	0.9%	29,389	1.0%	27,258	1.4%	27,717	1.5%
Total Debt Securities	\$ 2,989,747	100.0%	\$ 2,882,054	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 December 31, 2012 and June 30, 2012, respectively:

Geographic Location	Cost	December 31, 2012		Percent of Portfolio	Cost	June 30, 2012		Percent of Portfolio
		Percent of Portfolio	Fair Value			Percent of Portfolio	Fair Value	
Canada	\$ 86,118	2.8%	\$ 86,118	2.8%	\$ 15,134	0.7%	\$ 17,040	0.8%
Cayman Islands	432,759	13.9%	437,439	14.4%	241,817	11.5%	245,726	11.7%
Ireland	14,922	0.5%	15,000	0.5%	14,918	0.7%	15,000	0.7%
Midwest US	599,959	19.2%	553,373	18.2%	427,430	20.4%	377,139	18.0%
The Netherlands		%	3	0.0%		%		%
Northeast US	401,001	12.9%	416,084	13.7%	293,181	14.0%	313,437	15.0%
Southeast US	759,717	24.4%	751,514	24.7%	642,984	30.6%	634,945	30.4%
Southwest US	277,047	8.9%	254,442	8.4%	193,627	9.2%	234,433	11.2%
Western US	545,534	17.4%	524,835	17.3%	270,222	12.9%	256,501	12.2%

Edgar Filing: Kelley Karen Dunn - Form 4

Total Portfolio	\$ 3,117,057	100.0%	\$ 3,038,808	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%
-----------------	--------------	--------	--------------	--------	--------------	--------	--------------	--------

S-25

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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

Industry	December 31, 2012				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%	\$ 56	0.0%	\$ 56	0.0%
Automobile / Auto Finance	28,034	0.9%	28,255	0.9%	32,806	1.6%	32,478	1.6%
Business Services	181,084	5.8%	181,175	6.0%	3,164	0.2%	3,288	0.2%
Chemicals	28,084	0.9%	28,087	0.9%	58,104	2.8%	58,104	2.8%
Commercial Services	124,366	4.0%	124,255	4.1%	80,418	3.8%	80,407	3.8%
Construction and Engineering	52,098	1.7%	52,098	1.7%		%		%
Consumer Finance	373,184	12.0%	375,640	12.5%	305,521	14.6%	305,521	14.6%
Consumer Services	258,768	8.3%	260,650	8.6%	146,335	7.0%	147,809	7.1%
Contracting		%		%	15,949	0.8%		%
Diversified Financial Services	451,302	14.4%	455,982	15.0%	260,219	12.3%	264,128	12.6%
Diversified / Conglomerate Service		%		%		%	35	0.0%
Durable Consumer Products	299,838	9.6%	299,116	9.8%	153,327	7.3%	152,862	7.3%
Ecological	141	0.0%	282	0.0%	141	0.0%	240	0.0%
Electronics		%	151	0.0%		%	144	0.0%
Energy	72,770	2.3%	69,900	2.3%	63,245	3.0%	126,868	6.1%
Food Products	144,215	4.6%	137,056	4.5%	101,975	4.9%	96,146	4.5%
Healthcare	204,415	6.6%	201,530	6.7%	141,990	6.8%	143,561	6.9%
Insurance		%		%	83,461	4.0%	83,461	4.0%
Machinery	1,271	0.0%	3,351	0.1%	4,684	0.2%	6,485	0.3%
Manufacturing	139,756	4.5%	160,807	5.3%	95,191	4.5%	127,127	6.1%
Media	146,335	4.7%	140,335	4.6%	165,866	7.9%	161,843	7.7%
Metal Services and Minerals	41,997	1.3%	41,997	1.4%		%		%
Oil and Gas Equipment Services		%		%	7,188	0.3%	7,391	0.4%
Oil and Gas Production	152,124	4.9%	55,385	1.8%	130,928	6.2%	38,993	1.9%
Personal and Nondurable Consumer Products	39,351	1.3%	40,426	1.3%	39,351	1.8%	39,968	1.9%
Production Services		%		%	268	0.0%	2,040	0.1%
Property Management	51,470	1.7%	49,752	1.6%	51,770	2.5%	47,982	2.2%
Real Estate	17,420	0.6%	17,420	0.6%		%		%
Retail	17,213	0.6%	17,591	0.6%	63	0.0%	129	0.0%
Software & Computer Services	106,481	3.4%	106,963	3.5%	53,908	2.6%	54,711	2.6%
Specialty Minerals	38,500	1.2%	43,536	1.4%	37,732	1.8%	44,562	2.1%
Textiles and Leather	15,930	0.5%	15,732	0.5%	15,123	0.7%	17,161	0.8%
Transportation	130,854	4.2%	131,336	4.3%	50,530	2.4%	50,777	2.4%
Total Portfolio	\$ 3,117,057	100.0%	\$ 3,038,808	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

S-26

Table of Contents

Portfolio Investment Activity

During the six months ended December 31, 2012, we acquired \$1,368,378 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$140,486, funded \$7,150 of revolver advances, recorded PIK interest of \$4,048 and amortization of discounts and premiums of \$11,422, resulting in gross investment originations of \$1,531,484. The more significant of 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 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, 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, 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. Capital, LLC ("H.I.G."). The new company, Arctic Glacier U.S.A., Inc. ("Arctic"), 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, 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. ("New Century"), a leading transportation and

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

logistics company. 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. 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 United Sporting Companies, Inc. ("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, 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, a preferred provider of value-added 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.

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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 Petroleum, 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 XI.

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, 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. 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, 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.

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.

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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, 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 Taco Bueno, 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. 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, 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, 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, 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, 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.

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.

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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, 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, 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 with \$52,098 of combined debt and equity financing. Through the recapitalization, we acquired a controlling interest in Valley for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. The first lien note issued to Valley 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. 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.

During the six months ended December 31, 2012, we closed-out fifteen 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 repaid the \$3,425 loan receivable to us.

On October 5, 2012, 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 repaid the \$25,000 loan receivable to us.

On October 18, 2012, Hi-Tech 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 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 Foods, Inc., receiving \$6,022 of net proceeds and realizing a gain of approximately \$2,027 on the redemption.

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

Table of Contents

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

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

On December 7, 2012, Hudson repaid the \$6,267 loan receivable to us.

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

On December 21, 2012, Safe-Guard repaid the \$83,242 loan receivable to us.

In addition to the repayments noted above, during the six months ended December 31, 2012 we received principal amortization payments of \$8,698 on several loans, and \$38,175 of partial prepayments primarily related to Byrider Systems Acquisition Corp, Capstone Logistics, LLC ("Capstone"), Cargo Airport Services USA, LLC, Energy Solutions, NMMB and Northwestern.

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

As of December 31, 2012, \$1,082 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 March 31, 2013.

During the three and six months ended December 31, 2011, we recognized \$1,548 and \$2,385 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. Included in the \$1,548 recorded during the three months ended December 31, 2011 is \$854 of normal accretion and \$694 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC ("Mac & Massey"). Included in the \$2,385 recorded during the six months ended December 31, 2011 is \$1,691 of normal accretion and \$694 of accelerated accretion resulting from the repayment of Mac & Massey.

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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

Quarter-End	Acquisitions(1)	Dispositions(2)
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	\$ 4,769,375	\$ 1,665,069

(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.

In determining the fair value of our portfolio investments at December 31, 2012 the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$2,933,332 to \$3,175,164, excluding money market investments.

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,

Explanation of Responses:

Table of Contents

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 \$3,044,279, excluding money market investments.

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

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

AIRMALL USA, Inc.

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

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

The Board of Directors increased the fair value of our investment in AIRMALL to \$49,752 as of December 31, 2012, a discount of \$1,718 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

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.

Table of Contents

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 December 31, 2012, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was \$19,910 and our subordinated debt was \$18,635 as of December 31, 2012.

The Board of Directors increased the fair value of our investment in Ajax to \$43,416 as of December 31, 2012, a reduction of \$1,186 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 its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. A portion of our loans to Energy Solutions remains outstanding and Energy Solutions will continue as a portfolio company of Prospect managing other energy-related subsidiaries. During the quarter ended December 31, 2012, Energy Solutions repaid \$20,000 of senior secured debt. We received a \$14,144 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income during the three months ended December 31, 2012. The cash balances of Energy Solutions continue to collateralize our remaining loan positions. As of December 31, 2012, these cash balances were \$32,187, of which \$5,007 is currently held in escrow.

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 \$39,900 for our debt and equity positions at December 31, 2012 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At December 31, 2012 and June 30, 2012, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at \$2,870 and \$63,623 above its amortized cost, respectively. We received distributions of \$20,570 and \$53,820 from Energy Solutions that were recorded as dividend income during the three and six months ended December 31, 2012, respectively.

First Tower Holdings of Delaware LLC

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

Table of Contents

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 December 31, 2012, First Tower had total assets of approximately \$482,396 including \$435,038 of finance receivables net of unearned charges. As of December 31, 2012, First Tower's total debt outstanding to parties senior to us was \$257,096.

The Board of Directors increased the fair value of our investment in First Tower to \$310,409 as of December 31, 2012, a premium of \$2,456 to its amortized cost, compared to \$287,953 as of June 30, 2012, equal to its amortized cost at that time.

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 and security 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. 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 December 31, 2012 and June 30, 2012, respectively, a reduction of \$3,750 from its amortized cost.

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").

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

Conquest's assets consisted primarily of coalbed methane reserves in the Cherokee Basin. AEH was formed in 2006 and is the owner of 100% of the outstanding equity interests of East Cumberland L.L.C., a provider of outsourced mine site development and construction services for coal production companies operating in Southern Appalachia, and C&S Oilfield and Pipeline Construction, a provider of support services to companies engaged in the exploration and production of oil and natural gas.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. The assets of the three companies were combined under new common management. We funded \$2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of \$750 in Manx to support ongoing operations. On June 30, 2012, Manx assigned the membership interests of Coalbed and AEH to Wolf 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 December 31, 2012 and June 30, 2012, respectively, a reduction of \$11,027 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.

The Board of Directors increased the fair value of our investment in Wolf to \$939 as of December 31, 2012, a reduction of \$7,052 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. One of our portfolio companies, Ajax, experienced such volatility and experienced meaningful fluctuations in valuation during the six months ended December 31, 2012. The valuation of Ajax decreased due to declining operating results. The value of our equity position in Ajax decreased to \$4,871 as of December 31, 2012, a discount of \$1,186 to its cost, compared to the \$11,151 unrealized gain recorded at June 30, 2012. Seven of the other controlled investments have been valued at discounts to the original investment. Six of the control investments are valued at the original investment amounts or higher. Overall, at December 31, 2012, the control investments are valued at \$16,980 below their amortized cost.

We hold three affiliate investments at December 31, 2012. The affiliate investments reported strong operating results with valuations remaining relatively consistent from June 30, 2012. Overall, at December 31, 2012, affiliate investments are valued at \$393 above their amortized cost.

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

Table of Contents

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 December 31, 2012 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 December 31, 2012, other Non-control/Non-affiliate investments are valued at \$17,784 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 December 31, 2012 and June 30, 2012:

	As of December 31, 2012		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	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
InterNotes®	\$ 164,993	\$ 164,993	\$ 20,638	\$ 20,638

The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® at December 31, 2012:

	Total	Payments Due by Period			
		Less than 1 year	1-3 Years	3-5 Years	After 5 Years
Revolving Credit Facility	\$	\$	\$	\$	\$
Senior Convertible Notes	847,500		150,000	297,500	400,000
Senior Unsecured Notes	100,000				100,000
InterNotes®	164,993				164,993
Total contractual obligations	\$ 1,112,493	\$	\$ 150,000	\$ 297,500	\$ 664,993

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 December 31, 2012 we can issue up to \$2,546,746 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.

Table of Contents

Revolving Credit Facility

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

On March 27, 2012, we renegotiated the Syndicated Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$552,500 under the 2012 Facility as of December 31, 2012. 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 December 31, 2012, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of December 31, 2012 and June 30, 2012, we had \$277,127 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 December 31, 2012, the investments used as collateral for the 2012 Facility had an aggregate market value of \$642,128, which represents 27.6% 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 December 31, 2012. 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 \$11,126 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$8,646 remains to be amortized.

During the three months ended December 31, 2012 and December 31, 2011, we recorded \$2,227 and \$4,689 of interest costs and amortization of financing costs on the Syndicated Facility as interest expense, respectively. During the six months ended December 31, 2012 and December 31, 2011, we recorded \$4,395 and \$8,299 of interest costs and amortization of financing costs on the Syndicated Facility as interest expense, respectively.

Table of Contents

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 December 31, 2012 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 December 31, 2012 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% of par, 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 December 31, 2012 of 78.3699 and 78.3835 shares, respectively, of common stock per \$1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.76 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at December 31, 2012 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 December 31, 2012 of 85.8442 shares of common stock per \$1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately \$11.65 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (April 16, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101500 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 December 31, 2012 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

Table of Contents

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 December 31, 2012 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 2015 Notes and 2016 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

Table of Contents

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 \$27,327 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$22,753 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three months ended December 31, 2012 and December 31, 2011, we recorded \$10,564 and \$5,070 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense. During the six months ended December 31, 2012 and December 31, 2011, we recorded \$19,231 and \$10,420 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense, respectively.

Senior Unsecured Notes

On May 1, 2012, we issued \$100,000 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for net proceeds net of offering expenses of \$97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

In connection with the issuance of the 2022 Notes, we incurred \$3,337 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$3,172 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three and six months ended December 31, 2012, we recorded \$1,814 and \$3,621 of interest costs and amortization of financing costs on the 2022 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 the Company from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement.

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

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$4,566 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$4,441 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the six months ended December 31, 2012, we issued \$144,355 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$140,901.

As of December 31, 2012, we have issued \$164,993 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$161,103. These notes were issued with stated

Table of Contents

interest rates ranging from 4.50% to 7.00% with a weighted average rate of 6.03%. These notes mature between June 15, 2019 and December 15, 2042. We issued an additional \$18,003 in aggregate principal amount of our Prospect Capital InterNotes® subsequent to December 31, 2012. (See *Recent Developments*.)

The bonds outstanding as of December 31, 2012 are:

Date of Issuance	Principal Amount	Interest Rate	Maturity Date
March 1, 2012	\$ 4,000	7.00%	March 15, 2022
March 8, 2012	1,465	6.90%	March 15, 2022
April 5, 2012	4,000	6.85%	April 15, 2022
April 12, 2012	2,462	6.70%	April 15, 2022
April 26, 2012	2,054	6.50%	April 15, 2022
June 14, 2012	2,657	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	June 15, 2019
July 6, 2012	2,778	6.45%	July 15, 2019
July 12, 2012	5,673	6.35%	July 15, 2019
July 19, 2012	6,810	6.30%	July 15, 2019
July 26, 2012	5,667	6.20%	July 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019
September 7, 2012	5,981	6.00%	September 15, 2019
September 13, 2012	5,879	5.95%	September 15, 2019
September 20, 2012	8,600	5.90%	September 15, 2019
September 27, 2012	8,946	5.85%	September 15, 2019
October 4, 2012	7,172	5.70%	October 15, 2019
November 23, 2012	10,018	5.13%	November 15, 2019
November 23, 2012	10,171	6.63%	November 15, 2042
November 29, 2012	3,736	5.00%	November 15, 2019
November 29, 2012	1,979	5.75%	November 15, 2032
November 29, 2012	6,266	6.50%	November 15, 2042
December 6, 2012	3,859	4.88%	December 15, 2019
December 6, 2012	1,127	5.63%	December 15, 2032
December 6, 2012	8,203	6.38%	December 15, 2042
December 13, 2012	1,822	4.75%	December 15, 2019
December 13, 2012	916	5.25%	December 15, 2030
December 13, 2012	3,474	6.25%	December 15, 2042
December 20, 2012	1,678	4.63%	December 15, 2019
December 20, 2012	1,314	5.13%	December 15, 2030
December 20, 2012	6,449	6.13%	December 15, 2042
December 28, 2012	1,980	4.50%	December 15, 2019
December 28, 2012	1,472	5.00%	December 15, 2030
December 28, 2012	4,840	6.00%	December 15, 2042

\$ 164,993

Table of Contents**Net Asset Value**

During the six months ended December 31, 2012, we raised \$827,989 of additional equity, net of offering costs, by issuing 74,915,012 shares of our common stock. The following table shows the calculation of net asset value per share as of December 31, 2012 and June 30, 2012:

	As of December 31, 2012		As of June 30, 2012	
Net Assets	\$	2,326,635	\$	1,511,974
Shares of common stock outstanding		215,173,410		139,633,870
Net asset value per share	\$	10.81	\$	10.83

At December 31, 2012, we had 215,173,410 shares of our common stock issued and outstanding.

Results of Operations

Net increase in net assets resulting from operations for the three months ended December 31, 2012 and 2011 was \$46,489 and \$64,492, respectively, representing \$0.24 and \$0.59 per weighted average share, respectively. During the three months ended December 31, 2012, we experienced net unrealized and realized losses of \$52,727 or approximately \$0.27 per weighted average share primarily from reductions in the fair value of our investments in Ajax, Energy Solutions, H&M and R-V. Net investment income for the three months ended December 31, 2012 and 2011 was \$99,216 and \$36,508, respectively, representing \$0.51 and \$0.33 per weighted average share, respectively. This increase is primarily due to an increase in dividend income received from Energy Solutions and R-V. During the three months ended December 31, 2011, we experienced net unrealized and realized gains of \$27,984 or approximately \$0.26 per weighted average share primarily from significant write-ups of our investments in Energy Solutions and NRG Manufacturing, Inc. ("NRG"), and our sale of NRG common stock for which we realized a gain of \$12,131. These instances of appreciation were partially offset by unrealized depreciation in Babson CLO Ltd 2011-I ("Babson 2011"), Biotronic, NMMB and Stryker.

Net increase in net assets resulting from operations for the six months ended December 31, 2012 and 2011 was \$93,738 and \$104,392, respectively, representing \$0.52 and \$0.96 per weighted average share, respectively. During the six months ended December 31, 2012, we experienced net unrealized and realized losses of \$79,505 or approximately \$0.44 per weighted average share primarily from reductions in the fair value of our investments in Ajax, Energy Solutions, H&M and R-V. Net investment income for the six months ended December 31, 2012 and 2011 was \$173,243 and \$64,385, respectively, representing \$0.97 and \$0.59 per weighted average share, respectively. This increase is primarily due to an increase in dividend income received from Energy Solutions and R-V. During the six months ended December 31, 2011, we experienced net unrealized and realized gains of \$40,007 or approximately \$0.37 per weighted average share primarily from significant write-ups of our investments in Ajax, Energy Solutions, NRG and R-V, and our sale of NRG common stock for which we realized a gain of \$12,131. These instances of unrealized appreciation were partially offset by unrealized depreciation in Biotronic and Stryker, 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.

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.

Table of Contents**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 \$166,035 and \$67,263 for the three months ended December 31, 2012 and December 31, 2011, respectively. Investment income was \$289,671 and \$122,605 for the six months ended, December 31, 2012 and December 31, 2011, respectively. During the three and six months ended December 31, 2012, 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 December 31,		For The Six Months Ended December 31,	
	2012	2011	2012	2011
Interest income	\$ 116,866	\$ 46,136	\$ 195,176	\$ 88,523
Dividend income	31,955	19,029	68,163	26,079
Other income	17,214	2,098	26,332	8,003
Total investment income	\$ 166,035	\$ 67,263	\$ 289,671	\$ 122,605
Average principal of interest bearing investments	\$ 2,536,141	\$ 1,441,590	\$ 2,341,813	\$ 1,393,343
Weighted-average interest rate earned	18.03%	12.52%	16.31%	12.43%

Average interest income producing assets have increased from \$1,441,590 for the three months ended December 31, 2011 to \$2,536,141 for the three months ended December 31, 2012. The average yield on interest bearing assets increased from 12.52% for the three months ended December 31, 2011 to 18.03% for the three months ended December 31, 2012. The increase in annual returns is primarily due to the acquisition of First Tower, an increase in our investment in CLOs and the \$14,144 make-whole fee we received from Energy Solutions. Excluding these adjustments, our annual return would have been 13.47% for the three months ended December 31, 2012.

Average interest income producing assets have increased from \$1,393,343 for the six months ended December 31, 2011 to \$2,341,813 for the six months ended December 31, 2012. The average yield on interest bearing assets increased from 12.43% for the six months ended December 31, 2011 to 16.31% for the six months ended December 31, 2012. The increase in annual returns is primarily due to the acquisition of First Tower, an increase in our investment in CLOs and the \$14,144 make-whole fee we received from Energy Solutions. Excluding these adjustments, our annual return would have been 13.05% for the six months ended December 31, 2012.

Investment income is also generated from dividends and other income. Dividend income increased from \$19,029 for the three months ended December 31, 2011 to \$31,955 for the three months ended

Table of Contents

December 31, 2012. Dividend income increased from \$26,079 for the six months ended December 31, 2011 to \$68,163 for the six months ended December 31, 2012. The increase in dividend income is primarily attributed to an increase in the level of dividends received during the respective three and six month periods from our investments in Energy Solutions and R-V. We received dividends from Energy Solutions of \$20,570 and \$10,800 during the three months ended December 31, 2012 and 2011, respectively. We received dividends from Energy Solutions of \$53,820 and \$14,300 during the six months ended December 31, 2012 and 2011, respectively. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us will be required to be recognized as dividend income, in accordance with ASC 946, Financial Services Investment Companies, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition. We received dividends from R-V of \$11,147 and \$134 during the three months ended December 31, 2012 and December 31, 2011, respectively. The \$11,147 of dividends received from R-V during the three months ended December 31, 2012 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. There were no dividends received from R-V during the three months ended September 30, 2012 and September 30, 2011, respectively. The increases in dividend income from our investments in ESHI and R-V were offset by a reduction in dividends received from NRG. We received dividends from NRG of \$6,711 and \$9,911 during the three and six months ended December 31, 2011, respectively. There were no dividends from NRG received during the three and six months ended December 31, 2012, respectively, as this asset 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 December 31, 2011 to the three months ended December 31, 2012, income from other sources increased from \$2,098 to \$17,214. This \$15,116 increase is primarily due to \$15,314 of structuring fees recognized during the three months ended December 31, 2012 primarily from the Credit Central, Ryan and USC originations, in comparison to \$1,837 of structuring fees recognized during the three months ended December 31, 2011.

Comparing the six months ended December 31, 2011 to the six months ended December 31, 2012, income from other sources increased from \$8,003 to \$26,332. This \$18,329 increase is primarily due to \$24,273 of structuring fees recognized during the six months ended December 31, 2012 primarily from the Arctic, InterDent, New Century, Progrexion, Ryan and USC originations, in comparison to \$7,356 of structuring fees recognized during the six months ended December 31, 2011 primarily related to the Capstone and Totes Isotoner Corporation originations.

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 \$66,819 and \$30,755 for the three months ended December 31, 2012 and December 31, 2011, respectively. Operating expenses were \$116,428 and \$58,220 for the six months ended December 31, 2012 and December 31, 2011, respectively.

The base investment advisory expenses were \$16,306 and \$8,825 for the three months ended December 31, 2012 and December 31, 2011, respectively. The base investment advisory expenses were \$29,534 and \$17,036 for the six months ended December 31, 2012 and December 31, 2011, respectively.

Table of Contents

This increase is directly related to our growth in total assets. For the three months ended December 31, 2012 and December 31, 2011, we incurred \$24,804 and \$9,127, respectively, of income incentive fees. For the six months ended December 31, 2012 and December 31, 2011, we incurred \$43,311 and \$16,096, respectively, of income incentive fees. The \$15,677 and \$27,215 increase in the income incentive fee for the respective three-month and six-month periods are driven by an increase in pre-incentive fee net investment income of \$78,385 and \$136,073 for the respective three-month and six-month periods 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 six months ended December 31, 2012, we incurred \$16,414 and \$29,925, respectively, of expenses related to our Syndicated Facility, InterNotes®, Senior Unsecured Notes and Senior Convertible Notes. This compares with expenses of \$9,759 and \$18,719 incurred during the three and six months ended December 31, 2011, 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 December 31,		For The Six Months Ended December 31,	
	2012	2011	2012	2011
Interest on borrowings	\$ 13,140	\$ 7,029	\$ 23,610	\$ 13,248
Amortization of deferred financing costs	1,950	2,406	3,724	4,494
Commitment and other fees	1,324	324	2,591	977
Total	\$ 16,414	\$ 9,759	\$ 29,925	\$ 18,719
Weighted-average debt outstanding	\$ 890,902	\$ 547,558	\$ 800,789	\$ 496,998
Weighted-average interest rate including amortization of deferred financing costs	6.78%	6.89%	6.83%	7.14%
Facility amount at beginning of period	\$ 517,500	\$ 400,000	\$ 492,500	\$ 325,000

The increase in interest expense for the three and six months ended December 31, 2012 is primarily due to the issuance of the 2022 notes and the Senior Convertible Notes on April 16, 2012, August 14, 2012 and December 21, 2012, for which we incurred \$6,730 and \$11,652 of collective interest expense, respectively.

As our asset base has grown and we have added complexity to our capital raising activities, we have commensurately increased the size of our administrative and financial staff, accounting for a significant increase in the overhead allocation from Prospect Administration. Over the last two years, Prospect Administration has increased staffing levels along with costs passed through. The allocation of overhead expense from Prospect Administration was \$2,139 and \$1,117 for the three months ended December 31, 2012 and December 31, 2011, respectively. The allocation of overhead expense from Prospect Administration was \$4,323 and \$2,233 for the six months ended December 31, 2012 and December 31, 2011, respectively. 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 management fees, interest costs, excise tax and allocation of overhead from Prospect Administration ("Other Operating Expenses"), were \$2,656 and \$1,927 for the

Table of Contents

three months ended December 31, 2012 and 2011, respectively. Other Operating Expenses were \$4,835 and \$4,136 for the six months ended December 31, 2012 and 2011, respectively.

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Our net investment income ("NII") was \$99,216 and \$36,508 for the three months ended December 31, 2012 and December 31, 2011, respectively, or \$0.51 per share and \$0.33 per share, respectively. The \$62,708 increase for the three months ended December 31, 2012 is due to increases of \$70,730, \$12,926 and \$15,116 in interest, dividend and other income, respectively, due to the increased size of our portfolio for which we have recognized additional interest income, structuring fees from new originations and an increased level of dividends received from our investments in Energy Solutions and R-V. The \$62,708 increase in investment income is offset by an increase in operating expenses of \$36,064, primarily due to a \$23,158 increase in advisory fees due to the growing size of our portfolio and related income, and \$6,655 of additional interest and credit facility expenses. At December 31, 2012, we have elected to retain a portion of our annual taxable income and have accrued \$4,500 for the excise tax that will be paid with the filing of the return. The per share increase for the three months ended December 31, 2012 is primarily due to an increase in the level of dividends received from our investment in Energy Solutions and R-V of \$9,770 and \$11,013, respectively.

Our NII was \$173,243 and \$64,385 for the six months ended December 31, 2012 and December 31, 2011, respectively, or \$0.97 per share and \$0.59 per share, respectively. The \$108,858 increase for the six months ended December 31, 2012 is primarily due to increases of \$106,653, \$42,084 and \$18,329 in interest, dividend and other income, respectively, due to the increased size of our portfolio for which we have recognized additional interest income and an increased level of dividends received primarily from our investments in Energy Solutions and R-V. The \$167,066 increase in investment income is offset by an increase in operating expenses of \$58,208, primarily due to a \$39,713 increase in advisory fees due to the growing size of our portfolio and related income, and \$11,206 of additional interest and credit facility expenses. The per share increase for the six months ended December 31, 2012 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 Appreciation

Net realized (loss) gain was (\$8,123) and \$13,498 for the three months ended December 31, 2012 and December 31, 2011, respectively. Net realized loss was \$6,348 and \$1,109 for the six months ended December 31, 2012 and December 31, 2011, respectively. The net realized loss for the three months ended December 31, 2012 was due primarily to the impairment of ICS. During the three months ended December 31, 2012, we determined that the impairment of ICS was other-than-temporary and recorded a realized loss of \$12,198 for the amount that the amortized cost exceeded the fair market value. This loss was offset primarily by the sale of Northwestern common stock for which we realized a gain of \$1,862 and sale of Shearer's membership units for which we realized a gain of \$2,027. The net realized loss for the six months ended December 31, 2012 was primarily due to the impairment of ICS, sale of our equity investments in Northwestern and Shearer's and sale of our common stock in Iron Horse for which we realized a gain of \$1,772.

The net realized gain for the three months ended December 31, 2011 was due primarily to the sale of NRG common stock for which we realized a gain of \$12,131. For the six months ended December 31, 2011 this gain was offset by our impairment of Deb Shops. During the six months ended December 31, 2011, Deb Shops filed for bankruptcy and a plan for reorganization was proposed. The plan, which is expected to be approved by the bankruptcy court, will eliminate our debt position with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of \$14,607 for the full amount of the amortized cost.

Table of Contents

Net increase in net assets from changes in unrealized (depreciation) appreciation was (\$44,604) and \$14,486 for the three months ended December 31, 2012 and December 31, 2011, respectively. For the three months ended December 31, 2012, the \$44,604 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 R-V because operating results were down from those of the prior quarter and Energy Solutions for which we received a \$14,144 make-whole fee for early repayment of the outstanding loan and distributions of \$20,570 during the quarter, which were recorded as interest and dividend income, respectively. For the three months ended December 31, 2011, the \$14,486 increase in net assets from the net change in unrealized appreciation was driven by an increase in the fair values of our investments in Energy Solutions and NRG because operating results were up from those of prior quarter. These instances of appreciation were partially offset by unrealized depreciation in Babson 2011, Biotronic, NMMB, and Stryker, due to declining operating results and a reduction in current natural gas prices.

Net increase in net assets from changes in unrealized (depreciation) appreciation was (\$73,157) and \$41,116 for the six months ended December 31, 2012 and December 31, 2011, respectively. For the six months ended December 31, 2012, the \$73,157 decrease in net assets from the net change in unrealized depreciation was driven by reductions in the fair value of our investments in Ajax and R-V because operating results were down during the six-month period and Energy Solutions for which received a \$14,144 make-whole fee for early repayment of the outstanding loan and distributions of \$53,820 during the six-month period, which were recorded as interest and dividend income, respectively. For the six months ended December 31, 2011, the \$41,116 increase in net assets from the net change in unrealized appreciation was driven by increases in the fair value of our investments in Ajax, Energy Solutions, NRG and R-V, because operating results were up from those of prior quarter. These instances of unrealized appreciation were partially offset by unrealized depreciation in Biotronic and Stryker. Our equity investment in Biotronic experienced a meaningful decrease in valuation as prior to June 30, 2011 we anticipated that the company would be sold at a substantial premium to our cost basis. This sales process was discontinued during the six months ended December 31, 2011 as the buyer and Biotronic could not agree to terms acceptable to each party. The value of our investment in Stryker decreased due primarily to a reduction in natural gas prices.

Financial Condition, Liquidity and Capital Resources

For the six months ended December 31, 2012 and December 31, 2011, our operating activities used \$1,102,242 and \$119,765 of cash, respectively. There were no investing activities for the six months ended December 31, 2012 and December 31, 2011. Financing activities provided \$1,101,636 and \$120,134 of cash during the six months ended December 31, 2012 and December 31, 2011, respectively, which included the payments of dividends of \$97,577 and \$60,932, during the six months ended December 31, 2012 and December 31, 2011, respectively.

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

Our primary sources of funds have been issuances of debt and equity. We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the six months ended December 31, 2012, we borrowed \$99,000 and made repayments totaling \$195,000 under our revolving credit facility. As of December 31, 2012, we had no outstanding borrowings on our revolving credit facility, \$847,500 outstanding on our Senior Convertible Notes, \$100,000 outstanding on our Senior Unsecured Notes and \$164,993 outstanding on InterNotes®. (See *Capitalization*.)

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of December 31, 2012 and June 30, 2012, we have \$188,367 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 \$2,546,746 of additional debt and equity securities in the public market.

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

On June 1, 2012, we entered into an ATM program with 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 net of commissions 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 net of commissions 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 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 \$113,962 net of commissions to KeyBanc on shares sold. (See *Recent Developments*.)

Off-Balance Sheet Arrangements

At December 31, 2012, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

During the period from January 4, 2013 to February 7, 2013, we issued \$18,003 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$17,432.

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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 \$113,962 net of commissions to the broker-dealer on shares sold and offering costs.

On January 11, 2013, we provided \$27,100 of debt financing to CHC Companies, Inc., a national provider of correctional medical and behavioral healthcare solutions.

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.

On January 23, 2013, we issued 160,182 shares of our common stock in connection with the dividend reinvestment plan.

On January 24, 2013, we made an investment of \$24,288 to purchase 56.14% of the subordinated notes in Cent 17 CLO Limited.

On January 24, 2013, we made an investment of \$25,650 to purchase 50.12% of the subordinated notes in Octagon Investment Partners XV, Ltd.

On January 29, 2013 we provided \$8,000 of secured second lien financing to TGG Medical Transitory, Inc., a developer of technologies for extracorporeal photopheresis treatments.

On January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide Acceptance Corporation, which operate a specialty finance business based in Chicago, Illinois, a \$25,151 of combined debt and equity financing.

On February 4, 2013, we received a distribution of \$3,250 related to our investment in NRG Manufacturing, Inc., for which we realized a gain of the same amount. This is a partial release of the total amounts held in escrow with a fair value of \$8,070 as of December 31, 2012.

On February 5, 2013, we made a secured debt investment of \$2,000 in Healogics, Inc., 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 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.

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.

Table of Contents

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 December 31, 2012 financial statements include our accounts and the accounts of Prospect Capital Funding, LLC, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

Investment Classification

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

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

Investment Valuation

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

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

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

- 1) Each portfolio company or investment is reviewed by our investment professionals with the independent valuation firms engaged by our Board of Directors;
- 2) the independent valuation firms conduct independent appraisals and make their own independent assessment;
- 3) the audit committee of our Board of Directors reviews and discusses the preliminary valuation 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.

Table of Contents

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.

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

Table of Contents

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 six months ended December 31, 2012, 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 six months ended December 31, 2012, did not have any effect on our financial statements.

Federal and State Income Taxes

We have elected to be treated as a regulated investment company and intend to continue to comply with the requirements of the Internal Revenue Code of 1986 (the "Code"), applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gain to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute at least 98% of our annual income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceeds the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is 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. At December 31, 2012, we have elected to retain a portion of our annual taxable income and have accrued \$4,500 for the excise tax that will be paid with the filing of the return in March 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 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.

Table of Contents

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 December 31, 2012 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

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 of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. We 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.

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.

Table of Contents

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 and the 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 revolving credit facility and the effective interest method for our 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.

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

Table of Contents

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 ASU 2012-04 is not expected to have a material impact on our financial statements.

S-57

Table of Contents

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended December 31, 2012, we did not engage in hedging activities.

S-58

Table of Contents

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,

Table of Contents

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.

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

Table of Contents

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.

Table of Contents

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 the initial offering price 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.

Edgar Filing: Kelley Karen Dunn - Form 4

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.

S-62

Table of Contents

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 principal amount 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. 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 when we determine whether 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 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.

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.

Table of Contents

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.

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 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.

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 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."

Table of Contents

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 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 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,

Table of Contents

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 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.

Table of Contents

**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.

S-67

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 February 8, 2013, we had no borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately \$300.0 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 December 31, 2012.

Credit Facility	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
Fiscal 2013 (as of December 31, 2012, unaudited)	\$	N/A		
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		

2015 Notes

Fiscal 2013 (as of December 31, 2012, unaudited)	\$	150,000	\$	22,928
Fiscal 2012 (as of June 30, 2012)		150,000		14,507
Fiscal 2011 (as of June 30, 2011)		150,000		10,140

2016 Notes

Fiscal 2013 (as of December 31, 2012, unaudited)	\$	167,500	\$	20,532
Fiscal 2012 (as of June 30, 2012)		167,500		12,992
Fiscal 2011 (as of June 30, 2011)		172,500		8,818

S-68

Table of Contents

2017 Notes

Fiscal 2013 (as of December 31, 2012, unaudited)	\$	130,000	\$	26,455
Fiscal 2012 (as of June 30, 2012)		130,000		16,739

2018 Notes

Fiscal 2013 (as of December 31, 2012, unaudited)	\$	200,000	\$	17,196
--	----	---------	----	--------

2019 Notes

Fiscal 2013 (as of December 31, 2012, unaudited)	\$	200,000	\$	17,196
--	----	---------	----	--------

2022 Notes

Fiscal 2013 (as of December 31, 2012, unaudited)	\$	100,000	\$	34,391
Fiscal 2012 (as of June 30, 2012)		100,000		21,761

Prospect Capital InterNotes®

Fiscal 2013 (as of December 31, 2012, unaudited)	\$	164,993	\$	20,844
Fiscal 2012 (as of June 30, 2012)		20,638		105,442

All Senior Securities(5)

Fiscal 2013 (as of December 31, 2012, unaudited)	\$	1,112,493	\$	3,091
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 November 13, 2012, we entered into an Amended and Restated Selling Agent Agreement which continued the Prospect Capital InterNotes Program on substantially similar terms. Through February 7, 2013, we have sold \$183.0 million aggregate principal amount of notes. Amounts sold under the Prospect Capital InterNotes Program after December 31, 2012 are not reflected in the table above.

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

For the three and six months ended December 31, 2012 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:

	For the Three Months Ended December 31, 2012	For the Six Months Ended December 31, 2012	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
Earnings to Fixed Charges(1)	3.83	4.13	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 6.55 for the three months ended December 31, 2012, 6.58 for the six months ended December 31, 2012, 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.

PLAN OF DISTRIBUTION

Under the terms of the Selling Agent Agreement dated November 13, 2012, the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to agents and other dealers who are broker-dealers and securities firms. 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,

Table of Contents

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" on page S-59.

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 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.

Table of Contents

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, 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.

Table of Contents

INDEX TO FINANCIAL STATEMENTS

Financial Statements

<u>Consolidated Statements of Assets and Liabilities December 31, 2012 (Unaudited) and June 30, 2012 (Audited)</u>	<u>F-2</u>
<u>Consolidated Statements of Operations (Unaudited) For the Three and Six Months Ended December 31, 2012 and 2011</u>	<u>F-3</u>
<u>Consolidated Statements of Changes in Net Assets (Unaudited) For the Six Months Ended December 31, 2012 and 2011</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows (Unaudited) For the Six Months Ended December 31, 2012 and 2011</u>	<u>F-5</u>
<u>Consolidated Schedule of Investments December 31, 2012 (Unaudited) and June 30, 2012 (Audited)</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>F-32</u>

F-1

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

December 31, 2012 and June 30, 2012

(in thousands, except share and per share data)

	December 31, 2012 (Unaudited)	June 30, 2012 (Audited)
Assets (Note 4)		
Investments at fair value:		
Control investments (amortized cost of \$666,360 and \$518,015, respectively)	\$ 649,380	\$ 564,489
Affiliate investments (amortized cost of \$48,659 and \$44,229, respectively)	48,266	46,116
Non-control/Non-affiliate investments (amortized cost of \$2,402,038 and \$1,537,069, respectively)	2,341,162	1,483,616
Total investments at fair value (amortized cost of \$3,117,057 and \$2,099,313, respectively, Note 3)	3,038,808	2,094,221
Investments in money market funds	430,945	118,369
Total investments	3,469,753	2,212,590
Cash	2,219	2,825
Receivables for:		
Interest, net	16,531	14,219
Dividends	11	1
Other	2,409	783
Prepaid expenses	227	421
Deferred financing costs	38,571	24,415
Total Assets	3,529,721	2,255,254
Liabilities		
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)	100,000	100,000
Prospect Capital InterNotes® (Note 7 and Note 8)	164,993	20,638
Due to broker	38,291	44,533
Dividends payable	23,669	14,180
Due to Prospect Administration (Note 12)	373	658
Due to Prospect Capital Management (Note 12)	2,019	7,913
Accrued expenses	16,544	9,648
Other liabilities	9,697	2,210
Total Liabilities	1,203,086	743,280
Net Assets	\$ 2,326,635	\$ 1,511,974
Components of Net Assets		
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 215,173,410 and 139,633,870 issued and outstanding, respectively) (Note 9)	\$ 215	\$ 140
Paid-in capital in excess of par (Note 9)	2,379,742	1,544,801
Undistributed net investment income	82,817	23,667
Accumulated realized losses on investments	(57,890)	(51,542)
Unrealized depreciation on investments	(78,249)	(5,092)

Edgar Filing: Kelley Karen Dunn - Form 4

Net Assets	\$	2,326,635	\$	1,511,974
Net Asset Value Per Share	\$	10.81	\$	10.83

See notes to consolidated financial statements.

F-2

[Table of Contents](#)**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****For The Three and Six Months Ended December 31, 2012 and 2011****(in thousands, except share and per share data)****(Unaudited)**

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2012	2011	2012	2011
Investment Income				
Interest Income: (Note 3)				
Control investments	\$ 33,239	\$ 6,415	\$ 51,158	\$ 12,580
Affiliate investments	1,694	2,399	3,345	4,801
Non-control/Non-affiliate investments other than CLO securities	58,513	36,714	103,540	70,034
CLO fund securities	23,420	608	37,133	1,108
Total interest income	116,866	46,136	195,176	88,523
Dividend income:				
Control investments	31,717	17,645	64,967	24,345
Non-control/Non-affiliate investments	230	1,384	3,185	1,733
Money market funds	8		11	1
Total dividend income	31,955	19,029	68,163	26,079
Other income: (Note 10)				
Control investments	5,095	612	5,097	618
Affiliate investments	605	13	613	74
Non-control/Non-affiliate investments	11,514	1,473	20,622	7,311
Total other income	17,214	2,098	26,332	8,003
Total Investment Income	166,035	67,263	289,671	122,605
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 12)	16,306	8,825	29,534	17,036
Income incentive fee (Note 12)	24,804	9,127	43,311	16,096
Total investment advisory fees	41,110	17,952	72,845	33,132
Interest and credit facility expenses	16,414	9,759	29,925	18,719
Legal fees	635	510	1,257	942
Valuation services	371	306	747	608
Audit, compliance and tax related fees	378	525	810	865
Allocation of overhead from Prospect Administration (Note 12)	2,139	1,117	4,323	2,233
Insurance expense	78	20	171	99
Directors' fees	75	63	150	127
Excise tax (Note 2)	4,500		4,500	
Other general and administrative expenses	1,119	503	1,700	1,495

Edgar Filing: Kelley Karen Dunn - Form 4

Total Operating Expenses	66,819	30,755	116,428	58,220
Net Investment Income	99,216	36,508	173,243	64,385
Net realized (loss) gain on investments (Note 3)	(8,123)	13,498	(6,348)	(1,109)
Net change in unrealized (depreciation) appreciation on investments (Note 3)	(44,604)	14,486	(73,157)	41,116
Net Increase in Net Assets Resulting from Operations	\$ 46,489	\$ 64,492	\$ 93,738	\$ 104,392
Net increase in net assets resulting from operations per share: (Note 11 and Note 15)	\$ 0.24	\$ 0.59	\$ 0.52	\$ 0.96
Dividends declared per share	\$ 0.31	\$ 0.31	\$ 0.61	\$ 0.61

See notes to consolidated financial statements.

F-3

[Table of Contents](#)

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

For The Six Months Ended December 31, 2012 and 2011

(in thousands, except share data)

(Unaudited)

	For The Six Months Ended December 31,	
	2012	2011
Increase in Net Assets from Operations:		
Net investment income	\$ 173,243	\$ 64,385
Net realized loss on investments	(6,348)	(1,109)
Net change in unrealized (depreciation) appreciation on investments	(73,157)	41,116
Net Increase in Net Assets Resulting from Operations	93,738	104,392
Dividends to Shareholders	(114,093)	(66,553)
Capital Share Transactions:		
Net proceeds from issuance of common stock	829,503	15,060
Less: Offering costs of public share offerings	(1,514)	(165)
Reinvestment of dividends	7,027	5,393
Net Increase in Net Assets Resulting from Capital Share Transactions	835,016	20,288
Total Increase in Net Assets	814,661	58,127
Net assets at beginning of period	1,511,974	1,114,357
Net Assets at End of Period	\$ 2,326,635	\$ 1,172,484
Capital Share Activity:		
Shares sold	69,407,632	1,500,000
Shares issued to acquire controlled investments	5,507,381	
Shares issued through reinvestment of dividends	624,527	584,361
Net increase in capital share activity	75,539,540	2,084,361
Shares outstanding at beginning of period	139,633,870	107,606,690
Shares Outstanding at End of Period	215,173,410	109,691,051

See notes to consolidated financial statements.

[Table of Contents](#)**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****For The Six Months Ended December 31, 2012 and 2011****(in thousands, except share data)****(Unaudited)**

	For The Six Months Ended December 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 93,738	\$ 104,392
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operations:		
Net realized loss on investments	6,348	1,109
Net change in unrealized depreciation (appreciation) on investments	73,157	(41,116)
Amortization of discounts and premiums	(11,422)	(2,575)
Amortization of deferred financing costs	3,724	4,494
Payment-in-kind interest	(4,048)	(3,329)
Structuring fees	(24,273)	(7,356)
Change in operating assets and liabilities		
Payments for purchases of investments	(1,432,490)	(366,587)
Proceeds from sale of investments and collection of investment principal	507,392	166,261
Net increase of investments in money market funds	(312,576)	(802)
Increase in interest receivable	(2,312)	(470)
Increase in dividends receivable	(10)	
Increase in other receivables	(1,626)	(250)
Decrease (increase) in prepaid expenses	194	(286)
(Decrease) increase in due to broker	(6,242)	17,339
(Decrease) increase in due to Prospect Administration	(285)	416
(Decrease) increase in due to Prospect Capital Management	(5,894)	9,753
Increase in accrued expenses	6,896	90
Increase (decrease) in other liabilities	7,487	(848)
Net Cash Used In Operating Activities	(1,102,242)	(119,765)
Cash Flows from Financing Activities:		
Borrowings under credit facility (Note 4)	99,000	442,300
Principal payments under credit facility (Note 4)	(195,000)	(274,500)
Issuance of Senior Convertible Notes (Note 5)	400,000	
Issuance of Prospect Capital InterNotes® (Note 7)	144,355	
Financing costs paid and deferred	(17,880)	(1,629)
Proceeds from issuance of common stock, net of underwriting costs	770,252	15,060
Offering costs from issuance of common stock	(1,514)	(165)
Dividends paid	(97,577)	(60,932)
Net Cash Provided By Financing Activities	1,101,636	120,134
Total (Decrease) Increase in Cash	(606)	369
Cash balance at beginning of period	2,825	1,492
Cash Balance at End of Period	\$ 2,219	\$ 1,861

Edgar Filing: Kelley Karen Dunn - Form 4

Cash Paid For Interest	\$	17,442	\$	12,777
Non-Cash Financing Activity:				
Amount of shares issued in connection with dividend reinvestment plan	\$	7,027	\$	5,393
Amount of shares issued in connection with controlled investments	\$	59,251	\$	

See notes to consolidated financial statements.

F-5

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

			December 31, 2012 (Unaudited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
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)	\$ 29,050	\$ 29,050	\$ 29,050	1.2%
		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	8,202	0.4%
		Common Stock (100 shares)				0.0%
				51,470	49,752	2.1%
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)	19,910	19,910	19,910	0.9%
		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	0.2%
		Convertible Preferred Stock Series A (6,142.6 shares)		6,057	4,866	0.2%
		Unrestricted Common Stock (6 shares)			5	0.0%
				44,602	43,416	1.9%
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)	12,418	12,418	12,418	0.5%
		Common Stock (17,400 shares)		5,002	5,002	0.2%
				17,420	17,420	0.7%
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%
						0.0%
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	622	0.0%
		Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in	1,612	1,500		0.0%

Edgar Filing: Kelley Karen Dunn - Form 4

non-accrual status effective 03/02/2010, past 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)	9,546	707	0.0%
Common Stock (100 shares)(21)			0.0%
Warrants (33,750 warrants)(21)			0.0%
		3,152	622
			0.0%

See notes to consolidated financial statements.

F-6

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			December 31, 2012 (Unaudited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
CCPI Holdings Inc(33)	Ohio / Manufacturing	Senior Secured Note (10.00%, due 12/31/2017)	\$ 17,888	\$ 17,888	\$ 17,888	0.8%
		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	0.4%
				33,995	33,995	1.5%
Credit Central Holdings of Delaware, LLC(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	1.6%
		Common Stock (100 shares)		9,581	9,581	0.4%
				47,663	47,663	2.0%
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	Senior Secured Note (18.00%, due 12/11/2016)	5,000	5,000	5,000	0.2%
		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	0.2%
		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)	13,628	12,503	5,896	0.3%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449		0.0%
		Escrow			4,997	0.2%
		Common Stock (100 shares)		8,318	8,507	0.4%
				42,770	39,900	1.8%
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	11.4%
		Common Stock (83,729,323 shares)		43,193	45,649	2.0%
		Net Revenue Interest (5% of Net Revenue & Distributions)				0.0%
				307,953	310,409	13.4%
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%

Edgar Filing: Kelley Karen Dunn - Form 4

				11,027		0.0%
NMMB Holdings, Inc.(24)	New York / Media	Senior Term Loan (14.00%, due 5/6/2016)	19,000	19,000	18,975	0.8%
		Senior Subordinated Term Loan (15.00%, due 5/6/2016)	2,800	2,800	1,225	0.1%
		Series A Preferred Stock (4,400 shares)		4,400		0.0%
				26,200	20,200	0.9%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor,) due 5/30/2018)	9,500	9,500	9,500	0.4%
		Warrants (200,000 warrants, expiring 6/30/2017)(4)		1,682	6,299	0.3%
		Common Stock (545,107 shares)		5,087	17,167	0.7%
				16,269	32,966	1.4%

See notes to consolidated financial statements.

F-7

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2012 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
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 12/18/2013)	\$ 2,581	\$ 2,580	\$	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)				0.0%
				3,750		0.0%
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)	32,572	32,572	32,572	1.4%
		Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(4)	10,000	10,000	10,000	0.4%
		Common Stock (50,000 Shares)		9,526	9,526	0.4%
				52,098	52,098	2.2%
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)	2,540	2,000	235	0.0%
		Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)(6)	7,620	5,991	704	0.0%
		Common Stock (100 Shares)				0.0%
				7,991	939	0.0%
Total Control Investments			666,360	649,380		27.9%
Affiliate Investments (5.00% to 24.99% voting control)						
BNN Holdings Corp., (f/k/a Biotronic NeuroNetwork)	Michigan / Healthcare	Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(4)	29,850	29,850	29,850	1.3%
		Preferred Stock Series A (9,925.455 shares)(13)		2,300	2,144	0.1%
		Preferred Stock Series B (1,753.64 shares)(13)		579	540	0.0%
				32,729	32,534	1.4%
Boxercraft Incorporated(20)	Georgia / Textiles & Leather	Senior Secured Term Loan A (10.00% plus 5.00% PIK, due 9/16/2013)	1,677	1,626	1,651	0.1%
		Senior Secured Term Loan B (10.00% plus 5.00% PIK, due 9/16/2013)	4,792	4,528	4,691	0.2%
			2,323	2,323	2,274	0.1%

Edgar Filing: Kelley Karen Dunn - Form 4

Senior Secured Term Loan C (10.00% plus 5.00% PIK, due 9/16/2013) due 9/16/2013)				
Senior Secured Term Loan (10.00% plus 5.00% PIK, due 3/16/2014)	8,153	7,453	7,116	0.3%
Preferred Stock (1,000,000 shares)				0.0%
Common Stock (10,000 shares)				0.0%
Warrants (1 warrant, expiring 8/31/2022)				0.0%

	15,930	15,732	0.7%
--	---------------	---------------	-------------

Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest	
			0.0%

0.0%

Total Affiliate Investments	48,659	48,266	2.1%
------------------------------------	---------------	---------------	-------------

See notes to consolidated financial statements.

F-8

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2012 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 282	0.0%
				141	282	0.0%
Aderant North America, Inc.	Georgia / Software & Computer Services	Second Lien Term Note (11.00%, PRIME + 7.75)%, due 6/20/2019)(4)	\$ 7,000	6,895	6,895	0.3%
				6,895	6,895	0.3%
Aircraft Fasteners International, LLC	California / Machinery	Convertible Preferred Stock (32,500 units)		396	517	0.0%
				396	517	0.0%
American Gilsonite Company	Utah / Specialty Minerals	Second Lien Term Note (11.50%, due 9/1/2017)	38,500	38,500	38,500	1.7%
		Membership Interest in AGC/PEP, LLC (99.9999%)(15)			5,036	0.2%
				38,500	43,536	1.9%
Apidos CLO VIII, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	19,730	18,597	19,347	0.8%
				18,597	19,347	0.8%
Apidos CLO IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	20,525	19,810	19,357	0.8%
				19,810	19,357	0.8%
Apidos CLO XI, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	38,340	38,291	38,291	1.6%
				38,291	38,291	1.6%
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	48,118	50,000	2.1%
				48,118	50,000	2.1%

Edgar Filing: Kelley Karen Dunn - Form 4

Arctic Glacier U.S.A, Inc.	Canada / Food Products	Subordinated Unsecured (12.00% plus 3.00% PIK, due 7/27/2019)	86,118	86,118	86,118	3.7%
				86,118	86,118	3.7%
Babson CLO Ltd 2011-I.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,000	34,634	35,470	1.5%
				34,634	35,470	1.5%
Babson CLO Ltd 2012-IA.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	29,075	26,199	27,182	1.2%
				26,199	27,182	1.2%
Babson CLO Ltd 2012-IIA.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	27,850	29,029	27,072	1.2%
				29,029	27,072	1.2%

See notes to consolidated financial statements.

F-9

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2012 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Byrider Systems Acquisition Corp(22)	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)	\$ 15,755	\$ 15,755	\$ 15,755	0.7%
				15,755	15,755	0.7%
Caleel + Hayden, LLC (14),(31)	Colorado / Personal & Nondurable Consumer Products	Membership Units (7,500 shares)		351	1,210	0.1%
				351	1,210	0.1%
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)	30,705	30,705	30,705	1.3%
		Senior Secured Term Loan B (13.50% (LIBOR + 11.50% with 2.00% LIBOR floor), due 9/16/2016)(3)	38,434	38,434	38,434	1.7%
				69,139	69,139	3.0%
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)	47,273	47,273	47,273	2.0%
		Common Equity (1.6 units)		1,639	2,121	0.1%
				48,912	49,394	2.1%
CIFC Funding 2011-I, Ltd.(4),(22)	Cayman Islands / Diversified Financial Services	Secured Class D Notes (5.32% (LIBOR + 5.00%), due 1/19/2023)	19,000	14,902	16,097	0.7%
		Unsecured Class E Notes (7.32% (LIBOR + 7.00%), due 1/19/2023)	15,400	12,557	13,292	0.6%
				27,459	29,389	1.3%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable			314	0.0%
					314	0.0%
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% floor), due 12/17/2017)(4)	39,800	39,800	39,800	1.7%
				39,800	39,800	1.7%

Edgar Filing: Kelley Karen Dunn - Form 4

CP Well Testing, LLC	Oklahoma / Oil & Gas Products	Senior Secured Term Loan (13.50% (LIBOR + 11.00% with 2.50% floor), due 10/03/2017)(4)	21,366	21,366	21,366	0.9%
				21,366	21,366	0.9%
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)	72,750	72,750	72,750	3.1%
				72,750	72,750	3.1%
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	11,824	11,824	0.5%
				11,824	11,824	0.5%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15.00% payable on Equity distributions)(7)				0.0%
						0.0%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)	15,700	15,293	15,700	0.7%
				15,293	15,700	0.7%
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	21,783	21,783	0.9%
				21,783	21,783	0.9%

See notes to consolidated financial statements.

F-10

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			December 31, 2012 (Unaudited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Evanta Ventures, Inc.(11)	Oregon / Commercial Services	Subordinated Unsecured (12.00% plus 1.00% PIK, due 9/28/2018)	\$ 10,427	\$ 10,427	\$ 10,427	0.5%
				10,427	10,427	0.5%
Fairchild Industrial Products, Co.	North Carolina / Electronics	Escrow Receivable			151	0.0%
					151	0.0%
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable			520	0.0%
		Membership Class A (875,000 units)		875	2,314	0.1%
				875	2,834	0.1%
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	17,713	17,713	0.8%
				17,713	17,713	0.8%
FPG, LLC(4)	Illinois / Durable Consumer Products	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)	21,875	21,875	21,875	0.9%
		Common Stock (5,638 shares)		27	78	0.0%
				21,902	21,953	0.9%
Galaxy XII CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	21,675	22,090	1.0%
				21,675	22,090	1.0%
Grocery Outlet Inc.	California / Retail	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)	17,500	17,150	17,489	0.8%
				17,150	17,489	0.8%
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)	41,738	41,738	41,738	1.8%
				41,738	41,738	1.8%

Explanation of Responses:

Edgar Filing: Kelley Karen Dunn - Form 4

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)	63,782	60,019	26,785	1.2%
		Senior Secured Note (18.00% PIK, in non-accrual status effective 4/27/2012, past due)	4,616	4,130	4,616	0.2%
		Senior Secured Note (8.00% PIK, due 3/31/2013)	130	129	127	0.0%
		Net Profits Interest (8.00% payable on Equity distributions)(7)				0.0%
				64,278	31,528	1.4%
Halcyon Loan Advisors Funding 2012-I, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	23,188	22,905	22,604	1.0%
				22,905	22,604	1.0%
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	19,820	19,820	0.9%
		Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)	1,000	990	990	0.0%
				20,810	20,810	0.9%
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016)(3)	43,100	43,335	41,881	1.8%
				43,335	41,881	1.8%

See notes to consolidated financial statements.

F-11

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			December 31, 2012 (Unaudited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)	\$ 12,500	\$ 12,279	\$ 12,500	0.5%
				12,279	12,500	0.5%
ING IM CLO 2012-II, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	38,070	37,670	37,628	1.6%
				37,670	37,628	1.6%
ING IM CLO 2012-III, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	46,632	46,603	46,738	2.0%
				46,603	46,738	2.0%
ING IM CLO 2012-IV, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	40,612	39,672	40,402	1.7%
				39,672	40,402	1.7%
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)	15,177	15,177	15,177	0.7%
				15,177	15,177	0.7%
Interdent, Inc.	California / Healthcare	Revolving Line of Credit \$10,000 Commitment (10.50% (LIBOR + 8.25% with 2.25% LIBOR floor), due 2/3/2013)(4),(25)	6,250	6,250	6,250	0.3%
		Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017)(4)	54,313	54,313	54,313	2.3%
		Senior Secured Term Loan B (13.00% (LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3),(4)	55,000	55,000	55,000	2.4%
				115,563	115,563	5.0%
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)	15,938	15,938	15,938	0.7%
				15,938	15,938	0.7%

Explanation of Responses:

Edgar Filing: Kelley Karen Dunn - Form 4

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)	37,500	37,500	37,500	1.6%
				37,500	37,500	1.6%
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)	3,565	3,498	3,498	0.2%
		Membership Interest (125 units)		216	238	0.0%
				3,714	3,736	0.2%
Madison Park Funding IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)				
			31,110	27,291	27,510	1.2%
				27,291	27,510	1.2%

See notes to consolidated financial statements.

F-12

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			December 31, 2012 (Unaudited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Material Handling Services, LLC	Ohio / Business Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 7/5/2017)(3),(4)	\$ 27,720	\$ 27,720	\$ 27,720	1.2%
		Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017)(4)	38,150	38,150	38,150	1.6%
				65,870	65,870	2.8%
Maverick Healthcare, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	1,849	0.1%
		Common Units (1,250,000 units)			127	0.0%
				1,252	1,976	0.1%
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)	16,292	16,292	16,292	0.7%
				16,292	16,292	0.7%
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)	18,543	18,543	18,543	0.8%
				18,543	18,543	0.8%
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)	47,385	47,385	47,385	2.0%
				47,385	47,385	2.0%
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)	44,442	44,442	44,442	1.9%
				44,442	44,442	1.9%
New Meatco Provisions, LLC	California / Food Products	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus	12,696	12,696	4,837	0.2%

Edgar Filing: Kelley Karen Dunn - Form 4

4.00%, PIK due 4/18/2016)(4)

				12,696	4,837	0.2%
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)	32,114	32,114	32,114	1.4%
				32,114	32,114	1.4%
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	15,298	15,023	14,780	0.6%
				15,023	14,780	0.6%
Nobel Learning Communities, Inc.	Pennsylvania / Consumer Services	Subordinated Unsecured (11.50% plus 1.50% PIK, due 8/9/2017)	15,225	15,225	15,225	0.7%
				15,225	15,225	0.7%
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable			8,070	0.3%
					8,070	0.3%
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 3/02/2013)(25)				0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/2/2015)	10,476	10,476	10,382	0.4%
				10,476	10,382	0.4%

See notes to consolidated financial statements.

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			December 31, 2012 (Unaudited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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	\$ 14,714	\$ 15,000	0.6%
				14,714	15,000	0.6%
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	9,807	10,000	0.4%
				9,807	10,000	0.4%
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	4,889	0.2%
				5,000	4,889	0.2%
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)	10,000	9,883	9,883	0.4%
				9,883	9,883	0.4%
Progrexion Holdings, Inc.(4),(28)	Utah / Consumer Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)	154,500	154,500	154,500	6.7%
				154,500	154,500	6.7%
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	14,727	14,895	0.7%
				14,727	14,895	0.7%
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK due 11/29/2016)	28,084	28,084	28,084	1.2%
				28,084	28,084	1.2%
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	3.0%
				70,000	70,000	3.0%

Edgar Filing: Kelley Karen Dunn - Form 4

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)	3,305	3,214	3,305	0.1%
		Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2015)(4)	10,000	10,000	10,000	0.4%
				13,214	13,305	0.5%
Skillsoft Public Limited Company(22)	Ireland / Software & Computer Services	Subordinated Unsecured (11.125%, due 6/1/2018)	15,000	14,922	15,000	0.6%
				14,922	15,000	0.6%

See notes to consolidated financial statements.

F-14

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			December 31, 2012 (Unaudited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Snacks Holding Corporation	Minnesota / Food Products	Senior Subordinated Unsecured Term Loan (12.00% plus 1.00% PIK, due 11/12/2017)	\$ 15,327	\$ 14,865	\$ 15,327	0.7%
		Series A Preferred Stock (4,021.45 shares)		56	79	0.0%
		Series B Preferred Stock (1,866.10 shares)		56	79	0.0%
		Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)		479	671	0.0%
				15,456	16,156	0.7%
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	0.8%
				17,568	17,568	0.8%
Spartan Energy Services, Inc.(4)	Louisiana / Energy	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)	30,000	30,000	30,000	1.3%
				30,000	30,000	1.3%
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable			375	0.0%
					375	0.0%
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	34,970	1.5%
				35,000	34,970	1.5%
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)	19,576	19,576	19,576	0.8%
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)	10,369	10,369	10,369	0.4%
				29,945	29,945	1.2%
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)	34,090	32,712		0.0%

Edgar Filing: Kelley Karen Dunn - Form 4

Overriding Royalty Interests(18)					1,552	0.1%
				32,712	1,552	0.1%
Symphony CLO, IX Ltd.(22)	Cayman Islands / Diversified Financial Services	LP Certificates (Residual Interest)	45,500	42,924	44,359	2.0%
				42,924	44,359	2.0%
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	1.4%
				32,000	32,000	1.4%
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)	23,640	23,285	23,640	1.0%
				23,285	23,640	1.0%
TB Corp.	Texas / Consumer Services	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018)	23,212	23,212	23,212	1.0%
				23,212	23,212	1.0%
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)	22,000	21,673	21,673	0.9%
				21,673	21,673	0.9%

See notes to consolidated financial statements.

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			December 31, 2012 (Unaudited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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	\$ 4,850	\$ 4,893	0.2%
				4,850	4,893	0.2%
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	38,841	1.7%
				39,000	38,841	1.7%
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)	100,000	100,000	100,000	4.3%
				100,000	100,000	4.3%
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		0.0%
				14,750		0.0%
Total Non-control/Non-affiliate Investments (Level 3 Investments)				2,401,919	2,341,057	100.6%
Total Level 3 Portfolio Investments				3,116,938	3,038,703	130.6%
LEVEL 1 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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)		63	102	0.0%
				63	102	0.0%
		Common Stock (54 shares)			3	0.0%

Edgar Filing: Kelley Karen Dunn - Form 4

LyondellBasell Industries The Netherlands /
N.V(22) Chemicals

			3	0.0%
Total Non-control/Non-affiliate Investments (Level 1 Investments)	119	105	0.0%	
Total Portfolio Investments	3,117,057	3,038,808	130.6%	
SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)				
Fidelity Institutional Money Market Funds Government Portfolio (Class I)	310,316	310,316	13.3%	
Fidelity Institutional Money Market Funds Government Portfolio (Class I)(3)	120,628	120,628	5.2%	
Victory Government Money Market Funds	1	1	0.0%	
Total Money Market Funds	430,945	430,945	18.5%	
Total Investments	3,548,002	3,469,753	149.1%	

F-16

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
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%
				51,770	47,982	3.2%
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%
				41,259	52,410	3.4%
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%
						0.0%
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%
				3,152	668	0.0%

Edgar Filing: Kelley Karen Dunn - Form 4

See notes to consolidated financial statements.

F-17

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	Senior Secured Note (18.00%, due 12/11/2016)(3)				
		Junior Secured Note (18.00%, due 12/12/2016)(3)	\$ 25,000	\$ 25,000	\$ 25,000	1.7%
		Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)	12,000	12,000	12,000	0.8%
		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)	3,500	3,500	3,500	0.2%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	13,352	12,504	5,603	0.4%
		Escrow Receivable	1,449	1,449		0.0%
		Common Stock (100 shares)			9,825	0.6%
				8,792	70,940	4.7%
			63,245	126,868	8.4%	
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%
				287,953	287,953	19.1%
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%
				15,949		0.0%
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%

Edgar Filing: Kelley Karen Dunn - Form 4

				11,027		0.0%
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%
				28,900	24,752	1.6%

See notes to consolidated financial statements.

F-18

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
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%
				6,769	23,856	1.6%
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%
				7,991		0.0%
						0.0%
Total Control Investments				518,015	564,489	37.3%
Affiliate Investments (5.00% to 24.99% voting control)						
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%
				29,106	28,920	2.0%
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%
				15,123	17,161	1.1%
Smart, LLC(14)		Membership Interest			35	0.0%

Edgar Filing: Kelley Karen Dunn - Form 4

New York / Diversified /
Conglomerate Service

		35	0.0%
Total Affiliate Investments	44,229	46,116	3.1%

See notes to consolidated financial statements.

F-19

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 240	0.0%
				141	240	0.0%
Aircraft Fasteners International, LLC	California / Machinery	Convertible Preferred Stock (32,500 units)		396	471	0.0%
				396	471	0.0%
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%
				37,732	44,562	3.0%
Apidos CLO VIII, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	19,730	18,056	19,509	1.3%
				18,056	19,509	1.3%
Apidos CLO IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	20,525	18,723	18,723	1.2%
				18,723	18,723	1.2%
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%
				48,022	49,271	3.3%
Babson CLO Ltd 2011-I.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,000	33,080	34,244	2.3%
				33,080	34,244	2.3%
		Subordinated Notes (Residual Interest)	29,075	27,014	27,197	1.8%

Edgar Filing: Kelley Karen Dunn - Form 4

Babson CLO Ltd 2012-IA.(22)	Cayman Islands / Diversified Financial Services					
				27,014	27,197	1.8%
Babson CLO Ltd 2012-IIA.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)				
			27,850	27,486	27,017	1.8%
				27,486	27,017	1.8%
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%
				24,279	25,000	1.7%

See notes to consolidated financial statements.

F-20

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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%
				20,546	19,990	1.3%
Caleel + Hayden, LLC(14),(31)	Colorado / Personal & Nondurable Consumer Products	Membership Units (7,500 shares)		351	1,031	0.1%
				351	1,031	0.1%
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%
				75,418	75,418	5.0%
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%
				50,530	50,777	3.3%
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%
				27,258	27,717	1.8%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable			315	0.0%
					315	0.0%
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%
				73,500	73,491	4.9%

Explanation of Responses:

100

Edgar Filing: Kelley Karen Dunn - Form 4

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

See notes to consolidated financial statements.

F-21

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			% of
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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%
				4,288	6,014	0.4%
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%
				14,711	14,711	1.0%
Galaxy XII CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	21,526	21,897	1.4%
				21,526	21,897	1.4%
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%
				64,449	35,031	2.3%
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%
				7,188	7,391	0.5%
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%
				10,800	10,762	0.7%
Hudson Products Holdings, Inc.(16)	Texas / Manufacturing	Senior Secured Term Loan (9.00% (PRIME + 5.00% with 4.00% PRIME floor), due	6,299	5,880	5,826	0.4%

Explanation of Responses:

Edgar Filing: Kelley Karen Dunn - Form 4

8/24/2015)(3),(4)

				5,880	5,826	0.4%
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%
				43,361	43,100	2.9%
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)	12,500	12,260	12,488	0.8%
				12,260	12,488	0.8%

See notes to consolidated financial statements.

F-22

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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%
				15,100	15,100	1.0%
Iron Horse Coiled Tubing, Inc.(23)	Alberta, Canada / Production Services	Common Stock (3,821 shares)		268	2,040	0.1%
				268	2,040	0.1%
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%
				15,736	15,736	1.0%
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4),(25),(26)				0.0%
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	4,265	4,125	4,125	0.3%
		Membership Interest (125 units)		216	225	0.0%
				4,341	4,350	0.3%
Madison Park Funding IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	31,110	25,810	25,810	1.7%
				25,810	25,810	1.7%
Maverick Healthcare, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	1,756	0.1%
		Common Units (1,250,000 units)			95	0.0%
				1,252	1,851	0.1%
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)	17,317	17,317	17,317	1.1%
				17,317	17,317	1.1%

Edgar Filing: Kelley Karen Dunn - Form 4

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%
				14,866	15,000	1.0%
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%
				18,402	18,402	1.2%
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%
				48,600	48,600	3.2%

See notes to consolidated financial statements.

F-23

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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%
				12,438	6,571	0.4%
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%
				14,792	14,792	1.0%
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%
				15,147	15,147	1.0%
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%
				16,663	17,497	1.2%
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable			6,431	0.4%
					6,431	0.4%
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%
				10,756	10,686	0.7%
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%

Explanation of Responses:

106

Edgar Filing: Kelley Karen Dunn - Form 4

				17,475	17,475	1.2%
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%
				14,803	14,608	1.0%

See notes to consolidated financial statements.

F-24

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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%
				5,000	4,989	0.3%
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%
				62,680	62,680	4.2%
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%
				5,775	6,000	0.4%
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%
				14,711	14,711	1.0%
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%
				27,798	27,798	1.8%
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%
				3,164	3,288	0.2%
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%
		Senior Secured Term Loan C (8.50% (LIBOR + 6.50% with 2.00% LIBOR floor), due 3/18/2016)(3)	12,686	12,686	12,686	0.8%

Edgar Filing: Kelley Karen Dunn - Form 4

		3/18/2016)				
		Senior Secured Term Loan D (14.50%				
		(LIBOR + 12.50% with 2.00% LIBOR floor), due				
		3/18/2016)	13,681	13,681	13,681	0.9%
				83,461	83,461	5.5%
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%
				41,634	41,326	2.7%

See notes to consolidated financial statements.

F-25

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Skillsoft Public Limited Company(22)	Ireland / Software & Computer Services	Subordinated Unsecured (11.125%, due 6/1/2018)	\$ 15,000	\$ 14,918	\$ 15,000	1.0%
				14,918	15,000	1.0%
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%
				15,345	15,691	1.0%
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%
				17,568	17,568	1.2%
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable			406	0.0%
					406	0.0%
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%
				35,000	34,062	2.3%
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%
				23,328	23,328	1.5%
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%
				32,558	32,558	2.2%

Explanation of Responses:

110

Edgar Filing: Kelley Karen Dunn - Form 4

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	1,623	0.0%
				32,711	1,623	0.1%
Symphony CLO, IX Ltd.(22)	Cayman Islands / Diversified Financial Services	LP Certificates (Residual Interest)	45,500	42,864	43,612	2.9%
				42,864	43,612	2.9%
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%
				23,363	23,760	1.6%

See notes to consolidated financial statements.

F-26

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

			June 30, 2012 (Audited)			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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%
				39,000	38,531	2.5%
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%
				25,000	25,000	1.7%
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%
				30,306	30,306	2.0%
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%
				14,750	2,339	0.2%
Total Non-control/Non-affiliate Investments (Level 3 Investments)				1,536,950	1,483,487	98.1%
Total Level 3 Portfolio Investments				2,099,194	2,094,092	138.5%
LEVEL 1 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
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)		63	129	0.0%
				63	129	0.0%
Total Non-control/Non-affiliate Investments (Level 1 Investments)				119	129	0.0%

Explanation of Responses:

112

Edgar Filing: Kelley Karen Dunn - Form 4

Total Portfolio Investments	2,099,313	2,094,221	138.5%
------------------------------------	------------------	------------------	---------------

SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)

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%

Total Money Market Funds	118,369	118,369	7.8%
---------------------------------	----------------	----------------	-------------

Total Investments	2,217,682	2,212,590	146.3%
--------------------------	------------------	------------------	---------------

Endnote Explanations for the Consolidated Schedule of Investments as of December 31, 2012 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 December 31, 2012 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

F-27

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

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

valuation hierarchy established by Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("ASC 820"). As of December 31, 2012 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 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 December 31, 2012 and June 30, 2012 were \$642,128 and \$783,384, respectively; they represent 18.5% 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 \$642,128 and \$783,384 of these investments as of December 31, 2012 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 December 31, 2012 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 December 31, 2012 and June 30, 2012.
- (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

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

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

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 December 31, 2012 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.

- (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

Table of Contents

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

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

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 December 31, 2012 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 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 December 31, 2012 and June 30, 2012. Our fully diluted ownership in NMMB Acquisition, Inc. is 83.5% as of December 31, 2012 and June 30, 2012.

Table of Contents

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

December 31, 2012 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

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

- (25) Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of December 31, 2012 and June 30, 2012, we have \$188,367 and \$180,646 of undrawn revolver commitments to our portfolio companies, respectively.
- (26) Stated interest rates are based on December 31, 2012 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 2.6% of Caleel + Hayden, LLC, which holds 11,662 options in Mineral Fusion Natural, LLC, its subsidiary, which expire February 25, 2019.
- (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.
- (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.

F-31

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

(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 six months ended December 31, 2012.

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

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

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

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(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.

F-35

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(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. 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 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.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

Federal and State Income Taxes

We have elected to be treated as a regulated investment company and intend to continue to comply with the requirements of the Internal Revenue Code, applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital 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. At December 31, 2012, we have elected to retain a portion of our annual taxable income and have accrued \$4,500 for the excise tax that will be paid with the filing of the return.

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.

F-37

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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 December 31, 2012 and for the three and six 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.

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

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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. 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 amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on our financial statements.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 3. Portfolio Investments**

At December 31, 2012, we had invested in 106 long-term portfolio investments, which had an amortized cost of \$3,117,057 and a fair value of \$3,038,808 and at June 30, 2012, we had invested in 85 long-term portfolio investments, which had an amortized cost of \$2,099,313 and a fair value of \$2,094,221.

As of December 31, 2012, we own controlling interests in AIRMALL USA, Inc. ("Airmall"), Ajax Rolled Ring & Machine, Inc., APH Property Holdings, LLC ("APH"), AWCNC, LLC, Borga, Inc. ("Borga"), CCPI, Inc., Credit Central, Inc., Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Holdings of Delaware, LLC, Manx Energy, Inc. ("Manx"), 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 December 31, 2012 and June 30, 2012 at cost and fair value was as follows:

	December 31, 2012		June 30, 2012	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$ 7,195	\$ 6,872	\$ 1,145	\$ 868
Senior Secured Debt	1,574,781	1,508,131	1,146,454	1,088,019
Subordinated Secured Debt	801,771	755,831	536,900	480,147
Subordinated Unsecured Debt	173,241	173,781	72,617	73,195
CLO Debt	27,459	29,389	27,258	27,717
CLO Residual Interest	405,300	408,050	214,559	218,009
Equity	127,310	156,754	100,380	206,266
Total Investments	3,117,057	3,038,808	2,099,313	2,094,221
Money Market Funds	430,945	430,945	118,369	118,369
Total Investments and Money Market Funds	\$ 3,548,002	\$ 3,469,753	\$ 2,217,682	\$ 2,212,590

F-40

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(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 December 31, 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	\$	\$	\$ 6,872	\$ 6,872
Senior Secured Debt			1,508,131	1,508,131
Subordinated Secured Debt			755,831	755,831
Subordinated Unsecured Debt			173,781	173,781
CLO Debt			29,389	29,389
CLO Residual Interest			408,050	408,050
Equity	105		156,649	156,754
Total Investments	105		3,038,703	3,038,808
Money Market Funds		430,945		430,945
Total Investments and Money Market Funds	\$ 105	\$ 430,945	\$ 3,038,703	\$ 3,469,753

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Investments at fair value				
Control investments	\$	\$	\$ 649,380	\$ 649,380
Affiliate investments			48,266	48,266
Non-control/non-affiliate investments	105		2,341,057	2,341,162
	105		3,038,703	3,038,808
Investments in money market funds		430,945		430,945
Total investments reported at fair value	\$ 105	\$ 430,945	\$ 3,038,703	\$ 3,469,753

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(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
Subordinated 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
Total Investments	129		2,094,092	2,094,221
Money Market Funds		118,369		118,369
Total Investments and Money Market Funds	\$ 129	\$ 118,369	\$ 2,094,092	\$ 2,212,590

Fair Value Hierarchy				
	Level 1	Level 2	Level 3	Total
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
Total investments reported at fair value	\$ 129	\$ 118,369	\$ 2,094,092	\$ 2,212,590

Table of Contents
PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012
(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 six months ended December 31, 2012 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	(12,198)		5,727	(6,471)
Change in unrealized appreciation (depreciation)	(63,454)	(2,279)	(7,400)	(73,133)
Net realized and unrealized gain (loss)	(75,652)	(2,279)	(1,673)	(79,604)
Purchases of portfolio investments	184,343	30,000	1,301,671	1,516,014
Payment-in-kind interest	44	360	3,644	4,048
Amortization of discounts and premiums		446	10,976	11,422
Repayments and sales of portfolio investments	(23,844)	(26,377)	(457,048)	(507,269)
Transfers within Level 3				
Transfers in (out) of Level 3				
Fair value as of December 31, 2012	\$ 649,380	\$ 48,266	\$ 2,341,057	\$ 3,038,703

	Fair Value Measurements Using Unobservable Inputs (Level 3)							
	Revolver	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	CLO Debt	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2012	\$ 868	\$ 1,093,019	\$ 475,147	\$ 73,195	\$ 27,717	\$ 218,009	\$ 206,137	\$ 2,094,092
Total realized loss (gain), net			(11,520)				5,049	(6,471)
Change in unrealized (depreciation) appreciation	(46)	(8,215)	10,816	(39)	1,470	(702)	(76,417)	(73,133)
Net realized and unrealized (loss) gain	(46)	(8,215)	(704)	(39)	1,470	(702)	(71,368)	(79,604)
Purchases of portfolio investments	7,150	734,016	460,610	99,000		182,522	32,716	1,516,014
Payment-in-kind interest		618	1,843	1,587				4,048
Amortization of discounts and premiums		1,169	1,792	38	202	8,221		11,422
Repayments and sales of portfolio investments	(1,100)	(312,476)	(182,857)				(10,836)	(507,269)
Transfers within Level 3								
Transfers in (out) of Level 3								

Edgar Filing: Kelley Karen Dunn - Form 4

Fair value as of December 31, 2012	\$ 6,872	\$ 1,508,131	\$ 755,831	\$ 173,781	\$ 29,389	\$ 408,050	\$ 156,649	\$ 3,038,703
---------------------------------------	----------	--------------	------------	------------	-----------	------------	------------	--------------

F-43

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(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 six months ended December 31, 2011 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, 2011	\$ 310,072	\$ 72,337	\$ 1,080,421	\$ 1,462,830
Total realized loss, net	12,130		(13,239)	(1,109)
Change in unrealized appreciation (depreciation)	67,057	(7,119)	(18,798)	41,140
Net realized and unrealized gain (loss)	79,187	(7,119)	(32,037)	40,031
Purchases of portfolio investments	44,043	2,300	327,600	373,943
Payment-in-kind interest	219	271	2,839	3,329
Accretion of purchase discount	32	1,125	1,418	2,575
Repayments and sales of portfolio investments	(44,961)	(1,042)	(120,258)	(166,261)
Transfers within Level 3	(2,040)		2,040	
Transfers in (out) of Level 3				
Fair value as of December 31, 2011	\$ 386,552	\$ 67,872	\$ 1,262,023	\$ 1,716,447

	Fair Value Measurements Using Unobservable Inputs (Level 3)							
	Revolver	Senior Secured Debt	Subordinated Secured Debt	Subordinated 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, net		(221)	(14,606)				13,718	(1,109)
Change in unrealized (depreciation) appreciation	(32)	(10,796)	(6,503)	(560)		(3,432)	62,463	41,140
Net realized and unrealized (loss) gain	(32)	(11,017)	(21,109)	(560)		(3,432)	76,181	40,031
Purchases of portfolio investments	1,000	219,665	79,761	15,000	14,334	42,794	1,389	373,943
Payment-in-kind interest		219	2,668	442				3,329
Accretion of purchase discount	32	1,003	1,507	33				2,575
Repayments and sales of portfolio investments	(6,185)	(113,721)	(30,802)				(15,553)	(166,261)
Transfers within Level 3								
Transfers in (out) of Level 3								
	\$ 2,093	\$ 886,130	\$ 480,700	\$ 70,251	\$ 14,334	\$ 39,362	\$ 223,577	\$ 1,716,447

Fair value as of December 31,
2011

F-44

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 3. Portfolio Investments (Continued)**

For the six months ended December 31, 2012 and 2011, the net change in unrealized (depreciation) appreciation on the investments that use Level 3 inputs was (\$67,286) and \$42,165 for assets still held as of December 31, 2012 and 2011, respectively.

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

	As of December, 2012	As of June 30, 2012
EBITDA Multiples	3.8x to 13.0x	3.5x to 10.0x
Market Yields	5.7% to 35.0%	6.4% to 30.0%
CLO Discount Rates	9.9% to 17.9%	8.0% to 13.0%

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 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.

F-45

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

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.

As of December 31, 2012, 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 \$49,752 as of December 31, 2012, a discount of \$1,718 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

As of December 31, 2012, 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 and in recognition of recent company performance we increased the fair value of our investment in First Tower to \$310,409 as of December 31, 2012, a premium of \$2,456 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 \$153,687 in cash and an additional \$5,000 is being held in escrow. 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 will be required to be recognized as dividend income, in accordance with ASC 946, Financial Services Investment Companies, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition. During the quarter ended December 31, 2012, Energy Solutions repaid \$20,000 of senior secured debt. We received a \$14,144 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income during the three months ended December 31,

F-46

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

2012. During the three and six months ended December 31, 2012, we received distributions of \$20,570 and \$53,820 from Energy Solutions which were recorded as dividend income, respectively. Energy Solutions continues to hold \$32,187 of cash for future investment and repayment of debt, of which \$5,007 is currently held in escrow.

At December 31, 2012 and June 30, 2012, nine loan investments were on non-accrual status: Borga, Freedom Marine, H&M Oil and Gas, LLC, THS, 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 \$162,064 and \$171,149 as of December 31, 2012 and June 30, 2012, respectively. The fair value of these loans amounted to \$38,985 and \$43,641 as of December 31, 2012 and June 30, 2012, respectively. The fair values of these investments represent approximately 1.7% and 2.9% of our net assets as of December 31, 2012 and June 30, 2012, respectively. For the three months ended December 31, 2012 and December 31, 2011, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$6,629 and \$5,598, respectively. For the six months ended December 31, 2012 and December 31, 2011, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$13,756 and \$12,028, respectively.

During the six months ended December 31, 2011, 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.

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

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled \$769,950 and \$152,941 during the three months ended December 31, 2012 and December 31, 2011, respectively. These placements and acquisitions totaled \$1,516,014 and \$373,943 during the six months ended December 31, 2012 and December 31, 2011, respectively. Debt repayments and sales of equity securities with a cost basis of \$345,194 and \$106,708 were received during the three months ended December 31, 2012 and December 31, 2011,

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

respectively. These repayments and sales amounted to \$501,542 and \$152,763 during the six months ended December 31, 2012 and December 31, 2011, respectively.

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

During the three and six months ended December 31, 2011, we recognized \$1,548 and \$2,385 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. Included in the \$1,548 recorded during the three months ended December 31, 2011 is \$854 of normal accretion and \$694 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC ("Mac & Massey"). Included in the \$2,385 recorded during the six months ended December 31, 2011 is \$1,691 of normal accretion and \$694 of accelerated accretion resulting from the repayment of Mac & Massey.

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 December 31, 2012, \$1,082 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 March 31, 2013.

As of December 31, 2012, \$2,015,636 of our loans bear interest at floating rates, \$1,986,247 of which have Libor floors ranging from 1.25% to 6.00%.

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of December 31, 2012 and June 30, 2012, we have \$188,367 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 Syndicated Facility to accept up to an aggregate total of \$400,000 of commitments, a limit which was met on September 1, 2011. Interest on borrowings under the 2010 Facility was one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charged a fee on the unused portion of the 2010 Facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 4. Revolving Credit Agreements (Continued)

On March 27, 2012, we renegotiated the Syndicated Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$552,500 under the 2012 Facility as of December 31, 2012. 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 December 31, 2012, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of December 31, 2012 and June 30, 2012, we had \$277,127 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 December 31, 2012, the investments used as collateral for the 2012 Facility had an aggregate market value of \$642,128, which represents 27.6% 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 December 31, 2012. 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 \$10,757 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$8,206 remains to be amortized as of December 31, 2012.

During the three months ended December 31, 2012 and December 31, 2011, we recorded \$2,227 and \$4,689 of interest costs and amortization of financing costs on the Syndicated Facility as interest expense, respectively. During the six months ended December 31, 2012 and December 31, 2011, we recorded \$4,395 and \$8,299 of interest costs and amortization of financing costs on the Syndicated Facility as interest expense, respectively.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

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 December 31, 2012 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 December 31, 2012 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 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 December 31, 2012 of 78.3699 and 78.3835 shares, respectively, of common stock per \$1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.76 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (February 14, 2011) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes 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 December 31, 2012 of 85.8442 shares of common stock per \$1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately \$11.65 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (April 16, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10150 per share.

F-50

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 5. Senior Convertible Notes (Continued)

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 December 31, 2012 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 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 December 31, 2012 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.

F-51

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 5. Senior Convertible Notes (Continued)

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

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

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

In connection with the issuance of the Senior Convertible Notes, we incurred \$27,327 of fees which are being amortized over the terms of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$22,753 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities as of December 31, 2012.

During the three months ended December 31, 2012 and December 31, 2011, we recorded \$10,564 and \$5,070 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense. During the six months ended December 31, 2012 and December 31, 2011, we recorded \$19,230 and \$10,420 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 net proceeds net of offering expenses of \$97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

F-52

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 6. Senior Unsecured Notes (Continued)

In connection with the issuance of the 2022 Notes, we incurred \$3,337 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$3,172 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three and six months ended December 31, 2012, we recorded \$1,814 and \$3,621 of interest costs and amortization of financing costs on the 2022 Notes as interest expense, respectively.

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 six months ended December 31, 2012, we issued \$144,355 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$140,901. These notes were issued with stated interest rates ranging from 4.50% to 6.63% with a weighted average rate of 5.92%. These notes mature between July 15, 2019 and December 15, 2042.

F-53

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 7. Prospect Capital InterNotes® (Continued)**

The bonds outstanding as of December 31, 2012 are:

Date of Issuance	Principal Amount	Interest Rate	Maturity Date
March 1, 2012	\$ 4,000	7.00%	March 15, 2022
March 8, 2012	1,465	6.90%	March 15, 2022
April 5, 2012	4,000	6.85%	April 15, 2022
April 12, 2012	2,462	6.70%	April 15, 2022
April 26, 2012	2,054	6.50%	April 15, 2022
June 14, 2012	2,657	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	June 15, 2019
July 6, 2012	2,778	6.45%	July 15, 2019
July 12, 2012	5,673	6.35%	July 15, 2019
July 19, 2012	6,810	6.30%	July 15, 2019
July 26, 2012	5,667	6.20%	July 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019
September 7, 2012	5,981	6.00%	September 15, 2019
September 13, 2012	5,879	5.95%	September 15, 2019
September 20, 2012	8,600	5.90%	September 15, 2019
September 27, 2012	8,946	5.85%	September 15, 2019
October 4, 2012	7,172	5.70%	October 15, 2019
November 23, 2012	10,018	5.13%	November 15, 2019
November 23, 2012	10,171	6.63%	November 15, 2042
November 29, 2012	3,736	5.00%	November 15, 2019
November 29, 2012	1,979	5.75%	November 15, 2032
November 29, 2012	6,266	6.50%	November 15, 2042
December 6, 2012	3,859	4.88%	December 15, 2019
December 6, 2012	1,127	5.63%	December 15, 2032
December 6, 2012	8,203	6.38%	December 15, 2042
December 13, 2012	1,822	4.75%	December 15, 2019
December 13, 2012	916	5.25%	December 15, 2030
December 13, 2012	3,474	6.25%	December 15, 2042
December 20, 2012	1,678	4.63%	December 15, 2019
December 20, 2012	1,314	5.13%	December 15, 2030
December 20, 2012	6,449	6.13%	December 15, 2042
December 28, 2012	1,980	4.50%	December 15, 2019
December 28, 2012	1,472	5.00%	December 15, 2030
December 28, 2012	4,840	6.00%	December 15, 2042

\$ 164,993

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 7. Prospect Capital InterNotes® (Continued)**

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$4,566 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$4,441 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

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 December 31, 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)	\$	\$	\$	\$
Senior convertible notes(2)		859,597		859,597
Senior unsecured notes(2)	103,920			103,920
Prospect Capital InterNotes®(3)		180,790		180,790
Total	\$ 103,920	\$ 1,040,387	\$	\$ 1,144,307

-
- (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
Total	\$ 99,560	\$ 572,951	\$	\$ 672,511

- (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.

F-55

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 9. Equity Offerings, Offering Expenses, and Distributions**

We issued 74,915,012 and 1,500,000 shares of our common stock during the six months ended December 31, 2012 and December 31, 2011, 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 six months ended December 31, 2012:					
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
During the six months ended December 31, 2011:					
July 18, 2011	1,500,000	\$ 15,225	\$ 165	\$ 137	\$ 10.15

- (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.

Our shareholders' equity accounts at December 31, 2012 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

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)**

made any purchases of our common stock during the period from August 24, 2011 to December 31, 2012 pursuant to this plan. Prior to any repurchase we are required to notify shareholders of our intention to purchase our common stock. This notice lasts for six months after notice is given. Our last notice was delivered with our annual proxy mailing on September 10, 2012.

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

\$0.110000 per share for December 2012 (record date of December 31, 2012 and payment date of January 23, 2013); and

\$0.110025 per share for January 2013 (record date of January 31, 2013 and payment date of February 20, 2013).

These distributions replace the dividends for December 2012 and January 2013 that had been previously announced on November 7, 2012.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, as of December 31, 2012 we can issue up to \$2,546,746 of additional debt and equity securities in the public market.

During the six months ended December 31, 2012 and December 31, 2011, we issued 624,527 and 584,361 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

At December 31, 2012, we have reserved 69,983,985 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 from such sources for the three and six months ended December 31, 2012 and December 31, 2011 were as follows:

Income Source	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2012	2011	2012	2011
Structuring and amendment fees	\$ 15,697	\$ 1,862	\$ 24,657	\$ 7,456
Overriding royalty interests	1,326		1,340	117
Administrative agent fee	191	236	335	430
Other Investment Income	\$ 17,214	\$ 2,098	\$ 26,332	\$ 8,003

F-57

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 11. Net Increase in Net Assets per Common Share**

The following information sets forth the computation of net increase in net assets resulting from operations per common share for the three and six months ended December 31, 2012 and December 31, 2011, respectively.

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2012	2011	2012	2011
Net increase in net assets resulting from operations	\$ 46,489	\$ 64,492	\$ 93,738	\$ 104,392
Weighted average common shares outstanding	195,585,502	109,533,742	179,039,198	109,246,616
Net increase in net assets resulting from operations per common share	\$ 0.24	\$ 0.59	\$ 0.52	\$ 0.96

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.

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 December 31, 2012 and December 31, 2011 were \$16,306, and \$8,825, respectively. The fees incurred for the six months ended December 31, 2012 and December 31, 2011 were \$29,534, and \$17,036, respectively.

F-58

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 12. Related Party Agreements and Transactions (Continued)

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

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

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

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

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

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

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in its

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 12. Related Party Agreements and Transactions (Continued)

portfolio. For the purpose of this calculation, an "investment" is defined as the total of all rights and claims which maybe asserted against a portfolio company arising from our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equal the sum of the differences between the aggregate net sales price of each investment and the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate realized capital losses equal the sum of the amounts by which the aggregate net sales price of each investment is less than the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the aggregate valuation of each investment and the aggregate cost basis of such investment as of the applicable calendar year-end. At the end of the applicable calendar year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis and then reducing this amount by the aggregate unrealized capital depreciation. If this number is positive, then the capital gains incentive fee payable is equal to 20.00% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception.

For the three months ended December 31, 2012 and December 31, 2011, income incentive fees of \$24,804 and \$9,127, respectively, were incurred. For the six months ended December 31, 2012 and December 31, 2011, income incentive fees of \$43,311 and \$16,096, respectively, were incurred. No capital gains incentive fees were incurred for the three or six months ended December 31, 2012 and December 31, 2011.

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 staff. For the three months ended December 31, 2012 and 2011, the reimbursement was approximately \$2,139 and \$1,117, respectively. For the six months ended December 31, 2012 and 2011, the reimbursement was approximately \$4,323 and \$2,233, 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

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 12. Related Party Agreements and Transactions (Continued)

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 December 31, 2012 and June 30, 2012, \$373 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 December 31, 2012.

F-61

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 14. Financial Highlights**

	For The Three Months Ended		For The Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2012	2011	2012	2011
Per Share Data(1):				
Net asset value at beginning of period	\$ 10.88	\$ 10.41	\$ 10.83	\$ 10.36
Net investment income	0.51	0.33	0.97	0.59
Net realized (loss) gain	(0.04)	0.12	(0.04)	(0.01)
Net unrealized (depreciation) appreciation	(0.23)	0.14	(0.41)	0.38
Net increase (decrease) in net assets as a result of public offerings	0.01		0.10	(0.01)
Dividends declared	(0.32)	(0.31)	(0.64)	(0.62)
Net asset value at end of period	\$ 10.81	\$ 10.69	\$ 10.81	\$ 10.69
Per share market value at end of period	\$ 10.87	\$ 9.29	\$ 10.87	\$ 9.29
Total return based on market value(2)	(2.99)%	14.08%	0.71%	(1.67)%
Total return based on net asset value(2)	2.14%	6.05%	5.33%	10.41%
Shares outstanding at end of period	215,173,410	109,691,051	215,173,410	109,691,051
Average weighted shares outstanding for period	195,585,502	109,533,742	179,039,198	109,246,616
Ratio / Supplemental Data:				
Net assets at end of period	\$ 2,326,635	\$ 1,172,484	\$ 2,326,625	\$ 1,172,484
Annualized ratio of operating expenses to average net assets	12.70%	10.65%	12.21%	10.20%
Annualized ratio of net operating income to average net assets	18.85%	12.64%	18.17%	11.28%

F-62

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(Unaudited)****(In thousands, except share and per share data)****Note 14. Financial Highlights (Continued)**

	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
Per Share Data(1):					
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
Ratio / Supplemental Data:					
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.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012****(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, 2009	21,517	0.43	12,318	0.25	(18,696)	(0.38)	(6,378)	(0.13)
December 31, 2009(2)	31,801	0.55	19,258	0.33	(33,778)	(0.59)	(14,520)	(0.25)
March 31, 2010	32,005	0.50	18,974	0.30	6,966	0.11	25,940	0.41
June 30, 2010	29,236	0.44	16,640	0.25	(2,057)	(0.03)	14,583	0.22
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

(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 January 4, 2013 to February 7, 2013, we issued \$18,003 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$17,432.

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 \$113,962 net of commissions to the broker-dealer on shares sold and offering costs.

On January 11, 2013, we provided \$27,100 of debt financing to CHC Companies, Inc., a national provider of correctional medical and behavioral healthcare solutions.

Edgar Filing: Kelley Karen Dunn - Form 4

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.

On January 23, 2013, we issued 160,182 shares of our common stock in connection with the dividend reinvestment plan.

F-64

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012

(Unaudited)

(In thousands, except share and per share data)

Note 16. Subsequent Events (Continued)

On January 24, 2013, we made an investment of \$24,288 to purchase 56.14% of the subordinated notes in Cent 17 CLO Limited.

On January 24, 2013, we made an investment of \$25,650 to purchase 50.12% of the subordinated notes in Octagon Investment Partners XV, Ltd.

On January 29, 2013 we provided \$8,000 of secured second lien financing to TGG Medical Transitory, Inc., a developer of technologies for extracorporeal photopheresis treatments.

On January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide Acceptance Corporation, which operate a specialty finance business based in Chicago, Illinois, a \$25,151 of combined debt and equity financing.

On February 4, 2013, we received a distribution of \$3,250 related to our investment in NRG Manufacturing, Inc., for which we realized a gain of the same amount. This is a partial release of the total amounts held in escrow with a fair value of \$8,070 as of December 31, 2012.

On February 5, 2013, we made a secured debt investment of \$2,000 in Healogics, Inc., 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 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.

F-65

Table of Contents

\$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.

The date of this Prospectus is October 29, 2012.

TABLE OF CONTENTS

<u>About This Prospectus</u>	Page <u>1</u>
<u>Prospectus Summary</u>	<u>2</u>
<u>Selected Condensed Financial Data</u>	<u>10</u>
<u>Risk Factors</u>	<u>11</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>74</u>
<u>Report of Management on Internal Control Over Financial Reporting</u>	<u>75</u>
<u>Use of Proceeds</u>	<u>75</u>
<u>Forward-Looking Statements</u>	<u>76</u>
<u>Distributions</u>	<u>77</u>
<u>Senior Securities</u>	<u>80</u>
<u>Price Range of Common Stock</u>	<u>82</u>
<u>Business</u>	<u>84</u>
<u>Certain Relationships and Transactions</u>	<u>110</u>
<u>Control Persons and Principal Stockholders</u>	<u>111</u>
<u>Portfolio Companies</u>	<u>113</u>
<u>Determination of Net Asset Value</u>	<u>120</u>
<u>Sales of Common Stock Below Net Asset Value</u>	<u>121</u>
<u>Dividend Reinvestment Plan</u>	<u>125</u>
<u>Material U.S. Federal Income Tax Considerations</u>	<u>127</u>
<u>Description of Our Capital Stock</u>	<u>134</u>
<u>Description of Our Preferred Stock</u>	<u>141</u>
<u>Description of Our Debt Securities</u>	<u>141</u>
<u>Description of Our Subscription Rights</u>	<u>155</u>
<u>Description of Our Warrants</u>	<u>156</u>
<u>Description of Our Units</u>	<u>157</u>
<u>Regulation</u>	<u>158</u>
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	<u>163</u>
<u>Brokerage Allocation and Other Practices</u>	<u>164</u>

Edgar Filing: Kelley Karen Dunn - Form 4

<u>Plan of Distribution</u>	<u>164</u>
<u>Legal Matters</u>	<u>166</u>
<u>Independent Registered Accounting Firm</u>	<u>166</u>
<u>Available Information</u>	<u>166</u>
<u>Index to Financial Statements</u>	<u>F-1</u>

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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."

Table of Contents

Taxation

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."

Dividend reinvestment plan

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."

The NASDAQ Global Select Market Symbol

PSEC

Anti-takeover provisions

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."

Management arrangements

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."

Table of Contents

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

Edgar Filing: Kelley Karen Dunn - Form 4

Table of Contents

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%
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%

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.

Table of Contents

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

- (1) 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

Table of Contents

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.

	For the Year/Period Ended June 30,				
	2012	2011	2010	2009	2008
	(in thousands except data relating to shares, per share and number of portfolio companies)				

Performance Data: