PROSPECT CAPITAL CORP
Form 10-Q
May 06, 2013

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

FORM 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the Quarter Ended March 31, 2013
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 814-00659

PROSPECT CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	**43-2048643**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10 East 40th Street	
44th Floor	
New York, New York	**10016**
(Address of principal executive offices)	**(Zip Code)**

(212) 448-0702

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). oYes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). oYes x No

The number of shares of the registrant s common stock, $0.001 par value, outstanding as of May 6, 2013 was 243,243,161.

PROSPECT CAPITAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013
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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
March 31, 2013 and June 30, 2012
(in thousands, except share and per share data)

	March 31, 2013 (Unaudited)	June 30, 2012 (Audited)
Assets (Note 4)		
Investments at fair value:		
Control investments (amortized cost of $715,301 and $518,015, respectively)	$ 675,305	$ 564,489
Affiliate investments (amortized cost of $48,949 and $44,229, respectively)	41,745	46,116
Non-control/Non-affiliate investments (amortized cost of $3,030,863 and $1,537,069, respectively)	2,990,672	1,483,616
Total investments at fair value (amortized cost of $3,795,113 and $2,099,313, respectively, Note 3)	3,707,722	2,094,221
Investments in money market funds	253,332	118,369
Total investments	3,961,054	2,212,590
Cash	24,726	2,825
Receivables for:		
Interest, net	18,435	14,219
Dividends	2	1
Other	462	783
Prepaid expenses	210	421
Deferred financing costs	42,128	24,415
Total Assets	4,047,017	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)	347,682	100,000
Prospect Capital InterNotes® (Note 7 and Note 8)	199,401	20,638
Due to broker	42,961	44,533
Dividends payable	26,267	14,180
Due to Prospect Administration (Note 12)	1,332	658
Due to Prospect Capital Management (Note 12)	873	7,913
Accrued expenses	2,559	2,925
Interest payable	15,268	6,723
Other liabilities	7,586	2,210
Total Liabilities	1,491,429	743,280
Net Assets	$ 2,555,588	$ 1,511,974
Components of Net Assets		
Common stock, par value $0.001 per share (500,000,000 common shares authorized; 238,628,037 and 139,633,870 issued and outstanding, respectively) (Note 9)	$ 239	$ 140
Paid-in capital in excess of par (Note 9)	2,640,457	1,544,801
Undistributed net investment income	66,187	23,667
Accumulated realized losses on investments	(63,904)	(51,542)
Unrealized depreciation on investments	(87,391)	(5,092)
Net Assets	$ 2,555,588	$ 1,511,974
Net Asset Value Per Share	$ 10.71	$ 10.83

See notes to consolidated financial statements.

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

	For The Three Months Ended March 31, 2013	For The Three Months Ended March 31, 2012	For The Nine Months Ended March 31, 2013	For The Nine Months Ended March 31, 2012
Investment Income				
Interest Income: (Note 3)				
Control investments	$ 26,598	$ 32,966	$ 77,756	$ 45,546
Affiliate investments	1,599	2,378	4,944	7,179
Non-control/Non-affiliate investments other than CLO securities	58,187	37,044	161,727	107,078
CLO fund securities	23,228	2,560	60,361	3,668
Total interest income	109,612	74,948	304,788	163,471
Dividend income:				
Control investments	75	5,474	65,042	29,819
Non-control/Non-affiliate investments			3,185	1,733
Money market funds	8	1	19	2
Total dividend income	83	5,475	68,246	31,554
Other income: (Note 10)				
Control investments	2,656	13,768	7,753	14,386
Affiliate investments	5	11	618	85
Non-control/Non-affiliate investments	7,839	1,421	28,461	8,732
Total other income	10,500	15,200	36,832	23,203
Total Investment Income	120,195	95,623	409,866	218,228
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 12)	18,966	8,949	48,500	25,985
Income incentive fee (Note 12)	14,896	14,518	58,207	30,614
Total investment advisory fees	33,862	23,467	106,707	56,599
Interest and credit facility expenses	20,854	9,655	50,779	28,374
Legal fees	395	256	1,652	1,198
Valuation services	420	308	1,167	916
Audit, compliance and tax related fees	200	276	1,010	1,141
Allocation of overhead from Prospect Administration (Note 12)	2,957	2,910	7,280	5,143
Insurance expense	88	69	259	168
Directors fees	75	68	225	195
Excise Tax	1,000		5,500	
Other general and administrative expenses	759	542	2,459	2,037
Total Operating Expenses	60,610	37,551	177,038	95,771
Net Investment Income	59,585	58,072	232,828	122,457
Net realized (loss) gain on investments (Note 3)	(6,014)	24,812	(12,362)	23,703
Net change in unrealized (depreciation) appreciation on investments (Note 3)	(9,142)	(32,675)	(82,299)	8,441
Net Increase in Net Assets Resulting from Operations	$ 44,429	$ 50,209	$ 138,167	$ 154,601
Net increase in net assets resulting from operations per share: (Note 11 and Note 15)	$ 0.20	$ 0.44	$ 0.71	$ 1.39
Dividends declared per share	$ 0.33	$ 0.30	$ 0.95	$ 0.91

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For The Nine Months Ended March 31, 2013 and 2012
(in thousands, except share data)
(Unaudited)

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

See notes to consolidated financial statements.

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

	For The Nine Months Ended March 31,			
		2013		**2012**
Cash Flows from Operating Activities:				
Net increase in net assets resulting from operations	$	138,167	$	154,601
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operations:				
Net realized loss (gain) on investments		12,362		(23,703)
Net change in unrealized depreciation (appreciation) on investments		82,299		(8,441)
Amortization of discounts and premiums		(13,624)		(3,741)
Amortization of deferred financing costs		5,878		7,174
Payment-in-kind interest		(7,025)		(4,499)
Structuring fees		(33,578)		(13,530)
Change in operating assets and liabilities				
Payments for purchases of investments		(2,204,603)		(524,817)
Proceeds from sale of investments and collection of investment principal		609,919		354,660
Net (increase) decrease of investments in money market funds		(134,963)		1,878
Increase in interest receivable		(4,216)		(7,637)
Increase in dividends receivable		(1)		(75)
Decrease (increase) in other receivables		321		(1,344)
Decrease (increase) in prepaid expenses		211		(53)
(Decrease) increase in due to broker		(1,572)		26,569
Increase in due to Prospect Administration		674		150
Decrease in due to Prospect Capital Management		(7,040)		(3,391)
(Decrease) increase in accrued expenses		(366)		111
Increase in interest payable		8,545		179
Increase (decrease) in other liabilities		5,376		(117)
Net Cash Used In Operating Activities		(1,543,236)		(46,026)
Cash Flows from Financing Activities:				
Borrowings under credit facility (Note 4)		99,000		615,800
Principal payments under credit facility (Note 4)		(195,000)		(579,000)
Borrowings under Senior Convertible Notes (Note 5)		400,000		
Repurchases under Senior Convertible Notes (Note 5)				(5,000)
Borrowings under Senior Unsecured Notes		247,682		
Borrowings under Prospect Capital InterNotes® (Note 7)		178,763		5,465
Financing costs paid and deferred		(23,591)		(9,078)
Proceeds from issuance of common stock, net of underwriting costs		1,025,937		144,900
Offering costs from issuance of common stock		(1,570)		(524)
Dividends paid		(166,084)		(93,051)
Net Cash Provided By Financing Activities		1,565,137		79,512
Total Increase in Cash		21,901		33,486
Cash balance at beginning of period		2,825		1,492
Cash Balance at End of Period	$	24,726	$	34,978
Cash Paid For Interest	$	32,757	$	19,607
Non-Cash Financing Activity:				
Amount of shares issued in connection with dividend reinvestment plan	$	12,137	$	7,893
Amount of shares issued in connection with controlled investments	$	59,251	$	

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
			March 31, 2013 (Unaudited)			
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)	$ 28,900	$ 28,900	$ 28,900	1.1%
		Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)	12,500	12,500	12,500	0.5%
		Convertible Preferred Stock (9,919.684 shares)		9,920	9,920	0.4%
		Common Stock (100 shares)			374	0.0%
				51,320	**51,694**	**2.0%**
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 4/01/2013)(3), (4)	19,837	19,837	19,837	0.8%
		Subordinated Secured Note Tranche B (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 4/01/2013)(3), (4)	15,035	15,035	15,035	0.6%
		Subordinated Unsecured Note (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 12/31/2017)(4)	3,600	3,600	3,600	0.1%
		Convertible Preferred Stock Series A (6,142.6 shares)		6,057		0.0%
		Unrestricted Common Stock (6 shares)				0.0%
				44,529	**38,472**	**1.5%**
APH Property Holdings, LLC(32)	Georgia / Real Estate	Senior Secured Note (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 2.00% PIK, due 10/24/2020)(4)	40,018	40,018	40,018	1.6%
		Common Stock (17,400 shares)		7,750	7,750	0.3%
				47,768	**47,768**	**1.9%**
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 $1,150 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4), (25)	1,150	1,095	480	0.0%
		Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)	1,612	1,501		0.0%
			9,641	706		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)			
	Common Stock (100 shares)(21)			0.0%
	Warrants (33,750 warrants)(21)			0.0%
		3,302	**480**	**0.0%**

See notes to consolidated financial statements.

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

			March 31, 2013 (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)	$ 17,775	$ 17,775	$ 17,775	0.7%
		Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018)	7,526	7,526	7,526	0.3%
		Common Stock (100 shares)		8,581	8,581	0.3%
		Net Revenue Interest (4% of Net Revenue)				0.0%
				33,882	**33,882**	**1.3%**
Credit Central Holdings of Delaware, LLC (22), (34)	Ohio / Consumer Finance	Senior Secured Revolving Credit Facility - $60,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 12/31/2020) (4), (25)	38,082	38,082	38,082	1.5%
		Common Stock (100 shares)		9,581	7,342	0.3%
		Net Revenue Interest (5% of Net Revenue)			2,907	0.1%
				47,663	**48,331**	**1.9%**
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	Senior Secured Note (18.00%, due 12/11/2016)	750	750	750	0.0%
		Junior Secured Note (18.00%, due 12/12/2016)	12,000	12,000	12,000	0.5%
		Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.1%
		Subordinated Secured Note to Freedom Marine Holdings, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, due 12/31/2011) (4)	13,765	12,503	5,134	0.2%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449		0.0%
		Escrow Receivable				0.0%
		Common Stock (100 shares)		8,318	9,558	0.4%
				38,520	**30,942**	**1.2%**
First Tower Holdings of Delaware, LLC (22), (29)	Mississippi / Consumer Finance	Senior Secured Revolving Credit Facility $400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022) (4), (25)	264,760	264,760	264,760	10.4%
		Common Stock (83,729,323 shares)		43,193	30,398	1.2%
		Net Revenue Interest (5% of Net Revenue & Distributions)				0.0%
				307,953	**295,158**	**11.6%**
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)		1,171		0.0%
				11,028		**0.0%**
Nationwide Acceptance Holdings, LLC(22), (36)	Chicago / Consumer Finance	Senior Secured Revolving Credit Facility $30,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 1/31/2023) (4), (25)	21,308	21,308	21,308	0.8%
		Membership Units (100 shares)		3,843	2,127	0.1%
		Net Revenue Interest (5% of Net Revenue)			1,716	0.1%
				25,151	**25,151**	**1.0%**
NMMB Holdings, Inc. (24)	New York / Media	Senior Term Loan (14.00%, due 5/6/2016)	16,000	16,000	14,506	0.6%
		Senior Subordinated Term Loan (15.00%, due 5/6/2016)	2,800	2,800		0.0%
		Series A Preferred Stock (4,400 shares)		4,400		0.0%
				23,200	**14,506**	**0.6%**

See notes to consolidated financial statements.

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

			March 31, 2013 (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)						
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor,) due 5/30/2018) (4)	$ 9,500	$ 9,500	$ 9,500	0.4%
		Warrants (200,000 warrants, expiring 6/30/2017)		1,682	6,916	0.3%
		Common Stock (545,107 shares)		5,087	18,850	0.7%
				16,269	**35,266**	**1.4%**
The Healing Staff, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, due 3/21/2012 4/10/2013)	1,688	$ 1,686		0.0%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170		0.0%
		Common Stock (1,000 shares)		975		0.0%
				3,831		**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)	33,305	33,305	33,305	1.3%
		Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(4)	10,013	10,013	10,013	0.4%
		Common Stock (50,000 Shares)		9,526	8,358	0.3%
		Net Revenue Interest (5% of Net Revenue)			1,168	0.0%
				52,844	**52,844**	**2.0%**
Wolf Energy Holdings, Inc. (12)	Kansas / Oil & Gas Production	Appalachian Energy Holdings, LLC (AEH) Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)	2,590	2,000	202	0.0%
		Appalachian Energy Holdings, LLC (AEH) Senior Secured First Lien Note (8.00%, in non-accrual status due 5/28/2013)	50	50	4	0.0%
		Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013) (6)	7,773	5,991	605	0.0%
		Common Stock (100 Shares)				0.0%
				8,041	**811**	**0.0%**
			Total Control Investments	**715,301**	**675,305**	**26.4%**
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)	29,700	29,700	29,700	1.2%

	Preferred Stock Series A (9,925.455 shares)(13)	2,300	2,538	0.1%
	Preferred Stock Series B (1,753.64 shares)(13)	579	639	0.0%
		32,579	**32,877**	**1.3%**

See notes to consolidated financial statements.

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

			March 31, 2013 (Unaudited)			
Portfolio Company	**Locale / Industry**	**Investments(1)**	**Principal Value**	**Cost**	**Fair Value(2)**	**% of Net Assets**
LEVEL 3 PORTFOLIO INVESTMENTS:						
Affiliate Investments (5.00% to 24.99% voting control)						
Boxercraft Incorporated (20)	Georgia / Textiles & Leather	Senior Secured Term Loan A (10.00% plus 5.00% PIK, due 9/16/2013)	$ 1,698	$ 1,670	$ 1,698	0.1%
		Senior Secured Term Loan B (10.00% plus 5.00% PIK, due 9/16/2013)	4,851	4,675	4,851	0.2%
		Senior Secured Term Loan C (10.00% plus 5.00% PIK, due 9/16/2013)	2,351	2,351	2,319	0.1%
		Senior Secured Term Loan (10.00% plus 5.00% PIK, due 3/16/2014)	8,254	7,674		0.0%
		Preferred Stock (1,000,000 shares)				0.0%
		Common Stock (10,000 shares)				0.0%
		Warrants (1 warrant, expiring 8/31/2022)				0.0%
				16,370	**8,868**	**0.4%**
Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest				0.0%
						0.0%
			Total Affiliate Investments	**48,949**	**41,745**	**1.7%**
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		141	306	0.0%
				141	**306**	**0.0%**
Aderant North America, Inc.	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019) (4)	7,000	6,898	7,000	0.3%
				6,898	**7,000**	**0.3%**
Aircraft Fasteners International, LLC	California / Machinery	Convertible Preferred Stock (32,500 units)		396	539	0.0%
				396	**539**	**0.0%**
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor,) due 2/28/2020) (4)	12,000	11,764	11,764	0.5%
				11,764	**11,764**	**0.5%**
American Gilsonite Company	Utah / Specialty Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)	38,500	38,500	38,500	1.5%
		Membership Interest in AGC/PEP, LLC (99.9999%)(15)			5,038	0.2%
				38,500	**43,538**	**1.7%**
Apidos CLO VIII, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	19,730	19,681	20,450	0.8%

				19,681	**20,450**	**0.8%**
Apidos CLO IX, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	20,525	19,635	19,614	0.8%
				19,635	**19,614**	**0.8%**

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			March 31, 2013 (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)						
Apidos CLO XI, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	$ 38,340	$ 38,715	$ 38,306	1.5%
				38,715	**38,306**	**1.5%**
Apidos CLO XII, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	44,063	42,961	42,957	1.7%
				42,961	**42,957**	**1.7%**
Arctic Glacier U.S.A, Inc.	Canada / Food Products	Subordinated Unsecured (12.00% plus 3.00% PIK , due 7/27/2019)	86,751	86,751	86,751	3.4%
				86,751	**86,751**	**3.4%**
Atlantis Healthcare Group (Puerto Rico), Inc (4)	Puerto Rico / Healthcare	Revolving Line of Credit $7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014) (25), (26)				0.0%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor,) due 2/21/2018)	39,451	39,451	39,451	1.5%
				39,451	**39,451**	**1.5%**
Babson CLO Ltd 2011-I. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,000	35,026	35,991	1.4%
				35,026	**35,991**	**1.4%**
Babson CLO Ltd 2012-IA. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	29,075	26,884	28,619	1.1%
				26,884	**28,619**	**1.1%**
Babson CLO Ltd 2012-IIA. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	27,850	29,471	28,332	1.1%
				29,471	**28,332**	**1.1%**
Broder Bros., Co.	Pennsylvania /Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.75% (LIBOR + 9.00% with 1.75% LIBOR floor), due 6/27/2018 (4)	100,000	100,000	100,000	3.9%
				100,000	**100,000**	**3.9%**
Byrider Systems Acquisition Corp(22)	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016) (3)	15,833	15,833	15,176	0.6%
				15,833	**15,176**	**0.6%**
Caleel + Hayden, LLC (14), (31)	Colorado / Personal & Nondurable Consumer Products	Membership Units (13,220 shares)			129	0.0%
		Escrow Receivable			103	0.0%
					232	**0.0%**
Capstone Logistics, LLC. (4)	Georgia / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)	97,291	97,291	97,291	3.8%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)	100,000	100,000	100,000	3.9%

197,291	**197,291**	**7.7%**

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			March 31, 2013 (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)						
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)	$ 45,273	$ 45,273	$ 45,273	1.8%
		Common Equity (1.6 units)		1,639	2,259	0.1%
				46,912	**47,532**	**1.9%**
Cent 17 CLO Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	24,870	24,469	24,293	1.0%
				24,469	24,293	1.0%
CIFC Funding 2011-I, Ltd. (4), (22)	Cayman Islands / Diversified Financial Services	Secured Class D Notes (5.30% (LIBOR + 5.00%), due 1/19/2023)	19,000	14,965	16,283	0.6%
		Unsecured Class E Notes (7.30% (LIBOR + 7.00%), due 1/19/2023)	15,400	12,597	13,561	0.5%
				27,562	**29,844**	**1.1%**
Cinedigm DC Holdings, LLC (4)	New York/ Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% floor) plus 2.50% PIK, due 3/31/2021)	70,151	70,151	70,151	2.7%
				70,151	**70,151**	**2.7%**
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable			320	0.0%
					320	**0.0%**
Correctional Healthcare Holding Company, Inc.	Colorado / Healthcare	Second Lien Term Loan (11.25% due 1/11/2020) (3)	27,100	27,100	27,100	1.1%
				27,100	**27,100**	**1.1%**
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% floor), due 12/17/2017) (3) ,(4)	39,551	39,551	39,551	1.5%
				39,551	**39,551**	**1.5%**
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)	19,935	19,935	19,935	0.8%
				19,935	**19,935**	**0.8%**
CRT MIDCO, LLC	Wisconsin / Media	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3), (4)	72,375	72,375	72,376	2.8%
				72,375	**72,376**	**2.8%**
Deltek, Inc.	Virginia/ Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(4)	12,000	11,828	11,828	0.5%
				11,828	**11,828**	**0.5%**
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15.00% payable on Equity distributions)(7)				0.0%
						0.0%
Edmentum, Inc (f/k/a Archipelago Learning, Inc)(4)	Minnesota / Consumer Services	Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)	50,000	48,167	50,000	2.0%
				48,167	**50,000**	**2.0%**
Empire Today, LLC			15,699	15,312	15,700	0.6%

	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)			
			15,312	**15,700**	**0.6%**

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			March 31, 2013 (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)						
EIG Investors Corp	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% floor), due 5/09/2020) (4), (16)	$ 22,000	$ 21,788	$ 22,000	0.9%
				21,788	**22,000**	**0.9%**
EXL Acquisition Corp.	South Carolina / Biotechnology	Escrow Receivable			14	0.0%
					14	**0.0%**
Evanta Ventures, Inc.(11)	Oregon / Commercial Services	Subordinated Unsecured (12.00% plus 1.00% PIK, due 9/28/2018)	10,453	10,453	10,453	0.4%
				10,453	**10,453**	**0.4%**
Fairchild Industrial Products, Co.	North Carolina / Electronics	Escrow Receivable			147	0.0%
					147	**0.0%**
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable			529	0.0%
		Membership Class A (875,000 units)		875	2,771	0.1%
				875	**3,300**	**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	17,723	17,723	0.7%
				17,723	**17,723**	**0.7%**
FPG, LLC	Illinois / Durable Consumer Products	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017) (4)	21,677	21,677	21,677	0.8%
		Common Stock (5,638 shares)		27	97	0.0%
				21,704	**21,774**	**0.8%**
Galaxy XII CLO, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	20,930	22,739	0.9%
				20,930	**22,739**	**0.9%**
Galaxy XV CLO, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,025	31,713	31,624	1.2%
				31,713	**31,624**	**1.2%**
Grocery Outlet Inc.	California / Retail	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019) (4)	17,500	17,161	17,500	0.7%
				17,161	**17,500**	**0.7%**
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017) (4)	41,475	41,475	41,475	1.6%
				41,475	**41,475**	**1.6%**
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	64,263	60,019	39,677	1.5%

	effective 1/1/2011, past due)(4)				
	Senior Secured Note (18.00% PIK, in non-accrual status effective 4/27/2012, past due)	4,823	4,130	4,822	0.2%
	Senior Secured Note (8.00% PIK, due 3/31/2013)	133	130	133	0.0%
	Net Profits Interest (8.00% payable on Equity distributions)(7)				0.0%
			64,279	**44,632**	**1.7%**

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			March 31, 2013 (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)						
Halcyon Loan Advisors Funding 2012-I, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	$ 23,188	$ 23,032	$ 22,944	0.9%
				23,032	**22,944**	**0.9%**
Halcyon Loan Advisors Funding 2013-I, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	40,400	40,289	40,238	1.6%
				40,289	**40,238**	**1.6%**
Hoffmaster Group, Inc. (4)	Wisconsin / Durable Consumer Products	Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019)	20,000	19,826	19,826	0.8%
		Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)	1,000	991	991	0.0%
				20,817	**20,817**	**0.8%**
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875% , due 10/15/2016) (3)	43,100	43,323	37,868	1.5%
				43,323	**37,868**	**1.5%**
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)	12,500	12,289	12,500	0.5%
				12,289	**12,500**	**0.5%**
ING IM CLO 2012-II, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	38,070	35,965	38,297	1.5%
				35,965	**38,297**	**1.5%**
ING IM CLO 2012-III, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	46,632	45,736	47,294	1.9%
				45,736	**47,294**	**1.9%**
ING IM CLO 2012-IV, Ltd. (22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	40,613	40,597	41,132	1.6%
				40,597	**41,132**	**1.6%**
Injured Workers Pharmacy LLC	Massachusetts / Healthcare	Second Lien Debt (12.00% (LIBOR + 7.50% with 4.50% LIBOR floor) plus 1.00% PIK, due 11/4/2017) (3), (4)	15,215	15,215	15,215	0.6%
				15,215	**15,215**	**0.6%**
Interdent, Inc(4)	California / Healthcare	Revolving Line of Credit $10,000 Commitment (10.50% (LIBOR + 8.25% with 2.25% LIBOR floor), due 2/3/2013) (25)	8,250	8,250	8,250	0.3%
		Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017)	53,819	53,819	53,819	2.1%
		Senior Secured Term Loan B (13.00% (LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3),	55,000	55,000	55,000	2.2%

117,069	**117,069**	**4.6%**

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			March 31, 2013 (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)						
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Debt (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 1.50% PIK, due 6/23/2018) (3), (4)	$ 16,041	$ 16,041	$ 16,041	0.6%
				16,041	**16,041**	**0.6%**
LaserShip, Inc. (4)	Virginia / Transportation	Revolving Line of Credit $5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014) (25)				0.0%
		Senior Secured Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2017) (3)	37,266	37,266	37,266	1.5%
				37,266	**37,266**	**1.5%**
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit $750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015) (4), (25), (26)				0.0%
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	3,164	3,137	3,137	0.1%
		Membership Interest (125 units)		215	245	0.0%
				3,352	**3,382**	**0.1%**
Madison Park Funding IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	31,110	26,832	27,862	1.1%
				26,832	**27,862**	**1.1%**
Material Handling Services, LLC(4)	Ohio / Business Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 7/5/2017) (3)	27,580	27,580	27,580	1.1%
		Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017)	37,959	37,959	37,959	1.5%
				65,539	**65,539**	**2.6%**
Maverick Healthcare, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	1,677	0.1%
		Common Units (1,250,000 units)				0.0%
				1,252	**1,677**	**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)	14,067	14.067	14,067	0.6%
				14,067	**14,067**	**0.6%**
National Bankruptcy	Texas / Diversified	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR	18,612	18,612	18,612	0.7%

Services, LLC (3),(4)	Financial Services	floor) plus 1.50% PIK, due 7/17/2017)				
				18,612	**18,612**	**0.7%**
Naylor, LLC (4)	Florida / Media	Revolving Line of Credit - $2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017) (25)				0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017) (3)	46,778	46,778	45,802	1.8%
				46,778	**45,802**	**1.8%**

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Portfolio Company	Locale / Industry	Investments(1)	March 31, 2013 (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)						
New Century Transportation, Inc.	New Jersey / Transportation	Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 3.00%, PIK due 2/3/2018) (3), (4)	$ 44,776	$ 44,776	$ 44,776	1.8%
				44,776	**44,776**	**1.8%**
New Star Metals, Inc.	Indiana / Metal Services & Minerals	Senior Subordinated Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 1.00% PIK due 2/2/2018) (4)	32,193	32,193	32,193	1.3%
				32,193	**32,193**	**1.3%**
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	15,400	15,134	15,046	0.6%
				15,134	**15,046**	**0.6%**
Nobel Learning Communities, Inc.	Pennsylvania / Consumer Services	Subordinated Unsecured (11.50% plus 1.50% PIK, due 8/9/2017)	15,262	15,262	15,262	0.6%
				15,262	**15,262**	**0.6%**
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable			3,568	0.1%
					3,568	**0.1%**
Octagon Investment Partners XV, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest) (22)	26,901	25,818	25,655	1.0%
				25,818	**25,655**	**1.0%**
Out Rage, LLC (4)	Wisconsin / Durable Consumer Products	Revolving Line of Credit - $1,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/02/2014) (25)	1,200	1,200	1,200	0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/2/2015)	10,336	10,336	10,336	0.4%
				11,536	**11,536**	**0.4%**
Pelican Products, Inc. (16)	California / Durable Consumer Products	Subordinated Secured (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019) (4)	15,000	14,721	14,721	0.6%
				14,721	**14,721**	**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	9,811	10,000	0.4%
				9,811	**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	5,000	0.2%
				5,000	**5,000**	**0.2%**
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)	10,000	9,886	10,000	0.4%
				9,886	**10,000**	**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)	154,017	154,017	154,017	6.0%
				154,017	**154,017**	**6.0%**

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			March 31, 2013 (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)						
Rocket Software, Inc. (3), (4)	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)	$ 20,000	$ 19,710	$ 19,944	0.8%
				19,710	**19,944**	**0.8%**
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK due 11/29/2016)	28,222	28,222	28,222	1.1%
				28,222	**28,222**	**1.1%**
Ryan, LLC. (4)	Texas / Business Services	Subordinated Secured (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)	70,000	70,000	70,000	2.7%
				70,000	**70,000**	**2.7%**
Seaton Corp(3), (4)	Illinois / Business Services	Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2014)	3,305	3,231	3,305	0.1%
		Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2015)	10,005	10,005	10,005	0.4%
				13,236	**13,310**	**0.5%**
SESAC Holdco II LLC	Tennessee / Media	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 7/12/2019) (4)	6,000	5,911	5,911	0.2%
				5,911	**5,911**	**0.2%**
Skillsoft Public Limited Company (22)	Ireland / Software & Computer Services	Senior Unsecured (11.125%, due 6/1/2018)	15,000	14,924	15,000	0.6%
				14,924	**15,000**	**0.6%**
Snacks Holding Corporation	Minnesota / Food Products	Senior Subordinated Unsecured Term Loan (12.00% plus 1.00% PIK, due 11/12/2017)	15,366	14,921	15,365	0.6%
		Series A Preferred Stock (4,021.45 shares)				0.0%
		Series B Preferred Stock (1,866.10 shares)				0.0%
		Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)		590	1,034	0.0%
				15,511	**16,399**	**0.6%**
Southern Management Corporation(22), (30)	South Carolina / Consumer Finance	Second Lien Term Loan (12.00% plus 5.00% PIK due 5/31/2017)	17,568	17,568	17,568	0.7%
				17,568	**17,568**	**0.7%**
Spartan Energy Services, Inc. (3),(4)	Louisiana / Energy	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017))	29,813	29,813	29,813	1.2%
				29,813	**29,813**	**1.2%**
			15,000	15,000	15,000	0.6%

Speedy Group Holdings Corp.	Canada / Consumer Finance	Senior Unsecured (12.00%, due 11/15/2017) (22)				
				15,000	**15,000**	**0.6%**
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable			384	0.0%
					384	**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	35,000	1.4%
				35,000	**35,000**	**1.4%**

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			March 31, 2013 (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)						
Stauber Performance Ingredients, Inc. (3), (4)	California / Food Products	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)	$ 19,415	$ 19,415	$ 19,415	0.8%
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)	10,303	10,303	10,303	0.4%
				29,718	**29,718**	**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)	34,411	32,710		0.0%
		Overriding Royalty Interests(18)			1,539	0.1%
				32,710	**1,539**	**0.1%**
Symphony CLO, IX Ltd. (22)	Cayman Islands / Diversified Financial Services	LP Certificates (Residual Interest)	45,500	43,915	46,592	1.8%
				43,915	**46,592**	**1.8%**
System One Holdings, LLC(4)	Pennsylvania / Business Services	Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)	32,000	32,000	32,000	1.3%
				32,000	**32,000**	**1.3%**
TB Corp.	Texas / Consumer Service	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018)	23,270	23,270	23,270	0.9%
				23,270	**23,270**	**0.9%**
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)	23,579	23,247	23,580	0.9%
				23,247	**23,580**	**0.9%**
TGG Medical Transitory, Inc.	New Jersey/ Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018) (4)	8,000	7,765	7,824	0.3%
				7,765	**7,824**	**0.3%**
The Petroleum Place Inc.	Colorado / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 5/20/2019) (4)	22,000	21,681	22,000	0.9%
				21,681	**22,000**	**0.9%**
Transaction Network Services, Inc.	Virginia / Diversified Telecommunication Services	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020) (4)	10,000	9,852	9,852	0.4%
				9,852	**9,852**	**0.4%**

TransFirst Holdings, Inc.(4)	New York / Software & Computer Services	Second Lien Term Loan (11.00%, (LIBOR + 9.75% with 1.25% floor), due 6/27/2018)	5,000	4,855	4,908	0.2%
				4,855	**4,908**	**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	39,000	1.5%
				39,000	**39,000**	**1.5%**
United Sporting Companies, Inc.(5)	South Carolina / Durable Consumer Products	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(4)	160,000	160,000	160,000	6.3%
				160,000	**160,000**	**6.3%**

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			March 31, 2013 (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)						
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)	$ 15,000	$ 14,750	$	0.0%
		Net Profits Interest (5.00% payable on Equity distributions)(7)				0.0%
				14,750		**0.0%**
		Total Non-control/Non-affiliate Investments (Level 3 Investments)		**3,030,743**	**2,990,557**	**117.3%**
		Total Level 3 Portfolio Investments		**3,794,993**	**3,707,607**	**145.1%**
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)		64	115	0.0%
				64	**115**	**0.0%**
		Total Non-control/Non-affiliate Investments (Level 1 Investments)		**120**	**115**	**0.0%**
		Total Portfolio Investments		**3,795,113**	**3,707,722**	**145.1%**
SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)						
Fidelity Institutional Money Market Funds	Government Portfolio (Class I)			222,071	222,071	8.7%
Fidelity Institutional Money Market Funds	Government Portfolio (Class I) (3)			31,260	31,260	1.2%
Victory Government Money Market Funds				1	1	0.0%
		Total Money Market Funds		**253,332**	**253,332**	**9.9%**
		Total Investments		**$ 4,048,445**	**$ 3,961,054**	**155.0%**

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			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%**

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			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)	$ 25,000	$ 25,000	$ 25,000	1.7%
		Junior Secured Note (18.00%, due 12/12/2016) (3)	12,000	12,000	12,000	0.8%
		Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.2%
		Subordinated Secured Note to Freedom Marine Holdings, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, due 12/31/2011) (4)	13,352	12,504	5,603	0.4%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449		0.0%
		Escrow Receivable			9,825	0.6%
		Common Stock (100 shares)		8,792	70,940	4.7%
				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%
				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%**

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			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%**
		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)	New York / Diversified / Conglomerate	Membership Interest			35	0.0%

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

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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%**
Babson CLO Ltd 2012-IA. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	29,075	27,014	27,197	1.8%
				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%**

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012 (Audited) 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%**
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.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
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March 31, 2013 (Unaudited) and June 30, 2012 (Audited)
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012 (Audited) 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)						
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 8/24/2015)(3), (4)	6,299	5,880	5,826	0.4%
				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.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
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March 31, 2013 (Unaudited) and June 30, 2012 (Audited)

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	Principal Value	June 30, 2012 (Audited) 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%**
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					0.0%

	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)	48,600	48,600	48,600	3.2%
			48,600	**48,600**	**3.2%**

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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012 (Audited) 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%
				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.

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March 31, 2013 (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)	12,686	12,686	12,686	0.8%
		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%
				2,000	2,161	0.1%

	Membership Interest in Mistral Chip Holdings, LLC - Common (2,000 units)(17)			
	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.

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March 31, 2013 (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	Senior 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%**
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)	33,444	32,711		0.0%

		Overriding Royalty Interests(18)			1,623	0.1%
				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.

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(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)	14,750	14,750	2,339	0.2%
		Net Profits Interest (5.00% payable on Equity distributions)(7)				0.0%
				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%**
		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%**

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

(1) The securities in which Prospect Capital Corporation (we , us or our) has invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended, or the Securities Act. These securities may be resold only in transactions that are exempt from registration under the Securities Act.

(2) Fair value is determined by or under the direction of our Board of Directors. As of March 31, 2013 and June 30, 2012, two of our portfolio investments, Allied Defense Group, Inc. (Allied) and Dover Saddlery, Inc. (Dover) were publicly traded and classified as Level 1 within the valuation hierarchy established by Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (ASC 820). As of March 31, 2013 and June 30, 2012, the fair value of our remaining portfolio investments was determined using significant unobservable inputs. ASC 820 classifies such inputs used to measure fair value as Level 3 within the valuation hierarchy. Our investments in money market funds are classified as Level 2. See Note 2 and Note 3 within the accompanying consolidated financial statements for further discussion.

(3) Security, or a portion thereof, is held by Prospect Capital Funding LLC, a bankruptcy remote special purpose entity, and is pledged as collateral for the revolving credit facility and such security is not available as collateral to our general creditors (See Note 4). The market values of these investments at March 31, 2013 and June 30, 2012 were $711,204 and $783,384, respectively; they represent 18.0% and 35.4% of total investments at fair value, respectively. Prospect Capital Funding LLC (See Note 1), our wholly-owned subsidiary, holds an aggregate market value of $711,204 and $783,384 of these investments as of March 31, 2013 and June 30, 2012, respectively.

(4) Security, or portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. Stated interest rate was in effect at March 31, 2013 and June 30, 2012.

(5) Ellett Brothers, LLC., Evans Sports, Inc., Jerry s Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc. and Outdoor Sports Headquarters, Inc., are joint borrowers on our second lien loan. United Sporting Companies, Inc., is a parent guarantor of this debt investment.

(6) During the quarter ended December 31, 2009, we created two new entities, Coalbed Inc. and Coalbed LLC, to foreclose on the outstanding senior secured loan and assigned rights and interests of Conquest Cherokee, LLC (Conquest), as a result of the deterioration of Conquest s financial performance and inability to service debt payments. We own 1,000 shares of common stock in Coalbed Inc., representing 100% of the issued and outstanding common stock. Coalbed Inc., in turn owns 100% of the membership interest in Coalbed LLC.

On October 21, 2009, Coalbed LLC foreclosed on the loan formerly made to Conquest. On January 19, 2010, as part of the Manx rollup, the Coalbed LLC assets and loan were assigned to Manx, the holding company. On June 30, 2012, Manx reassigned our investment in Coalbed to Wolf Energy Holdings, Inc. (Wolf), a newly-formed, separately owned holding company. Our Board of Directors set value at zero for the loan position in Coalbed LLC investment as of March 31, 2013 and June 30, 2012.

(7) In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests.

(8) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, Inc. (CCEHI) and Change Clean Energy, Inc. (CCEI), Freedom Marine Holding, Inc. (Freedom Marine) and Yatesville Coal Holdings, Inc. (Yatesville) was transferred to Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings Inc.) (Energy Solutions) to consolidate all of our energy holdings under one management team. We own 100% of Energy Solutions.

(9) Entity was formed as a result of the debt restructuring of ESA Environmental Specialist, Inc. In early 2009, we foreclosed on the two loans on non-accrual status and purchased the underlying personal and real property. We own 1,000 shares of common stock in The Healing Staff (THS), f/k/a Lisamarie Fallon, Inc. representing 100% ownership. We own 1,500 shares of Vets Securing America, Inc. (VSA), representing 100% ownership.

During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Services, Inc. (ICS) was other-than-temporary and recorded a realized loss of $12,198 for the amount that the amortized cost exceeded the fair market value. Our remaining investment in The Healing Staff (THS), an affiliate of ICS, was valued at zero as of March 31, 2013 and continues to provide staffing solutions for health care facilities and security staffing.

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

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

(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 connection with the sale of Shearer s, receiving $6,022 of net proceeds and realizing a gain of approximately $2,027 on the redemption.

(18) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.

(19) On December 31, 2009, we sold our investment in Aylward Enterprises, LLC. AWCNC, LLC is the remaining holding company with zero assets. Our remaining outstanding debt after the sale was written off on December 31, 2009 and no value has been assigned to the equity position as of March 31, 2013 and June 30, 2012.

(20) We own a warrant to purchase 2,650,588 shares of Series A Preferred Stock, 441,176 shares of Series B Preferred Stock, and 30,918 shares of Voting Common Stock in Boxercraft Incorporated.

(21) We own warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation (Metal Buildings), the former holding company of Borga, Inc. Metal Buildings Holding Corporation owned 100% of Borga, Inc.

On March 8, 2010, we foreclosed on the stock in Borga, Inc. that was held by Metal Buildings, obtaining 100% ownership of Borga, Inc.

(22) Certain investments that we have determined are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. We monitor the status of these assets on an ongoing basis.

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

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

(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 March 31, 2013 and June 30, 2012. Our fully diluted ownership in NMMB Acquisition, Inc. is 83.5% as of March 31, 2013 and June 30, 2012.

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

(26) Stated interest rates are based on March 31, 2013 and June 30, 2012 one month Libor rates plus applicable spreads based on the respective credit agreements. Interest rates are subject to change based on actual elections by the borrower for a Libor rate contract or Base Rate contract when drawing on the revolver.

(27) On July 30, 2010, we made a secured first-lien $30,000 debt investment to AIRMALL USA, Inc., a $12,500 secured second-lien to AMU Holdings, Inc., and 100% of the Convertible Preferred Stock and Common stock of AMU Holdings, Inc. Our Convertible Preferred Stock in AMU Holdings, Inc. has a 12.0% dividend rate which is paid from the dividends received from the underlying operating company, AIRMALL USA Inc. AMU Holdings, Inc. owns 100% of the common stock in AIRMALL USA, Inc.

(28) Progrexion Marketing, Inc., Progrexion Teleservices, Inc., Progrexion ASG, Inc. Progrexion IP, Inc. and Efolks, LLC, are joint borrowers on our senior secured investment. Progrexion Holdings, Inc. and eFolks Holdings, Inc. are the guarantors of this debt investment.

(29) Our wholly-owned entity, First Tower Holdings of Delaware, LLC, owns 80.1% of First Tower Holdings LLC, the operating company of First Tower, LLC.

(30) Southern Management Corporation, Thaxton Investment Corporation, Southern Finance of Tennessee, Inc., Covington Credit of Texas, Inc., Covington Credit, Inc., Covington Credit of Alabama, Inc., Covington Credit of Georgia, Inc., Southern Finance of South Carolina, Inc. and Quick Credit Corporation, are joint borrowers on our senior secured investment. SouthernCo, Inc. is the guarantor of this debt investment.

(31) We own 2.8% (13,220 shares) of Mineral Fusion Natural, LLC, a subsidiary of Caleel + Hayden, common and preferred interest.

(32) Our wholly-owned entity, APH Property Holdings, LLC, owns 100% of the common equity of American Property Holdings Corp., a REIT which holds investments in several real estate properties.

(33) Our wholly-owned entity, CCPI Holdings Inc. owns 95.13% of CCPI Inc., the operating company.

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

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

(34) Our wholly-owned entity, Credit Central Holdings of Delaware, LLC owns 75% of Credit Central Holdings, LLC, which owns 100% of each of Credit Central, LLC, Credit Central South, LLC and Credit Central of Tennessee, LLC, the operating companies.

(35) Our wholly-owned entity, Valley Electric Holdings I, Inc. (HoldCo), owns 100% of Valley Electric Holdings, II, Inc. (Valley II). Valley II owns 96.3% of Valley Electric Co. of Mt. Vernon, Inc. (OpCo), the operating company. Our debt investments are with both HoldCo and OpCo.

(36) Our wholly-owned entity, Nationwide Acceptance Holdings, LLC owns 93.8% of Nationwide Acceptance LLC, the operating company.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013
(Unaudited)
(In thousands, except share and per share data)

Note 1. Organization

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

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

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

Note 2. Significant Accounting Policies

The following are significant accounting policies consistently applied by us:

Basis of Presentation

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

Reclassifications

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

Use of Estimates

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

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X and the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our financial 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 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.

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.

Senior Convertible Notes

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

Revenue Recognition

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

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

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

Dividend income is recorded on the ex-dividend date.

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

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will not be collected in accordance with the terms of the investment. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management s judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management s judgment, are likely to remain current.

Federal and State Income Taxes

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

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

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate for taxable years beginning before 2013 (but not for taxable years beginning thereafter, unless the relevant provisions are extended by legislation) to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Internal Revenue Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

We follow ASC 740, *Income Taxes* (ASC 740). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of March 31, 2013 and for the three and nine months then ended, we did not have a liability for any unrecognized tax expense. Management s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

Dividends and Distributions

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

Financing Costs

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

Deferred Costs

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of Securities and Exchange Commission (SEC) registration fees, legal fees and accounting fees incurred. These prepaid assets will be charged to capital upon the receipt of an equity offering proceeds or charged to expense if no offering completed.

Guarantees and Indemnification Agreements

We follow ASC 460, *Guarantees* (ASC 460). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

Per Share Information

Net increase or decrease in net assets resulting from operations per common share are calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, *Financial Services Investment Companies*, convertible securities are not considered in the calculation of net assets per share.

Recent Accounting Pronouncements

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

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

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

Note 3. Portfolio Investments

At March 31, 2013, we had invested in 120 long-term portfolio investments, which had an amortized cost of $3,795,113 and a fair value of $3,707,722 and at June 30, 2012, we had invested in 85 long-term portfolio investments, which had an amortized cost of $2,099,313 and a fair value of $2,094,221.

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

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

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

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

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

	Fair Value Hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments at fair value				

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

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

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Revolving Line of Credit	$	$	$ 868	$ 868
Senior Secured Debt			1,088,019	1,088,019
Subordinated Secured Debt			480,147	480,147
Unsecured Debt			73,195	73,195
CLO Debt			27,717	27,717
CLO Residual Interest			218,009	218,009
Equity	129		206,137	206,266
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

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

	Fair Value Measurements Using Unobservable Inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-Control/ Non-Affiliate Investments	Total
Fair value as of June 30, 2012	$ 564,489	$ 46,116	$ 1,483,487	$ 2,094,092
Total realized loss (gain), net	(12,117)		(371)	(12,488)
Change in unrealized appreciation (depreciation)	(86,469)	(9,090)	13,275	(82,284)

Net realized and unrealized gain (loss)	(98,586)	(9,090)	12,904	(94,772)
Purchases of portfolio investments	241,018	30,000	2,026,413	2,297,431
Payment-in-kind interest	839	569	5,617	7,025
Amortization of discounts and premiums		677	12,947	13,624
Repayments and sales of portfolio investments	(32,455)	(26,527)	(550,811)	(609,793)
Transfers within Level 3				
Transfers in (out) of Level 3				
Fair value as of March 31, 2013	$ 675,305	$ 41,745	$ 2,990,557	$ 3,707,607

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

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

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

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

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

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

			Unobservable Input		
Asset Category	Fair Value	Primary Valuation Technique	Input	Range	Weighted Average
Senior	$ 1,888,472	Yield Analysis	Market Yield	5.9%-16.6%	10.5%
Subordinated Secured	876,859	Yield Analysis	Market Yield	7.4%-17.7%	11.6%
Unsecured	189,653	Yield Analysis	Market Yield	7.0%-15.7%	12.3%
CLO Debt	29,844	Discounted Cash Flow	Discount Rate	11.2%-18.9%	14.7%
CLO Residual Interest	582,939	Discounted Cash Flow	Discount Rate	10.0%-18.5%	14.3%
Equity	134,775	EV Market Multiple Analysis	EV Market Multiple Analysis	3.5x-9.0x	7.1x
Escrow	5,065	Discounted Cash Flow	Discount Rate	6.5%-7.0%	6.8%
Total	$ 3,707,607				

The significant unobservable input used in the market approach of fair value measurement of our investments are the market multiples of earnings before income tax, depreciation and amortization (EBITDA) of the comparable guideline public companies. The independent valuation firm selects a population of public companies for each investment with similar operations and attributes of the subject company. Using these guideline public companies data, a range of multiples of enterprise value to EBITDA is calculated. The independent valuation firm selects percentages from the range of multiples for purposes of determining the subject company s estimated enterprise value based on said multiple and generally the latest twelve months EBITDA of the subject company (or other meaningful measure). Significant increases or decreases in the multiple will result in an increase or decrease in enterprise value, resulting in an increase or decrease in the fair value estimate of the equity investment.

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

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

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

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

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

During the nine months ended March 31, 2013, the valuation methodology for First Tower changed to incorporate the income method (discounted cash flow analysis) in addition to the market method (public comparable company analysis) used in previous quarters. Management adopted the income method in consideration of management forecasts not previously available. As a result of this change and in recognition of recent company performance and current market conditions we decreased the fair value of our investment in First Tower to $295,198 as of March 31, 2013, a discount of $12,755 to its amortized cost, compared to $287,953 as of June 30, 2012, equal to its amortized cost at that time.

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

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets (Gas Solutions) for a sale price of $199,805, adjusted for the final working capital settlement, including a potential earnout of $28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of $9,966 paid to us, Energy Solutions received approximately $158,687 in cash. Currently, a portion of our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, Financial Services Investment Companies, as cash distributions are received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the nine months ended March 31, 2013, Energy Solutions repaid $24,250 of senior secured debt. We received a $16,952 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income during the nine months ended March 31, 2013. During the nine months ended March 31, 2013, we received distributions of $53,820 from Energy Solutions which were recorded as dividend income. We received no such distributions during the three months ended March 31, 2013. Energy Solutions continues to hold $23,576 of cash for future investment and repayment of debt.

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

During the nine months ended March 31, 2012, Deb Shops, Inc. (Deb Shops) filed for bankruptcy and a plan for reorganization was proposed. The plan was approved by the bankruptcy court and our debt position was eliminated with no payment to us. We determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of $14,607 during the quarter ended December 31, 2011 for the full amount of the amortized cost. The asset was completely written off when the plan of reorganization was approved.

On December 28, 2011, we made a secured debt investment of $37,218 to support the recapitalization of NRG Manufacturing, Inc. (NRG). After the financing, we received repayment of the $13,080 loan that was previously outstanding and a dividend of $6,711 as a result of our equity holdings. In addition, we sold 392 shares of NRG common stock held by us back to NRG for $13,266, realizing a gain of $12,131. Our remaining 408 shares of NRG common stock were sold on February 2, 2012.

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

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

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

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

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

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

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

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

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

Note 4. Revolving Credit Agreements

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

On March 27, 2012, we renegotiated the 2010 Facility and closed on an expanded five-year $650,000 revolving credit facility (the 2012 Facility). The lenders have extended commitments of $552,500 under the 2012 Facility as of March 31, 2013. The 2012 Facility includes an accordion feature which allows commitments to be increased up to $650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At March 31, 2013, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of March 31, 2013 and June 30, 2012, we had $430,094 and $451,252, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was zero and $96,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of $552,500. At March 31, 2013, the cash and investments used as collateral for the 2012 Facility had an aggregate market value of $718,974, which represents 28.1% of our net assets. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at market value as of March 31, 2013. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the 2012 Facility, we incurred $10,955 of fees, including $1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which $7,481 remains to be amortized as of March 31, 2013.

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

Note 5. Senior Convertible Notes

On December 21, 2010, we issued $150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 (2015 Notes) for net proceeds (after deducting underwriting expenses) of approximately $145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2013 of 88.0902 and 88.1429 shares, respectively, of common stock per $1 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately $11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at March 31, 2013 was last calculated on the anniversary of the issuance (December 21, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.101125 per share, subject to adjustment.

On February 18, 2011, we issued $172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 (2016 Notes) for net proceeds following underwriting expenses of approximately $167,325. Between January 30, 2012 and February 2, 2012, we repurchased $5,000 of our 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing $10 of loss in the year ended June 30, 2012. Interest on the remaining $167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2013 of 78.3699 and 78.5395 shares, respectively, of common stock per $1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately $12.76 and $12.73 per share of common stock, respectively, subject to adjustment in certain circumstances. The conversion price in effect at March 31, 2013 was last calculated on the anniversary of the issuance (February 14, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.101150 per share.

On April 16, 2012, we issued $130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 (2017 Notes) for net proceeds following underwriting expenses of approximately $126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2013 of 85.8442 shares of common stock per $1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately $11.65 per share of common stock, subject to adjustment in certain circumstances. The conversion price has been adjusted on the anniversary date of the issuance (April 16, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversation rate in effect at April 16, 2013 is 86.1156 shares of common stock per $1 principal amount of 2017 Notes which is equivalent to the conversion price of $11.61 per share of common stock. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.10150 per share.

On August 14, 2012, we issued $200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 (2018 Notes) for net proceeds following underwriting expenses of approximately $193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2013 of 82.3451 shares of common stock per $1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately $12.14 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (August 14, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of $0.10160 per share.

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

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

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

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

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

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

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

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

Note 6. Senior Unsecured Notes

On May 1, 2012, we issued $100,000 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for proceeds net of offering expenses of $97,000 (the 2022 Notes). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and

May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

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

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

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

Note 7. Prospect Capital InterNotes®

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

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

During the nine months ended March 31, 2103, we issued $178,763 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately $174,260. These notes were issued with stated interest rates ranging from 4.00% to 6.63% with a weighted average rate of 5.70%. These notes mature between July 15, 2019 and March 15, 2043.

The bonds outstanding as of March 31, 2013 are:

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

February 4, 2013- February 28, 2013	4,623	5.50%	5.50%	February 15, 2043
March 4, 2013- March 28, 2013	3,832	4.00%	4.00%	March 15, 2020
March 4, 2013- March 28, 2013	984	4.125%-4.5%	4.24%	March 15, 2031
March 4, 2013- March 28, 2013	4,308	5.50%	5.50%	March 15, 2043
March 14, 2013- March 28, 2013(1)	1,225	L+3.00%	3.27%	March 15, 2023
	$ 199,401			

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

In connection with the issuance of the Prospect Capital InterNotes®, we incurred $5,975 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments,* of which

$5,784 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

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

Note 8. Financial Instruments Disclosed, But Not Carried, At Fair Value

The fair values of our financial liabilities disclosed, but not carried, at fair value as of March 31, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Fair Value Hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
Credit facility payable(1)	$	$	$	$
Senior convertible notes(2)		894,120		894,120
Senior unsecured notes(2)	105,960	249,375		355,335
Prospect Capital InterNotes®(3)		215,191		215,191
Total	$ 105,960	$ 1,358,686	$	$ 1,464,646

(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			
	Level 1	**Level 2**	**Level 3**	**Total**
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.

Note 9. Equity Offerings, Offering Expenses, and Distributions

We issued 97,916,280 and 13,500,000 shares of our common stock during the nine months ended March 31, 2013 and March 31, 2012, respectively. The proceeds raised, the related underwriting fees, the offering expenses and the prices at which these shares were issued are as follows:

Issuances of Common Stock	Number of Shares Issued	Gross Proceeds Raised	Underwriting Fees	Offering Expenses	Average Offering Price
During the nine months ended March 31, 2013:					
July 2, 2012 July 12, 2012(1)	2,247,275	$ 26,040	$ 260	$	$ 11.59
July 16, 2012	21,000,000	$ 234,150	$ 2,100	$ 300	$ 11.15
July 27, 2012	3,150,000	$ 35,123	$ 315	$	$ 11.15
September 13, 2012 October 9, 2012(2)	8,010,357	$ 94,610	$ 946	$ 638	$ 11.81
November 7, 2012	35,000,000	$ 388,500	$ 4,550	$ 814	$ 11.10
December 13, 2012(3)	467,928	$ 5,021	$	$	$ 10.73
December 28, 2012(3)	897,906	$ 9,581	$	$	$ 10.67
December 31, 2012(3)	4,141,547	$ 44,650	$	$	$ 10.78
January 7, 2013 February 5, 2013(4)	10,248,051	$ 115,315	$ 1,153	$	$ 11.25
February 14, 2013 March 28, 2013(5)	12,753,216	$ 142,953	$ 1,430	$ 56	$ 11.21
During the nine months ended March 31, 2013:					
July 18, 2011	1,500,000	$ 15,225	$ 165	$ 137	$ 10.15
February 28, 2012	12,000,000	$ 131,400	$ 1,560	$ 360	$ 10.95

(1) On June 1, 2012, we established a fifth at-the-market program through which we may sell, from time to time and at our sole discretion 9,500,000 shares of our common stock. Through this program we issued 5,199,764 shares of our common stock at an average price of $11.38 per share, raising $59,170 of gross proceeds, from June 12, 2012 through July 12, 2012.

(2) On September 10, 2012, we established a sixth at-the-market program through which we may sell, from time to time and at our sole discretion 9,750,000 shares of our common stock. Through this program we issued 8,010,357 shares of our common stock at an average price of $11.81 per share, raising $94,610 of gross proceeds, from September 13, 2012 through October 9, 2012.

(3) On December 13, 2012, December 28, 2012 and December 31, 2012, we issued 467,928, 897,906 and 4,141,547 shares of our common stock, respectively, in conjunction with investments in controlled portfolio companies.

(4) On December 21, 2013, we established a seventh at-the-market program through which we may sell, from time to time and at our sole discretion 17,500,000 shares of our common stock. Through this program we issued 10,248,051 shares of our common stock at an average price of $11.25 per share, raising $115,315 of gross proceeds, from January 7, 2013 February 5, 2013.

(5) On February 11, 2013, we established an eighth at-the-market program through which we may sell, from time to time and at our sole discretion 45,000,000 shares of our common stock. Through this program we issued 12,753,216 shares of our common stock at an average price of $11.21 per share, raising $142.953 of gross proceeds, from February 14, 2013 through March 28, 2013.

Our shareholders equity accounts at March 31, 2013 and June 30, 2012 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, through a registered direct offering, through the exercise of over-allotment options on the part of the underwriters, as payment for investments, and through our dividend reinvestment plan. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan under which we may repurchase up to $100,000 of our common stock at prices below our net asset value. We have not made any purchases of our common stock during the period from August 24, 2011 to March 31, 2013 pursuant to this plan. Prior to any repurchase we are required to notify shareholders of our intention to purchase our common stock. This notice lasts for six months after notice is given. The last notice was more than six months ago, therefore notice would be necessary before such repurchase could be effected.

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

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

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

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

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, as of March 31, 2013 we can issue up to $2,004,070 of additional debt and equity securities in the public market.

During the nine months ended March 31, 2013 and March 31, 2012, we issued 1,077,887 and 817,241 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

At March 31, 2013, we have reserved 70,111,338 shares of our common stock for issuance upon conversion of the Senior Convertible Notes (See Note 5).

Note 10. Other Investment Income

Other investment income consists of structuring fees, overriding royalty interests, settlement of net profit interests, administrative agent fee, and other miscellaneous and sundry cash receipts. Income from such sources for the three and nine months ended March 31, 2013 and March 31, 2012 were as follows:

	For The Three Months Ended March 31,		For The Nine Months Ended March 31,	
Income Source	**2013**	**2012**	**2013**	**2012**
Structuring, advisory and amendment fees	$ 9,630	$ 15,085	$ 34,470	$ 22,853

Overriding royalty interests	781	23	2,121	140
Administrative agent fee	89	92	241	210
Other Investment Income	$ 10,500	$ 15,200	$ 36,832	$ 23,203

Note 11. Net Increase in Net Assets per Common Share

The following information sets forth the computation of net increase in net assets resulting from operations per common share for the three and nine months ended March 31, 2013 and March 31, 2012, respectively.

	For The Three Months Ended March 31,		For The Nine Months Ended March 31,	
	2013	2012	2013	2012
Net increase in net assets resulting from operations	$ 44,429	$ 50,209	$ 138,167	$ 154,601
Weighted average common shares outstanding	226,587,578	114,146,939	194,657,279	110,868,177
Net increase in net assets resulting from operations per common share	$ 0.20	$ 0.44	$ 0.71	$ 1.39

Note 12. Related Party Agreements and Transactions

Investment Advisory Agreement

We have entered into an investment advisory and management agreement with Prospect Capital Management (the Investment Advisory Agreement) under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, our Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and (iii) closes and monitors investments we make.

Prospect Capital Management s services under the Investment Advisory Agreement are not exclusive, and Prospect Capital Management is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% on our gross assets (including amounts borrowed). For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

The total base management fees incurred to the favor of the Investment Adviser for the three months ended March 31, 2013 and March 31, 2012 were $18,966, and $8,949, respectively. The fees incurred for the nine months ended March 31, 2013 and March 31, 2012 were $48,500, and $25,985, respectively.

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

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

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

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

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

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

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in its portfolio. For the purpose of this calculation, an investment is defined as the total of all rights and claims which maybe asserted against a portfolio company arising from our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equal the sum of the differences between the aggregate net sales price of each investment and the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate realized capital losses equal the sum of the amounts by which the aggregate net sales price of each investment is less than the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the aggregate valuation of each investment and the aggregate cost basis of such investment as of the applicable calendar year-end . At the end of the applicable calendar year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis and then reducing this amount by the aggregate unrealized capital depreciation. If this number is positive, then the capital gains incentive fee payable is equal to 20.00% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception.

For the three months ended March 31, 2013 and March 31, 2012, income incentive fees of $14,896 and $14,518, respectively, were incurred. For the nine months ended March 31, 2013 and March 31, 2012, income incentive fees of $58,207 and $30,614, respectively, were incurred. No capital gains incentive fees were incurred for the three or nine months ended March 31, 2013 and March 31, 2012.

Administration Agreement

We have also entered into an Administration Agreement with Prospect Administration, LLC (Prospect Administration) under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our chief compliance officer and chief financial officer and his staff. For the three months ended March 31, 2013 and 2012, the reimbursement was approximately $2,957 and $2,910, respectively. For the nine months ended March 31, 2013 and 2012, the reimbursement was approximately $7,280 and $5,143, respectively. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf legal and managerial assistance to those portfolio companies to which we are required to provide such assistance, for which the fees collected are used to reduce the costs reimbursed by us. The Administration Agreement may be terminated by either party without penalty upon 60 days written notice to the other party. Prospect Administration is a wholly owned subsidiary of our Investment Adviser.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Administration and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Administration s services under the Administration Agreement or otherwise as administrator for us.

Managerial Assistance

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. As of March 31, 2013 and June 30, 2012, $337 and $165 of managerial assistance fees remain on the consolidated statements of assets and liabilities as a payable to the Administrator.

Note 13. Litigation

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any such material litigation as of March 31, 2013.

Note 14. Financial Highlights

	For The Three Months Ended		For The Nine Months Ended	
	March 31, 2013	**March 31, 2012**	**March 31, 2013**	**March 31, 2012**
Per Share Data(1):				
Net asset value at beginning of period	$ 10.81	$ 10.69	$ 10.83	$ 10.36
Net investment income	0.26	0.51	1.20	1.10
Net realized (loss) gain	(0.03)	0.22	(0.06)	0.21
Net unrealized (depreciation) appreciation	(0.04)	(0.29)	(0.42)	0.08
Net increase in net assets as a result of public offerings	0.04		0.14	
Dividends declared and paid	(0.33)	(0.31)	(0.98)	(0.93)
Net asset value at end of period	$ 10.71	$ 10.82	$ 10.71	$ 10.82
Per share market value at end of period	$ 10.91	$ 10.98	$ 10.91	$ 10.98
Total return based on market value(2)	3.40%	21.47%	4.14%	19.44%
Total return based on net asset value(2)	2.07%	4.02%	7.51%	14.85%
Shares outstanding at end of period	238,628,037	121,923,931	238,628,037	121,923,931
Average weighted shares outstanding for period	226,587,578	114,146,939	194,657,279	110,868,177
Ratio / Supplemental Data:				
Net assets at end of period (in thousands)	$ 2,555,513	$ 1,318,806	$ 2,555,513	$ 1,318,806
Annualized ratio of operating expenses to average net assets	9.93%	12.06%	10.47%	10.55%
Annualized ratio of net operating income to average net assets	9.76%	18.65%	13.77%	13.49%

Note 14. Financial Highlights

	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2009	Year Ended June 30, 2008
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.

Note 15. Selected Quarterly Financial Data (Unaudited)

	Investment Income		Net Investment Income		Net Realized and Unrealized Gains (Losses)		Net Increase (Decrease) in Net Assets from Operations	
Quarter Ended	**Total**	**Per Share (1)**	**Total**	**Per Share (1)**	**Total**	**Per Share (1)**	**Total**	**Per Share (1)**
September 30, 2010	35,212	0.47	20,995	0.28	4,585	0.06	25,580	0.34
December 31, 2010	33,300	0.40	19,080	0.23	12,861	0.16	31,940	0.38
March 31, 2011	44,573	0.51	23,956	0.27	9,803	0.11	33,759	0.38
June 30, 2011	56,391	0.58	30,190	0.31	(3,232)	(0.03)	26,959	0.28
September 30, 2011	55,342	0.51	27,877	0.26	12,023	0.11	39,900	0.37
December 31, 2011	67,263	0.61	36,508	0.33	27,984	0.26	64,492	0.59
March 31, 2012	95,623	0.84	58,072	0.51	(7,863)	(0.07)	50,209	0.44
June 30, 2012	102,682	0.82	64,227	0.52	(27,924)	(0.22)	36,303	0.29
September 30, 2012	123,636	0.76	74,027	0.46	(26,778)	(0.17)	47,249	0.29
December 31, 2012	166,035	0.85	99,216	0.51	(52,727)	(0.27)	46,489	0.24
March 31, 2013	120,195	0.53	59,585	0.26	(15,156)	(0.07)	44,429	0.20

(1) Per share amounts are calculated using weighted average shares during period.

(2) As adjusted for increase in earnings from Patriot.

Note 16. Subsequent Events

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 2. 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 quarterly report on Form 10-Q. Historical results set forth are not necessarily indicative of our future financial position and results of operations. Any discussion relating to specific investments or portfolio loans herein should be read in conjunction with endnote 3 to the Consolidated Schedule of Investments included in our financial statements in order to determine whether all or any portion of such investment or loan is owned by our wholly-owned bankruptcy remote special purpose subsidiary, Prospect Capital Funding LLC and, accordingly, held as collateral for the revolving credit facility.

Note on Forward Looking Statements

Some of the statements in this report constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein involve risks and uncertainties, including statements as to:

- 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;

- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

We generally use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements. Our actu results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in Risk Factors and elsewhere in this report.

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. 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 may make directly to you or through reports that we in the future may file with the Securities and Exchange Commission (SEC), including any annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Overview

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt and our investments in collateralized loan obligation (CLOs) are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B depending on the tranche.

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

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

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

Third Quarter Highlights

Investment Transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On March 6, 2013, we made a $5,000 follow-on investment in Rocket Software, Inc (Rocket). The senior secured second-lien term loan bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

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

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

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

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

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

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