

PROSPECT CAPITAL CORP  
Form 497  
July 23, 2012

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## Prospect Capital Corporation Prospect Capital InterNotes® 6.200% Senior Notes due 2019 (the "Notes")

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

Pricing Supplement No. 11 Dated Monday, July 16, 2012 (To: Prospectus Dated October 21, 2011, and Prospectus Supplement Dated May 25, 2012)

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1 <sup>st</sup> Coupon Date	1 <sup>st</sup> Coupon Amount	Survivor's Option	Product Ranking
74348YAJ0	US74348YAJ01	\$5,667,000.00	100.000%	1.750%	\$5,567,827.50	Fixed	6.200%	Semi-Annual	07/15/2019	01/15/2013	\$29.11	Yes	Senior Unsecured Notes

**Redemption Information: Callable at 100.000% on 07/15/2013 and every coupon date thereafter.**

Trade Date: Monday, July 23, 2012 @ 12:00 PM ET  
Settle Date: Thursday, July 26, 2012  
Minimum Denomination/Increments: \$1,000.00/\$1,000.00  
Initial trades settle flat and clear SDFS: DTC Book Entry only

The Notes will be issued pursuant to the Indenture, dated as of February 16, 2012, as amended and supplemented by that certain Eleventh Supplemental Indenture, dated as of July 26, 2012.

The date from which interest shall accrue on the Notes is Thursday, July 26, 2012. The "Interest Payment Dates" for the Notes shall be January 15 and July 15 of each year, commencing January 15, 2013; the interest payable on any Interest Payment Date, will be paid to the Person in whose name the Note (or one or more predecessor Notes) is registered at the close of business on the Regular Record Date (as defined in the Indenture) for such interest, which shall be January 1 or July 1, as the case may be, next preceding such Interest Payment Date.

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

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

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This pricing supplement relates only to the securities described in the accompanying prospectus supplement and prospectus, is only a summary of changes and should be read together with the accompanying prospectus supplement and prospectus, including among other things the section entitled "Risk Factors" beginning on page S-6 of such prospectus supplement and page 10 of such prospectus. This pricing supplement and the accompanying prospectus supplement and prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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

InterNotes® is a registered trademark of Incapital Holdings LLC.

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**Recent Developments:** On May 24, 2012, we issued 81,773 shares of our common stock in connection with the dividend reinvestment plan.

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

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

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

On June 1, 2012, we and KeyBanc Capital Markets Inc. entered into an equity distribution agreement relating to sales by us through KeyBanc Capital Markets, by means of at-the-market offerings from time to time, of up to 9,500,000 shares of our common stock (the "ATM Program"). Through the ATM Program, we anticipate generating an aggregate of approximately \$100 million in net proceeds after deducting the estimated commissions and estimated offering expenses. We expect to use proceeds from the ATM Program initially to maintain balance sheet liquidity, involving repayment of all or a portion of the amounts outstanding under the our credit facility, if any, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. During the period from June 1, 2012 to July 9, 2012, we issued 5,199,764 shares of our common stock at an average price of \$11.38 per share, and raised \$59.2 million of gross proceeds, under the ATM Program. Net proceeds were \$58.6 million after 1% commission to the broker-dealer on shares sold.

On June 7, 2012, we provided \$48.6 million of senior secured financing to Naylor, LLC, an outsourced provider of media and communications services to professional, trade and interest associations.

On June 7, 2012, we made an investment of \$27.4 million to purchase 73.6% of the unrated subordinated notes in Babson CLO Ltd. 2012-II.

On June 8, 2012, one lender in our credit facility increased its commitment by \$5 million. The commitments to the credit facility now stand at \$487.5 million.

On June 13, 2012, we added one additional lender to the committed lenders under our credit facility, increasing the total commitments under the credit facility to \$492.5 million.

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

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

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

On June 22, 2012, we issued 72,407 shares of our common stock in connection with the dividend reinvestment plan.

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

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

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

During the period from June 14, 2012 to July 12, 2012, we issued \$15.1 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$14.8 million.

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 \$234.15 million of gross proceeds.

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On July 19, 2012, we provided \$12 million of senior secured financing to EIG Investors Corp., a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses.

On July 19, 2012, we provided \$10 million of senior secured financing to FPG, LCC a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors

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

Prospect Capital Corporation  
10 East 40<sup>th</sup> Street, 44<sup>th</sup> Floor  
New York, New York 10016

In the opinion of Venable LLP, as Maryland counsel to the Company, (i) the execution and delivery by the Company of the Indenture, dated as of February 16, 2012, as supplemented through the Eleventh Supplemental Indenture, between the Company and American Stock Transfer & Trust Company, and the global note representing the Notes issued pursuant to such Supplemental Indenture, and the performance by the Company of its obligations thereunder, have been duly authorized by the Company and (ii) the issuance of the Notes has been duly authorized by the Company. This opinion is given to the Company as of July 23, 2012 and is limited to the laws of the State of Maryland as in effect on July 23, 2012. In addition, this opinion is subject to the same assumptions, qualifications and limitations stated in the opinion letter to the Company of Venable LLP, dated March 8, 2012, filed as Exhibit (I)(4) to the Company's Registration Statement on Form N-2 (File No. 333-176637). Capitalized terms used in this paragraph without definition have the meanings ascribed to them in the accompanying prospectus supplement.

Very truly yours,

/s/ Venable LLP

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PROSPECTUS SUPPLEMENT  
(To Prospectus dated October 21, 2011)

## Prospect Capital Corporation

### Prospect Capital InterNotes®

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

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

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

*Investing in the notes involves certain risks, including those described in the "Risk Factors" section beginning on page S-6 of this prospectus supplement and page 10 of the accompanying prospectus.*

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

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

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

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

### **Incapital LLC**

Prospectus Supplement dated May 25, 2012.



**FORWARD-LOOKING STATEMENTS**

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

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

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

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

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

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

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

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

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**PROSPECTUS**

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## PROSPECTUS SUMMARY

*This section summarizes the legal and financial terms of the notes that are described in more detail in "Description of Notes" beginning on page S-43. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in "Description of Notes." In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.*

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

### The Company

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

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

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

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

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

## Recent Developments

### Dividends

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

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

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

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

\$0.10160 per share for August 2012 to holders of record on August 31, 2012 with a payment date of September 21, 2012.

### Recent Investment Activity

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

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

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

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

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

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

### Credit Facility

On April 4, 2012 and April 17, 2012, we closed increases to our commitments to our credit facility of \$15 million and \$57.5 million, respectively. The commitments to the credit facility now stand at \$482.5 million.

### Debt Issuance

In April 2012, we issued approximately \$8.5 million in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of approximately \$8.3 million.

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

On May 1, 2012, we issued \$100 million in aggregate principal amount of 6.95% senior unsecured notes due 2022 for net proceeds following underwriting expenses of approximately \$96.8 million.

### Stock Issuance in Connection with Dividend Reinvestment Plan

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On April 20, 2012, we issued 85,063 shares of our common stock in connection with the dividend reinvestment plan.

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**The Offering**

<b>Issuer</b>	Prospect Capital Corporation
<b>Purchasing Agent</b>	Incapital LLC
<b>Agents</b>	From time to time, we may sell the notes to or through additional agents.
<b>Title of Notes</b>	Prospect Capital InterNotes®
<b>Amount</b>	We may issue notes from time to time in various offerings up to \$500,000,000, the aggregate principal amount authorized by our board of directors. As of May 24, 2012, \$13,981,000 aggregate principal amount of notes has been issued. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act.
<b>Denominations</b>	The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).
<b>Status</b>	The notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.
<b>Maturities</b>	Each note will mature 12 months or more from its date of original issuance.
<b>Interest</b>	<p>Each note will bear interest from its date of original issuance at a fixed rate per year.</p> <p>Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repurchased prior to its stated maturity in accordance with its terms.</p> <p>Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.</p>
<b>Principal</b>	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.
<b>Redemption and Repayment</b>	Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.
<b>Survivor's Option</b>	Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or

her estate at least six months prior to the request. This feature is referred to as a "Survivor's Option." Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor's Option. The right to exercise the Survivor's Option is subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes - Survivor's Option" on page S-46.

**Sale and Clearance**

We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.

**Trustee**

The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as supplemented from time to time. U.S. Bank National Association was appointed as trustee, succeeding American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012.

**Selling Group**

The agents and dealers comprising the selling group are broker-dealers and securities firms. The Purchasing Agent entered into a Selling Agent Agreement with us dated February 16, 2012. Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at [info@incapital.com](mailto:info@incapital.com) for a list of selling group members.

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SELECTED CONDENSED FINANCIAL DATA

You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2011, 2010, 2009, 2008 and 2007 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and nine months ended March 31, 2012 and 2011 has been derived from unaudited financial data. Interim results for the three and nine months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2012. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-10 for more information.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,		For the Year/Period Ended June 30,				
	2012	2011	2012	2011	2011	2010	2009	2008	2007
	(in thousands except data relating to shares, per share and number of portfolio companies)								
<b>Performance Data:</b>									
Interest income	\$ 72,946	\$ 34,504	\$ 160,361	\$ 90,787	\$ 134,454	\$ 86,518	\$ 62,926	\$ 59,033	\$ 30,084
Dividend income	7,477	2,763	34,664	8,328	15,092	15,366	22,793	12,033	6,153
Other income	15,200	7,306	23,203	13,970	19,930	12,675	14,762	8,336	4,444
<b>Total investment income</b>	<b>95,623</b>	<b>44,573</b>	<b>218,228</b>	<b>113,085</b>	<b>169,476</b>	<b>114,559</b>	<b>100,481</b>	<b>79,402</b>	<b>40,681</b>
Interest and credit facility expenses	(9,655)	(5,660)	(28,374)	(10,182)	(17,598)	(8,382)	(6,161)	(6,318)	(1,903)
Investment advisory expense	(23,467)	(12,034)	(56,599)	(31,231)	(46,051)	(30,727)	(26,705)	(20,199)	(11,226)
Other expenses	(4,429)	(2,923)	(10,798)	(7,641)	(11,606)	(8,260)	(8,452)	(7,772)	(4,421)
<b>Total expenses</b>	<b>(37,551)</b>	<b>(20,617)</b>	<b>(95,771)</b>	<b>(49,054)</b>	<b>(75,255)</b>	<b>(47,369)</b>	<b>(41,318)</b>	<b>(34,289)</b>	<b>(17,550)</b>
<b>Net investment income</b>	<b>58,072</b>	<b>23,956</b>	<b>122,457</b>	<b>64,031</b>	<b>94,221</b>	<b>67,190</b>	<b>59,163</b>	<b>45,113</b>	<b>23,131</b>
Realized and unrealized gains (losses)	(7,863)	9,803	32,144	27,248	24,017	(47,565)	(24,059)	(17,522)	(6,403)
<b>Net increase in net assets from operations</b>	<b>\$ 50,209</b>	<b>\$ 33,759</b>	<b>\$ 154,601</b>	<b>\$ 91,279</b>	<b>\$ 118,238</b>	<b>\$ 19,625</b>	<b>\$ 35,104</b>	<b>\$ 27,591</b>	<b>\$ 16,728</b>
<b>Per Share Data:</b>									
Net increase in net assets from operations(1)	\$ 0.44	\$ 0.38	\$ 1.39	\$ 1.11	\$ 1.38	\$ 0.33	\$ 1.11	\$ 1.17	\$ 1.06
Distributions declared per share	\$ 0.30	\$ 0.30	\$ 0.91	\$ 0.91	\$ (1.21)	\$ (1.33)	\$ (1.62)	\$ (1.59)	\$ (1.54)
Average weighted shares outstanding for the period	114,146,939	88,200,916	110,868,177	82,112,300	85,978,757	59,429,222	31,559,905	23,626,642	15,724,095
<b>Assets and Liabilities Data:</b>									
Investments	\$ 1,691,580	\$ 1,213,517	\$ 1,691,580	\$ 1,213,517	\$ 1,463,010	\$ 748,483	\$ 547,168	\$ 497,530	\$ 328,222
Other assets	124,429	125,345	124,429	125,345	86,307	84,212	119,857	44,248	48,280
<b>Total assets</b>	<b>1,816,009</b>	<b>1,338,862</b>	<b>1,816,009</b>	<b>1,338,862</b>	<b>1,549,317</b>	<b>832,695</b>	<b>667,025</b>	<b>541,778</b>	<b>376,502</b>

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Amount drawn on credit facility	121,000	47,500	121,000	47,500	84,200	100,300	124,800	91,167	
2010 Notes	150,000	150,000	150,000	150,000	150,000				
2011 Notes	167,500	172,500	167,500	172,500	172,500				
Prospect Capital InterNotes®	5,465		5,465						
Amount owed to related parties	4,677	7,809	4,677	7,809	7,918	9,300	6,713	6,641	4,838
Other liabilities	48,561	48,132	48,561	48,132	20,342	11,671	2,916	14,347	71,616
<b>Total liabilities</b>	<b>497,203</b>	<b>425,941</b>	<b>497,203</b>	<b>425,941</b>	<b>434,960</b>	<b>121,271</b>	<b>134,429</b>	<b>112,155</b>	<b>76,454</b>
Net assets	\$ 1,318,806	\$ 912,921	\$ 1,318,806	\$ 912,921	\$ 1,114,357	\$ 711,424	\$ 532,596	\$ 429,623	\$ 300,048

**Investment**

**Activity Data:**

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

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

## RISK FACTORS

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

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

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

As of May 24, 2012, we and our subsidiaries had approximately \$561.5 million of senior indebtedness outstanding, none of which was secured indebtedness and \$561.5 million of which was unsecured indebtedness.

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

making it more difficult for us to meet our payment and other obligations under the notes and our other outstanding debt;

resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;

reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and

limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

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

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

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

The notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness, including without limitation, the \$150 million of 6.25% Convertible Senior Notes due 2015 (the "2015 Notes"), the \$168 million of 2016 Notes, the \$130 million of 2017 Notes and the \$100 million of 6.95% Senior Notes due 2022 (the "2022 Notes"). As a result, the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the notes. As of May 24, 2012, our credit facility was undrawn upon. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the notes to the extent of the value of such assets.

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

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

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

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

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

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

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

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

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

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

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

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

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

***Survivor's Option may be limited in amount.***

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

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

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

the method of calculating the principal and interest for the notes;

the time remaining to the stated maturity of the notes;

the outstanding amount of the notes;

the redemption or repayment features of the notes; and

the level, direction and volatility of interest rates generally.

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

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

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

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

**Overview**

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

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

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

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

**Third Quarter Highlights**

*Investment Transactions*

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

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capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$148,687 in cash and an additional \$10,000 is being held in escrow. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us will be required to be recognized as dividend income, in accordance with ASC 946, *Financial Services Investment Companies*, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On March 19, 2012, we entered into a definitive agreement to provide debt and equity for the acquisition of the businesses of First Tower Corp. ("First Tower"), a private multiline specialty finance company based in Flowood, Mississippi with over 150 branch offices. We are acquiring 80.1% of First Tower for \$110,200 of cash and 14,518,207 of our shares of common stock. We have the option, at our sole discretion, to substitute up to 100% cash in lieu of such 14,518,207 shares of our common stock at a price per share based on average trading prices prior to the closing date. Completion of the acquisition (the "First Tower Acquisition") is subject to regulatory approvals and is expected to close late in the quarter ended June 30, 2012.

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

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

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

### *Revolving Credit Facility*

On March 27, 2012, we renegotiated the Syndicated Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$410,000 under the 2012 Facility as of March 31, 2012; which was increased by \$482,500 in April 2012 (See *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 in the aggregate.

### *Senior Convertible Notes*

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

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### *Prospect Capital InterNotes®*

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

### *Equity Issuance*

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

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

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

### *Dividend*

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

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

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

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

### **Investment Holdings**

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

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

During the nine months ended March 31, 2012, we originated \$547,345 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our performing loan portfolio's annualized current yield increased from 12.3% as of June 30, 2011 to 12.6% as of March 31, 2012 across all long-term debt investments. We expect our current asset yield may continue to decline modestly as we continue to reduce credit risk. Generally, we have seen a decrease in interest rates on loans issued during our fiscal year ended June 30, 2011 and the nine months ending March 31, 2012 in comparison to the rates in effect prior to June 30, 2010 as we continue to reduce the risk profile of the portfolio. Monetization of other equity positions that we hold is not included in this yield calculation. In many of our portfolio companies, we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to

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

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

Level of Control	March 31, 2012				June 30, 2011			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 232,459	14.0%	\$ 323,786	19.1%	\$ 262,301	18.3%	\$ 310,072	21.2%
Affiliate	59,606	3.6%	67,581	4.0%	56,833	4.0%	72,337	4.9%
Non-control/Non-affiliate	1,363,798	82.4%	1,300,213	76.9%	1,116,600	77.7%	1,080,601	73.9%
Total Portfolio	\$ 1,655,863	100.0%	\$ 1,691,580	100.0%	\$ 1,435,734	100.0%	\$ 1,463,010	100.0%

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The following is our investment portfolio presented by type of investment at March 31, 2012 and June 30, 2011, respectively:

Type of Investment	March 31, 2012				June 30, 2011			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Revolving Line of Credit	\$ 2,508	0.2%	\$ 2,529	0.1%	\$ 7,144	0.5%	\$ 7,278	0.5%
Senior Secured Debt	851,475	51.4%	796,732	47.2%	822,582	57.3%	789,981	54.0%
Subordinated Secured Debt	568,594	34.3%	510,936	30.2%	491,188	34.2%	448,675	30.7%
Subordinated Unsecured Debt	70,389	4.3%	70,872	4.2%	54,687	3.8%	55,336	3.8%
CLO Debt	27,164	1.7%	30,662	1.8%		%		%
CLO Residual Interest	77,228	4.7%	78,942	4.7%		%		%
Preferred Stock	31,490	1.9%	24,160	1.4%	31,979	2.2%	25,454	1.7%
Common Stock	18,725	1.1%	138,669	8.2%	19,865	1.4%	116,076	7.9%
Membership Interests	6,017	0.3%	15,744	0.9%	6,128	0.4%	15,392	1.1%
Overriding Royalty Interests			% 1,677	0.1%		%	2,168	0.1%
Escrows Receivable			% 15,269	0.9%		%		%
Warrants	2,273	0.1%	5,388	0.3%	2,161	0.2%	2,650	0.2%
<b>Total Portfolio</b>	<b>\$ 1,655,863</b>	<b>100.0%</b>	<b>\$ 1,691,580</b>	<b>100.0%</b>	<b>\$ 1,435,734</b>	<b>100.0%</b>	<b>\$ 1,463,010</b>	<b>100.0%</b>

The following is our investments in debt securities presented by type of security at March 31, 2012 and June 30, 2011, respectively:

Level of Control	March 31, 2012				June 30, 2011			
	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	\$ 861,292	56.7%	\$ 807,167	57.2%	\$ 902,031	65.6%	\$ 854,975	65.7%
Second Lien	561,285	36.9%	503,030	35.6%	418,883	30.5%	390,959	30.0%
Unsecured	70,389	4.6%	70,872	5.0%	54,687	4.0%	55,336	4.3%
CLO Debt	27,164	1.8%	30,662	2.2%		%		%
<b>Total Debt Securities</b>	<b>\$ 1,520,130</b>	<b>100.0%</b>	<b>\$ 1,411,731</b>	<b>100.0%</b>	<b>\$ 1,375,601</b>	<b>100.0%</b>	<b>\$ 1,301,270</b>	<b>100.0%</b>

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The following is our investment portfolio presented by geographic location of the investment at March 31, 2012 and June 30, 2011, respectively:

Geographic Location	March 31, 2012				June 30, 2011			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	\$ 69,630	4.2%	\$ 71,392	4.2%	\$ 74,239	5.2%	\$ 75,207	5.1%
Cayman Islands	104,392	6.3%	109,604	6.5%		%		%
Ireland	14,916	0.9%	15,000	0.9%	14,908	1.0%	15,000	1.0%
Midwest US	381,227	23.0%	323,766	19.1%	358,540	25.0%	340,251	23.4%
Northeast US	309,999	18.8%	330,789	19.6%	242,039	16.9%	234,628	16.0%
Southeast US	312,130	18.8%	300,042	17.7%	234,528	16.3%	208,226	14.2%
Southwest US	191,870	11.6%	279,617	16.5%	189,436	13.2%	266,004	18.2%
Western US	271,699	16.4%	261,370	15.5%	322,044	22.4%	323,694	22.1%
<b>Total Portfolio</b>	<b>\$ 1,655,863</b>	<b>100.0%</b>	<b>\$ 1,691,580</b>	<b>100.0%</b>	<b>\$ 1,435,734</b>	<b>100.0%</b>	<b>\$ 1,463,010</b>	<b>100.0%</b>

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The following is our investment portfolio presented by industry sector of the investment at March 31, 2012 and June 30, 2011, respectively:

Industry	March 31, 2012				June 30, 2011			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	\$ 56		%		\$ 56		%	
Automobile / Auto Finance	37,674	2.3%	35,093	2.1%	41,924	2.9%	42,444	2.9%
Biomass Power(1)		%		%	2,540	0.2%		%
Business Services	3,148	0.2%	3,288	0.2%	6,604	0.5%	6,787	0.5%
Chemicals	56,359	3.4%	56,359	3.3%	25,277	1.8%	25,277	1.7%
Commercial Services	80,567	4.9%	80,567	4.8%	34,625	2.4%	34,625	2.4%
Consumer Services	99,117	6.0%	99,347	5.9%	68,286	4.8%	68,286	4.7%
Contracting	15,949	1.0%	1,106	0.0%	18,220	1.3%	1,767	0.1%
Diversified Financial Services	122,724	7.4%	127,936	7.6%		%		%
Diversified / Conglomerate Service		%	35	0.0%		%		%
Durable Consumer Products	137,712	8.3%	138,390	8.2%	141,779	9.9%	144,362	9.9%
Ecological	141	%	216	%	141	%	194	%
Electronics		%	142	%	588	%	1,374	0.1%
Energy(1)	63,245	3.8%	166,260	9.9%		%		%
Food Products	146,643	8.9%	139,474	8.2%	144,503	10.1%	146,498	10.0%
Gas Gathering and Processing(1)		%		%	42,003	2.9%	105,406	7.2%
Healthcare	166,761	10.1%	167,667	9.9%	156,396	10.9%	163,657	11.2%
Home and Office Furnishings, Housewares and Durable	1,557	0.1%	5,723	0.3%	1,916	0.1%	6,109	0.4%
Insurance	83,714	5.1%	83,714	4.9%	86,850	6.0%	87,448	6.0%
Machinery	4,667	0.3%	6,835	0.4%	13,179	0.9%	13,171	0.9%
Manufacturing	95,433	5.8%	116,341	6.9%	114,113	7.9%	136,039	9.3%
Media	117,637	7.1%	112,220	6.6%	121,302	8.4%	121,300	8.3%
Metal Services and Minerals	580	%	5,231	0.3%	580	%	4,699	0.3%
Mining, Steel, Iron and Non-Precious Metals and Coal Production(1)		%		%	1,448	0.1%		%
Oil and Gas Equipment Services	7,574	0.5%	7,574	0.4%		%		%
Oil and Gas Production	126,747	7.6%	35,256	2.2%	124,662	8.7%	70,923	4.8%
Oilfield Fabrication		%		%	23,076	1.6%	23,076	1.6%
Personal and Nondurable Consumer Products	54,703	3.2%	62,918	3.7%	15,147	1.1%	23,403	1.6%
Production Services	268	0.0%	2,040	0.1%	14,387	1.0%	15,357	1.0%
Property Management	51,920	3.1%	47,803	2.8%	52,420	3.7%		