

BRISTOL WEST HOLDINGS INC
Form DEFA14A
April 24, 2006

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

**SCHEDULE 14A
(Rule 14a-101)**

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

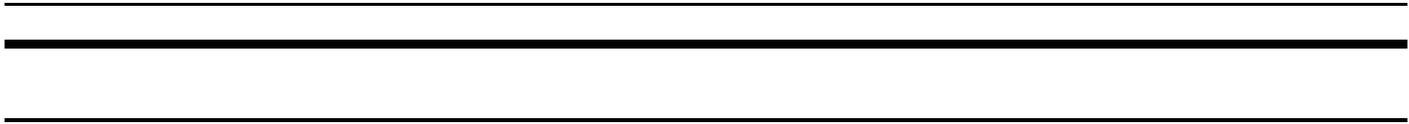
- o Preliminary Proxy Statement
 o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
 x Definitive Proxy Statement
 o Definitive Additional Materials
 o Soliciting Material Under Rule 14a-12

Bristol West Holdings, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
 o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4) Proposed maximum aggregate value of transaction:
(5) Total fee paid:
 o Fee paid previously with preliminary materials.
 o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:



Bristol West Holdings, Inc.
5701 Stirling Road
Davie, Florida 33314

April 24, 2006

Dear Stockholder,

You are invited to attend our Annual Meeting of Stockholders on Friday, May 19, 2006, at our headquarters in Davie, Florida.

In addition to the matters described in the attached proxy statement, I will report on our current activities and operations. You also will have an opportunity to ask questions of and to meet with your directors and executive officers.

Your representation and vote are important, and your shares should be voted whether or not you plan to attend the meeting. To ensure that your shares are represented at the meeting, please complete, sign, date and return the enclosed proxy card promptly.

I look forward to seeing you at the meeting.

Yours sincerely,

James R. Fisher
Chairman and Chief Executive Officer

BRISTOL WEST HOLDINGS, INC.

5701 Stirling Road
Davie, Florida 33314
(954) 316-2500

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Time and Date: 1:30 pm Eastern Daylight Time on Friday, May 19, 2006

Place: Bristol West Holdings, Inc. Headquarters
5701 Stirling Road, Davie, Florida 33314

Purpose: (1) The election of directors
(2) The ratification of the Audit Committee's selection of Deloitte & Touche LLP as the independent auditor for 2006
(3) The approval of the Bristol West Executive Officer Incentive Plan
(4) The transaction of any other business that properly comes before the meeting

In addition, during the annual meeting, the directors will present Bristol West's audited consolidated financial statements for the financial year ended December 31, 2005.

Adjournments and

Postponements: Any action on the items of business described above may be considered at the annual meeting at the time and on the date specified above or at any time and date to which the annual meeting may be properly adjourned or postponed.

Who May Vote: You will be entitled to vote at the annual meeting only if you were a stockholder of record as of the close of business April 3, 2006, the record date for voting.

Meeting Admission: You are entitled to attend the annual meeting only if you were a Bristol West stockholder as of the close of business on April 3, 2006 or hold a valid proxy for the annual meeting. You may be required to verify your ownership at the admissions desk.

Voting: Your vote is important. Whether or not you plan to attend the annual meeting, we encourage you to read this proxy statement and submit your proxy as soon as possible to ensure that your shares are represented at the annual meeting. For specific instructions on how to vote your shares and submit your proxy, please refer to this proxy statement and your proxy card.

Annual Report: A copy of our 2005 Annual Report is enclosed.

Date of Mailing: We first distributed this notice and proxy statement to stockholders on or about April 24, 2006.

By Order of the Board of Directors.

George G. O'Brien
Chief Legal Officer & Corporate Secretary

GENERAL INFORMATION

PROXY MATERIALS

Why am I receiving these materials?

The Board of Directors (which we refer to as the “**Board**”) of Bristol West Holdings, Inc. (which we refer to as “**Bristol West**,” “**Company**,” “**us**” or “**we**”), is providing the proxy materials to you in connection with Bristol West’s 2006 annual meeting of stockholders (which we refer to as the “**2006 Annual Meeting**”), which will take place on Friday, May 19, 2006 at 1:30 pm Eastern Daylight Time at our headquarters in Davie, Florida. As a stockholder, you are invited to attend the 2006 Annual Meeting and are entitled and requested to vote on the items of business described in this proxy statement.

What information is contained in this proxy statement?

The information in this proxy statement relates to the proposals to be voted on at the 2006 Annual Meeting, the voting process, the Board and Board committees, the compensation of directors and executive officers for fiscal 2005, and other required information.

How may I obtain Bristol West’s Form 10-K and other financial information?

We have enclosed a copy of our annual report to our stockholders with respect to fiscal 2005 (which we refer to as our “**2005 Annual Report**”) in accordance with applicable rules of the New York Stock Exchange (which we refer to as the “**NYSE**”) and the Securities and Exchange Commission (which we refer to as the “**SEC**”). We also prepared and filed with the SEC an Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (which we refer to as our “**2005 Form 10-K**”). **Stockholders may request another free copy of our 2005 Annual Report and a free copy of our 2005 Form 10-K (including the financial statements and financial statement schedules, but excluding exhibits) by contacting Bristol West at 5701 Stirling Road, Davie, FL 33314, Attention: Craig E. Eisenacher, or by calling Craig E. Eisenacher at (954) 316-5192. Alternatively, current and prospective investors can access our 2005 Annual Report and our 2005 Form 10-K (including**

How may I obtain a separate set of proxy materials?

SEC rules permit a single set of annual reports and proxy statements to be delivered to any household at which two or more stockholders reside if they appear to be members of the same family. Under the circumstances, each stockholder continues to receive a separate proxy card. This procedure is referred to as “householding.” While Bristol West does not participate in householding for mailings to its stockholders of record, a number of brokerage firms with account holders who are Bristol West stockholders have instituted householding. In these cases, your broker will deliver a single proxy statement and annual report to multiple stockholders sharing your address unless the broker has received contrary instructions from you or one or more of the other affected stockholders. Once you have received notice from your broker that the broker will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your explicit or implied consent by contacting your broker. If at any time you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, you should notify your broker.

You can receive a copy of this proxy statement and the 2005 Annual Report by contacting us at Bristol West Holdings, Inc., 5701 Stirling Road, Davie, FL 33314, Attention: Craig E. Eisenacher, or by calling Craig E. Eisenacher at (954) 316-5192.

How may I request a single set of proxy materials for my household?

If you share an address with another stockholder and have received multiple copies of our proxy materials, you may write us at Bristol West Holdings, Inc., 5701 Stirling Road, Davie, FL 33314, Attention: Craig E. Eisenacher to request delivery of a single copy of these materials in the future.

What should I do if I receive more than one set of voting materials?

You may receive more than one set of voting materials, including multiple copies of this proxy statement and

exhibits) and other financial information, on our investor relations web site at: www.bristolwest.com/investor/index.html.

multiple proxy cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card that you receive.

VOTING INFORMATION

What items of business will be voted on at the 2006 Annual Meeting?

The items of business on which we have scheduled a vote at the annual meeting are:

- The election of directors
- The ratification of the Audit Committee's selection of Deloitte & Touche LLP as the independent auditor for 2006
- The approval of the Bristol West Executive Officer Incentive Plan (which we refer to as the "EIP")

We also will consider any other business that properly comes before the 2006 Annual Meeting or any adjournment or postponement of the 2006 Annual Meeting. See the following questions below: "**What happens if additional matters are presented at the 2006 Annual Meeting?**" and "**How many votes are needed for any such other matters?**"

How does the Board recommend that I vote?

Our Board recommends that you vote your shares "FOR" each of the nominees to the Board, "FOR" the ratification of the appointment of our independent auditor for 2006, and "FOR" approval of the EIP.

Who may vote?

Holders of shares of Bristol West's common stock, \$0.01 par value per share (which we refer to as "**Common Stock**"), as recorded in our share register on April 3, 2006 (which we refer to as the "**Record Date**"), may vote at the 2006 Annual Meeting. As of the Record Date, there were 30,160,493 shares of Common Stock outstanding and entitled to one vote per share. A list of stockholders will be available for inspection for at least 10 days before the 2006 Annual Meeting at Bristol West's offices at 5701 Stirling Road, Davie, Florida 33314.

How do I vote?

You may vote in person at the 2006 Annual Meeting or by proxy. We recommend that you vote by proxy even if you expect to attend the 2006 Annual Meeting. You will be able to change your vote at the 2006 Annual Meeting. Please refer to this proxy statement and your proxy card

What is the deadline for voting my shares?

If you hold shares as the stockholder of record, we must receive your vote by proxy before the polls close at the 2006 Annual Meeting.

How do proxies work?

The Board is asking for your proxy. Giving your proxy to the persons named as proxy holders, James R. Fisher, our Chairman and Chief Executive Officer (whom we refer to as our "**CEO**"), Jeffrey J. Dailey, our President and Chief Operating Officer, and Craig E. Eisenacher, our Chief Financial Officer, means you authorize us to vote your shares at the 2006 Annual Meeting, or at any adjournment or postponement thereof, in the manner you direct. You may vote for or against the proposals or abstain from voting. You may also vote for all, some or none of the directors seeking election.

Please complete, sign, date and return each proxy card that you receive. Executors, administrators, trustees, guardians, attorneys and other representatives should indicate the capacity in which they are signing. Corporations should sign by an authorized officer whose title should be indicated.

If you sign and return the enclosed proxy card but do not specify how to vote, the persons named as proxy holders will vote your shares in favor of all items herein to be voted on. As of the date hereof, we do not know of any other business that will be presented at the 2006 Annual Meeting. If other business properly comes before the 2006 Annual Meeting or any adjournment or postponement thereof, the persons named as proxy holders will vote according to their best judgment.

Who is making the solicitation and who will bear the cost of soliciting votes for the 2006 Annual Meeting?

Bristol West is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. In addition to the mailing of these proxy materials, our directors, officers and employees may solicit proxies or votes in person, by telephone or by electronic communication. These individuals will not receive any additional compensation for such solicitation activities. We have also retained Georgeson Shareholder Communications Inc. (which we refer to as

or the information forwarded by your bank, broker or other holder of record to see how you should complete your proxy card and deliver it to us.

“**Georgeson**”) to assist us in the distribution of proxy materials and the solicitation of votes described above. We will pay Georgeson a fee of approximately \$7,000 plus customary costs and expenses for these services. Bristol West has agreed to indemnify Georgeson against certain liabilities arising out of or in connection with its agreement. We also will reimburse brokerage houses and other custodians, nominees and fiduciaries for forwarding proxy and solicitation materials to you and getting your voting instructions.

May I change my vote?

You may change your vote at any time before the vote at the 2006 Annual Meeting. If you are the stockholder of record, you may revoke a proxy that you previously submitted before it is voted by submitting a new proxy with a later date, by voting in person at the 2006 Annual Meeting or by submitting written notice bearing a later date to Bristol West's Corporate Secretary, at 5701 Stirling Road, Davie, Florida 33314. Your attendance alone at the 2006 Annual Meeting will not revoke a proxy that you previously submitted.

How many shares must be present or represented to conduct business at the 2006 Annual Meeting?

In order to transact business at the 2006 Annual Meeting, we must have a quorum. Under our by-laws, the quorum requirement is that stockholders representing a majority of the issued and outstanding shares of Common Stock that are entitled to vote must be present at the 2006 Annual Meeting. Your shares will be counted as present at the 2006 Annual Meeting if you take one of the following actions:

- return a properly executed proxy (even if you do not provide voting instructions)
- attend the 2006 Annual Meeting and vote in person

Both abstentions and broker non-votes (described below in the questions "**How are votes counted?**" and "**Will my shares be voted if I do not provide my proxy?**") are counted for the purpose of determining the presence of a quorum.

How are votes counted?

You are entitled to one vote for each share of Common Stock you own with respect to which you are entitled to vote at the 2006 Annual Meeting.

In the election of directors, you may vote "FOR" all or some of the nominees or you may "WITHHOLD" your vote with respect to one or more of the nominees. For the other items of business, you may vote "FOR," "AGAINST" or "ABSTAIN." If you elect to "ABSTAIN," the abstention has the same effect as a vote "AGAINST."

If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card without giving specific instructions, your shares will be voted in accordance with the recommendations of the Board ("FOR" all of Bristol West's nominees to the Board, "FOR" ratification of the appointment of our independent auditor for 2006, and "FOR" approval of the EIP). We have included below under the heading entitled "**Will my shares be voted if I do not provide my proxy?**" a description of how your shares may be voted if you do not vote or submit a proxy.

How many votes are needed to elect directors?

The 10 director nominees receiving the highest number of "FOR" votes will be elected directors if a quorum is present at the 2006 Annual Meeting. This number is called a plurality.

How many votes are needed to ratify the appointment of Bristol West's independent auditor?

To ratify the appointment of Bristol West's independent auditor, if a quorum is present at the 2006 Annual Meeting, the "FOR" votes must exceed the "AGAINST" votes cast at the 2006 Annual Meeting.

How many votes are needed to approve the EIP?

To approve the EIP, if a quorum is present at the 2006 Annual Meeting, the "FOR" votes must exceed the "AGAINST" votes cast at the 2006 Annual Meeting.

What happens if additional matters are presented at the 2006 Annual Meeting?

Other than the three items of business described in this proxy statement, we are not aware of any other business to be acted upon at the 2006 Annual Meeting. If you grant a proxy, the persons named as proxy holders will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any reason any of our nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as the Board may nominate. In no event, however, can a proxy be voted to elect any more than 10 nominees for director.

How many votes are needed for any such other matters?

To approve any other matter that properly comes before the 2006 Annual Meeting, if a quorum is present at the 2006 Annual Meeting, the “FOR” votes cast in favor of the matter must exceed the “AGAINST” votes cast against the matter.

Will my shares be voted if I do not provide my proxy?

Your shares may be voted under certain circumstances if they are held in the name of a brokerage firm. Brokerage firms have the authority under rules of the NYSE to vote their customers’ unvoted shares on “routine” matters, which includes the election of directors, the ratification of the appointment of Bristol West’s independent auditor, and approval of the EIP. Accordingly, if a brokerage firm votes your shares on these matters in accordance with these rules, your shares will count as present at the 2006 Annual Meeting for purposes of establishing a quorum and will count as “FOR” votes or “AGAINST” votes, as the case may be, with respect to all “routine” matters voted on at the 2006 Annual Meeting. If you hold your shares directly in your own name, they will not be voted if you do not provide a proxy. If a brokerage firm signs and returns a proxy on your behalf that does not contain voting instructions, your shares will count as present at the annual meeting for quorum purposes, but will not count as “FOR” votes or “AGAINST” votes on any matter voted on at the 2006 Annual Meeting. These are referred to as broker non-votes.

Who will serve as inspector of elections?

The inspector of elections will be a representative from an independent firm, The Bank of New York.

Where can I find the voting results of the 2006 Annual Meeting?

We intend to announce preliminary voting results at the 2006 Annual Meeting and publish final results in our Quarterly Report on Form 10-Q for the fiscal quarter ending June 30, 2006.

STOCK OWNERSHIP INFORMATION

Stockholder of Record

If your shares are registered directly in your name with Bristol West’s transfer agent, Bank of New York (which we refer to as the “**Transfer Agent**”), you are considered, with respect to those shares, the stockholder of record, and Bristol West is sending these proxy materials directly to you. As the stockholder of record, you have the right to grant your voting proxy directly to the individuals selected to be proxy holders by Bristol West or to a third party, or to vote in person at the 2006 Annual Meeting. Bristol West has enclosed a proxy card for you to use.

Beneficial Owner

If your shares are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you together with a voting instruction card on behalf of your broker, trustee or nominee. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote, and you also are invited to attend the 2006 Annual Meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares.

Since a beneficial owner is not the stockholder of record, you may not vote these shares in person at the 2006 Annual Meeting unless you obtain a “legal proxy” from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the 2006 Annual Meeting.

What if I have questions for Bristol West’s transfer agent?

If you have questions concerning stock certificates, dividend checks, transfer of ownership or other matters pertaining to your stock account, please contact our Transfer Agent, at the following address, phone numbers, or email address: The Bank of New York, Investor Services Department, P.O. Box 11258, New York, NY 10286-1258; (800) 524-4458; (212) 815-3700; shareowners@bankofny.com.

2006 ANNUAL MEETING INFORMATION

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Most Bristol West stockholders hold their shares through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

How can I attend the 2006 Annual Meeting?

You are entitled to attend the 2006 Annual Meeting only if you were a Bristol West stockholder or joint holder as of the close of business on the Record Date, April 3, 2006, or you hold a valid proxy for the 2006 Annual Meeting. You may be required to verify your Common Stock ownership at the admissions desk. If your shares are held in the name of your broker, bank or other nominee, you must bring with you to the 2006 Annual Meeting an account statement or letter from the nominee indicating that you are the beneficial owner of the shares on the Record Date. If you execute a proxy, you may still attend the 2006 Annual Meeting and vote in person.

STOCKHOLDER PROPOSALS, DIRECTOR NOMINATIONS AND RELATED BY-LAW PROVISIONS

What is the procedure for proposing actions for consideration at the 2007 Annual Meeting?

Our Corporate Secretary must receive all stockholder proposals (including director nominations) for consideration at next year's annual meeting of stockholders (which we refer to as the "**2007 Annual Meeting**") at our principal executive offices located at 5701 Stirling Road, Davie, Florida 33314.

Our by-laws provide that you may submit proposals (including director nominations) for consideration at the 2007 Annual Meeting if you are a stockholder who is entitled to vote at the 2007 Annual Meeting and who is a stockholder of record at the time our Corporate Secretary receives notice of your proposals and if your proposals meet the notice procedures set forth in our by-laws, which we have summarized below and in the questions entitled "**What is the deadline to propose actions for consideration at the 2007 Annual Meeting?**," "**How may I recommend or nominate individuals to serve as directors?**" and "**What is the deadline to propose or nominate individuals to serve as directors?**":

Any proposals you submit must include the following:

- Your name and address, as they appear in our share records
- The class and number of shares of Common Stock that you own
- With respect to any beneficial owner of Common Stock on whose behalf you may be making the proposal:
 - o Their name and address
 - o The class and number of shares of Common Stock that they own

If you submit any proposal for consideration at the 2007 Annual Meeting other than director nominations, your notice to our Corporate Secretary must include a brief description of the business you desire to bring before the 2007 Annual Meeting, the reasons for conducting that business at the 2007 Annual Meeting, and any material interest in that business that you may have and that any beneficial owner of Common Stock on whose behalf you may be making the proposal may have. All matters

What is the deadline to propose actions for consideration at the 2007 Annual Meeting?

Proposal to be included in our 2007 proxy materials.

You may submit proposals for consideration at the 2007 Annual Meeting. For us to consider your stockholder proposal for inclusion in our proxy materials to be distributed in connection with the 2007 Annual Meeting, including nominations for the election of directors, our Corporate Secretary must receive your proposal at our principal executive offices, located at 5701 Stirling Road, Davie, Florida 33314, not later than December 25, 2006, which is 120 calendar days before the anniversary of the date we first distributed this notice and proxy statement to stockholders. Your proposal also must comply with SEC regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials.

Proposal not included in our 2007 proxy materials.

For any proposal that is not timely submitted for inclusion in our proxy materials to be distributed in connection with the 2007 Annual Meeting under Rule 14a-8, but is instead sought to be presented directly at the 2007 Annual Meeting, SEC rules permit the proxy holders to vote their proxies in their discretion as follows:

- If our Corporate Secretary receives notice of the proposal no earlier than the close of business on February 17, 2007, which is 90 days before the first anniversary of the date of the 2006 Annual Meeting, and no later than the close of business on March 10, 2007, which is 70 days before the first anniversary of the date of the 2006 Annual Meeting. Notices of intention to present proposals at the 2007 Annual Meeting should be addressed to George G. O'Brien, Chief Legal Officer and Corporate Secretary, Bristol West Holdings, Inc., 5701 Stirling Road, Davie, FL 33314.
- If we move the date of the 2007 Annual Meeting more than 20 days before or 70 days after the anniversary of the 2006 Annual Meeting, then our Corporate Secretary must receive notice of the proposal not earlier than the close of business 90 days before the 2007 Annual Meeting and not later than the close of business on the later of the following two dates:

that you submit for consideration at the 2007 Annual Meeting must be proper for stockholder action.

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- o 70 days before the 2007 Annual Meeting; and
- o 10 days after we make the first public announcement of the date of the 2007 Annual Meeting.

How may I recommend or nominate individuals to serve as directors?

You may propose director candidates for consideration by our Corporate Governance and Nominating Committee. You should direct such proposals to George G. O'Brien, Chief Legal Officer and Corporate Secretary, Bristol West Holdings, Inc., 5701 Stirling Road, Davie, FL 33314.

If you submit any director nomination for consideration at the 2007 Annual Meeting, your notice to our Corporate Secretary must meet the requirements that we have described above under the heading "**What is the procedure for proposing actions for consideration at the 2007 Annual Meeting?**" In addition, your notice to our Corporate Secretary must include all information relating to that person that Regulation 14A under the Securities Exchange Act of 1934, as amended (which we refer to as the "**Exchange Act**") requires us to include in our proxy materials to be distributed in connection with the solicitation of proxies for the election of directors at the 2007 Annual Meeting, including the nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected.

What is the deadline to propose or nominate individuals to serve as directors?

You may send an informal recommendation regarding a proposed director candidate to our Corporate Governance and Nominating Committee and Board at any time. Generally, such proposed candidates are considered at the Board meeting prior to the next annual meeting of stockholders. You should direct such informal recommendations either to (1) George G. O'Brien, Chief Legal Officer and Corporate Secretary, Bristol West Holdings, Inc., 5701 Stirling Road, Davie, FL 33314, Attention: Corporate Governance Hotline, or (2) our Corporate Governance Hotline at (800) 819-9714.

If you formally submit any director nomination for consideration at the 2007 Annual Meeting, your notice to our Corporate Secretary must meet the timing requirements that we have described above under the heading "**What is the deadline to propose actions for consideration at the 2007 Annual Meeting?**" In addition, if the number of directors to be elected to the Board is increased and we make no public announcement naming all of the nominees for director or specifying the size of the increased Board by at least February 28, 2007, which is 80 days before the first anniversary of the date of the 2006 Annual Meeting, we must receive notice of a director nomination not later than 10 days after we make the first public announcement naming all of the nominees for director or specifying the size of the increased Board. A description of such nominations will not be included in our proxy materials to be distributed in connection with the 2007 Annual Meeting under Rule 14a-8.

How may I obtain a copy of Bristol West's by-law provisions regarding director nominations and other stockholder proposals?

To receive a copy of the relevant by-law provisions regarding the requirements for making stockholder proposals and nominating director candidates, you may send your request to George G. O'Brien, Chief Legal Officer and Corporate Secretary, Bristol West Holdings, Inc., 5701 Stirling Road, Davie, FL 33314.

ELECTION OF DIRECTORS

Board of Directors

Our Board currently has 11 members each of whom serve until the 2006 Annual Meeting or until their successors are qualified and elected, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Two of our directors have advised us that they do not intend to stand for re-election at the 2006 Annual Meeting and will retire from the Board at that time, as described below under the heading “*Election of Directors - Retiring Directors.*” At this time, the Board has elected to fill one of the two vacancies by nominating a new director candidate, as described below under the heading “*Election of Directors - Recommendation of the Board of Directors.*” Accordingly, at the 2006 Annual Meeting, each of 10 nominees for director is to be elected to serve on our Board until the 2007 Annual Meeting or until their successors are qualified and elected, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Our Board is authorized to fill the remaining vacancy after the 2006 Annual Meeting. The Board will consider potential nominees to fill the vacancy or decrease the size of the Board to 10 directors. Our Board is also authorized to increase the size of the Board and is authorized to fill the vacancies created by the increase. Directors elected by the Board to fill any such vacancies will stand for re-election at the next annual meeting of stockholders after their election.

We do not believe that any of the 10 nominees for director will be unwilling or unable to serve as director. However, if at the time of the 2006 Annual Meeting any of the nominees should be unwilling or unable to serve, proxies will be voted as recommended by the Board to do one of the following:

- To elect substitute nominees recommended by the Board.
- To allow the vacancy created to remain open until filled by the Board.
- To reduce the number of directors for the ensuing year.

In no event, however, can a proxy be voted to elect any more than 10 nominees for director.

Recommendation of the Board of Directors

The Board recommends that you vote “FOR” each of the following individuals proposed for election, including nine incumbent directors proposed for re-election (proxies returned without instructions will be voted “FOR” each of the following individuals):

Nominees for Election

Mr. James R. Fisher

Mr. Fisher, age 50, has been our Chief Executive Officer and Chairman of the Board since September 2000 and has been a Bristol West director since July 1998. Mr. Fisher has been the managing member of Fisher Capital Corp. L.L.C. since March 1997. From 1986 through March 1997, Mr. Fisher held various executive positions at American Re Corporation. Currently, Mr. Fisher is a director of Willis Group Holdings Limited (which we refer to as “**Willis**”)(retiring April 2006), Alea Group Holdings (Bermuda) Ltd. (which we refer to as “**Alea (Bermuda)**”) and a trustee of Lafayette College in Easton, Pennsylvania. On February 21, 2006, Mr. Fisher notified the Board that, as part of our ongoing management succession process, he would like to relinquish his title as Chief Executive Officer effective as of July 1, 2006. Mr. Fisher recommended the promotion of Jeffrey J. Dailey, Bristol West’s President and Chief Operating Officer, to the position of Chief Executive Officer. The Board accepted Mr. Fisher’s recommendations. Effective July 1, 2006, Mr. Fisher will continue to serve as Executive Chairman of the Board.

Mr. R. Cary Blair

Mr. Blair, age 66, has been a Bristol West director since March 2004. Mr. Blair retired as Chairman and Chief Executive Officer of the Westfield Group in August 2003. He served his entire career at the Westfield Group from 1961 through August 2003. Currently, Mr. Blair is a director of First Merit Corporation and Davey Tree Expert Co., and the Chairman of the Westfield Foundation.

Mr. Jeffrey J. Dailey

Mr. Dailey, age 49, is not currently a Bristol West director. Mr. Dailey has been our President since December 2003 and Chief Operating Officer since April 2001. Mr. Dailey has 26 years of experience in the insurance industry. Prior to joining Bristol West in 2001, Mr. Dailey was the Chief Executive Officer of Reliant Insurance. Prior to joining Reliant in 1996, Mr. Dailey spent 14 years with The Progressive Corporation, holding numerous executive positions culminating as President of Progressive's Northeast Division. On February 21, 2006, James R. Fisher, Bristol West's Chairman and Chief Executive Officer, notified the Board that, as part of our ongoing management succession process, he would like to relinquish his title as Chief Executive Officer effective as of July 1, 2006. Mr. Fisher recommended that Mr. Dailey be promoted to the position of Chief Executive Officer and that he be nominated to serve on the Board. The Board accepted Mr. Fisher's recommendations. Accordingly, the Board has nominated Mr. Dailey to serve on the Board.

Mr. Richard T. Delaney

Mr. Delaney, age 67, has been a Bristol West director since March 2004. Mr. Delaney has worked as an independent consultant since January 2000. From 1994 through January 2000, Mr. Delaney held the positions of President and Chief Operating Officer of Am-Re Consultants, Inc. and Vice Chairman of Am-Re Global Services, Inc. From January 2002 through November 2003, Mr. Delaney was a director of Alea Group Holdings Ltd. (which we refer to as "Alea"). From January 2002 through June 2004, Mr. Delaney was a director of Associated Industries Insurance Services, Inc. Mr. Delaney is a member of the CPCU Society.

Mr. Todd A. Fisher

Mr. Fisher, age 40, has been a Bristol West director since February 1998. Mr. Fisher has been a member of KKR & Co. L.L.C. since January 1, 2001. Mr. Fisher was an executive of KKR & Co. L.L.C. from June 1993 to December 31, 2000. Mr. Fisher was an associate at Goldman Sachs & Co. from July 1992 to June 1993. Currently, Mr. Fisher is a director of Alea (Bermuda), Rockwood Holdings, Inc., Koninklijke Vendex KBB B.V., and Duales System Deutschland AG.

Mr. Perry Golkin

Mr. Golkin, age 52, has been a Bristol West director since February 1998. Mr. Golkin has been a member of KKR & Co. L.L.C. since January 1, 1996. Mr. Golkin was a general partner of KKR & Co. L.L.C. from 1995 to January 1996. Prior to 1995, he was an executive of KKR & Co. L.L.C. Currently, Mr. Golkin is a director of Alea (Bermuda), PRIMEDIA, Inc., Rockwood Holdings, Inc., and Willis.

Ms. Mary R. Hennessy

Ms. Hennessy, age 53, has been a Bristol West director since March 2004. Since January 2006, Ms. Hennessy has been an independent consultant to the insurance and reinsurance industries. From May 2002 through December 2005, Ms. Hennessy was employed as a consultant with Webb Associates of Haddonfield, New Jersey. From January 2000 through May 2002, Ms. Hennessy was the Chief Executive Officer and President of Overseas Partners, Ltd. From November 1996 through April 1999, Ms. Hennessy was President and Chief Operating Officer of TIG Holdings. Prior to serving at TIG, Ms. Hennessy held various executive positions at American Re Corporation from 1988 to 1996. Ms. Hennessy has been a Fellow of the Casualty Actuarial Society since 1981.

Dr. Eileen Hilton

Dr. Hilton, age 59, has been a Bristol West director since March 2004. Dr. Hilton has been the Chief Executive Officer and President of Biomedical Research Alliance of New York since 1998. Dr. Hilton has been an attending physician at Long Island Jewish Medical Center since 1985. Dr. Hilton is currently a Fellow with the American College of Physicians and the Infectious Disease Society of America and a member of the American Society of Microbiology, the Long Island Infectious Disease Society and the New York Society of Infectious Disease.

Mr. James N. Meehan

Mr. Meehan, age 60, has been a Bristol West director since March 2004. Mr. Meehan was a Managing Director of Bank of America in Chicago, Illinois, from June 1987 through May 2002. Since his retirement in May 2002, he has worked as an independent consultant. Prior to serving at Bank of America, Mr. Meehan was Vice President of First National Bank of Chicago. Currently, Mr. Meehan is a director of the Delphi Financial Group, American Fuji Fire and Marine Insurance Company, and Reassure America Life Insurance Company, a subsidiary of Swiss Re.

Mr. Arthur J. Rothkopf

Mr. Rothkopf, age 70, has been a Bristol West director since March 2004. Mr. Rothkopf has been Senior Vice President of the U.S. Chamber of Commerce since July 2005. Prior to serving at the U.S. Chamber of Commerce, Mr. Rothkopf served as President of Lafayette College in Easton, Pennsylvania, from 1993 until 2005. He also has served as the Deputy Secretary and General Counsel of the United States Department of Transportation and was a partner in the law firm of Hogan & Hartson in Washington, D.C. Currently, Mr. Rothkopf is a director of Insurance Services Office, Inc.

Retiring Directors

Each of the following incumbent directors has advised us that they do not intend to stand for re-election at the 2006 Annual Meeting and will retire from the Board at that time:

Mr. Inder-Jeet S. Gujral

Mr. Gujral, age 47, has been a Bristol West director since March 2004. In January 2000, Mr. Gujral founded and became Chairman of OneShield, Inc. and also founded Firemark Partners, LLC. Mr. Gujral is currently Chairman of Newton Sensors, Inc. and a director of Quosa, Inc. and SSI Corp. Mr. Gujral was an Executive Vice President of WebMD Corp. from April 2003 until June 30, 2005.

Mr. Scott C. Nuttall

Mr. Nuttall, age 33, has been a Bristol West director since August 2000. Mr. Nuttall has been a member of KKR & Co. L.L.C. since June 1, 2005. Mr. Nuttall was an executive of KKR & Co. L.L.C. from November 1996 to June 1, 2005. Mr. Nuttall was an executive at The Blackstone Group from January 1995 to November 1996. Currently, Mr. Nuttall is a director of Alea (Bermuda), Willis (retiring April 2006), KKR Financial Corporation and Masonite International Corporation.

Corporate Governance

Corporate Governance Guidelines. As required by the NYSE, the Board has adopted Corporate Governance Guidelines (which we refer to as our “**Corporate Governance Guidelines**”) that meet the corporate governance standards of the NYSE. We have posted our Corporate Governance Guidelines on our Internet website at www.bristolwest.com.

Director Independence. Our Board annually conducts an assessment of the independence of each director in accordance with our Corporate Governance Guidelines, applicable rules and regulations of the SEC, and the corporate governance standards of the NYSE. An independent director is free of any relationship with Bristol West or our management that impairs the director’s ability to make independent judgments.

The Board has adopted categorical standards as part of our Corporate Governance Guidelines to assist it in evaluating the independence of each of its directors (which we refer to as the “**Categorical Standards**”). The Categorical Standards are attached hereto as **Appendix A**. The Board adopted the Categorical Standards to assist the Board in determining whether or not certain relationships between our directors and Bristol West (either directly or as a partner, stockholder or officer of an organization that has a relationship with Bristol West) constitute “material relationships.” The Categorical Standards establish thresholds at which such relationships are deemed to be not material. With respect to directors who have a business or other relationship that does not fit within the Categorical Standards, the Board assesses each director’s independence with respect to that relationship by reviewing any potential conflicts of interest and significant outside relationships. In determining any such director’s independence, the Board broadly considers all relevant facts and circumstances, including specific criteria included in the NYSE’s corporate governance standards. For these purposes, the NYSE requires the Board to consider certain relationships that existed during a three-year look-back period. The Board considers the issue not merely from the standpoint of a director, but also from the

standpoint of persons or organizations with which the director has an affiliation.

The Board conducted an assessment of the independence of each director at its regularly scheduled meeting in February. Based on this assessment, the Board affirmatively determined that the following Board members were independent: R. Cary Blair, Richard T. Delaney, Mary R. Hennessy, Eileen Hilton, James N. Meehan and Arthur J. Rothkopf. Except with respect to the relationships described below, the Board affirmatively determined that these Board members were independent because they met the requirements of the Categorical Standards:

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General Information: Partnerships affiliated with Kohlberg Kravis Roberts & Co. L.P. (which we refer to as “**KKR**”) owned 40.5% and 38.5% of our Common Stock as of December 31, 2005 and 2004, respectively, and were significant stockholders as of December 31, 2003 before our initial public offering. For more information regarding our relationships with KKR, see the information below under the caption entitled “***Certain Relationships and Related Transactions - Consulting Services Fees.***” Partnerships affiliated with KKR owned approximately 40.7%, 40.6%, and 40.6% of Alea at December 31, 2005, 2004 and 2003, respectively.

Richard T. Delaney: Mr. Delaney was a director of Alea from January 1, 2002 to October 16, 2003, prior to joining our Board. After he resigned from Alea’s board of directors through the end of 2004, Mr. Delaney continued consulting for Alea. In 2004, he received consulting fees from Alea totalling \$150,000 plus grants for 26,964 shares of Alea stock. In late 2004 and early 2005, Mr. Delaney consulted briefly with KKR in connection with a potential acquisition, but he did not bill KKR for that work. None of Mr. Delaney’s consulting work for Alea or KKR involved Bristol West or any of its subsidiaries. The Board did not consider these relationships, individually or in the aggregate, to be material for purposes of determining Mr. Delaney’s independence.

Mary R. Hennessy: In late 2004 and 2005, Ms. Hennessy performed consulting services for KKR in connection with a portfolio investment and a potential acquisition. The total consulting fees that Ms. Hennessy received for this work constituted less than 10% of her 2005 total income. None of Ms. Hennessy’s consulting work for KKR involved Bristol West or any of its subsidiaries. The Board did not consider this consulting relationship to be material for purposes of determining Ms. Hennessy’s independence.

James N. Meehan: Mr. Meehan’s son is an employee of Deloitte Consulting LLP, a member firm of Deloitte Touche Tohmatsu. Deloitte & Touche LLP, our independent auditors, is also a member firm of Deloitte Touche Tohmatsu. Mr. Meehan’s son is not a partner of Deloitte Consulting LLP, does not work in any audit, assurance or tax compliance practice of Deloitte Touche Tohmatsu or any of its member firms, and has never worked on the audit of Bristol West’s financial statements. The Board did not consider this relationship to be material for purposes of determining Mr. Meehan’s independence.

Arthur J. Rothkopf: Mr. Rothkopf is a director of Insurance Services Office (which we refer to as “**ISO**”). ISO is a vendor that provides services to Bristol West. Our payments to ISO in 2005, 2004 and 2003 were approximately \$1,053,000, \$823,000, and \$788,000, respectively. The payments we made to ISO in 2005, which exceeded \$1 million, also did not exceed 2% of ISO’s consolidated gross revenues for 2005. The Board did not consider this relationship to be material for purposes of determining Mr. Rothkopf’s independence.

Audit Committee Membership Criteria. In accordance with the NYSE’s corporate governance standards, our Corporate Governance Guidelines provide that no member of the Audit Committee may serve simultaneously on the audit committees of more than three other public company boards, unless the Board determines that such simultaneous service would not impair such director’s ability to effectively serve on the Audit Committee and that determination is disclosed in our annual proxy statement. Directors are required to advise the Chief Executive Officer and the Chairman of the Board and the Chairman of the Corporate Governance and Nominating Committee before they accept an invitation to serve on the audit committee of any public company board.

Director Self-Evaluation. Our Corporate Governance Guidelines address evaluation of the performance of the Board and Board committees. Our Board, acting through the Corporate Governance and Nominating Committee, conducts an annual self-evaluation to determine whether it is functioning effectively. Each Board committee, other than the executive committee, conducts an annual self-evaluation to determine whether it is functioning effectively and reports the results to the Board, acting through the Corporate Governance and Nominating Committee.

Meetings of Non-Management and Independent Directors. Our non-management directors meet in separate executive sessions without senior management for a portion of each meeting. At least once per year, the independent directors

meet in a separate executive session without senior management and non-independent directors for a portion of the meeting. The NYSE corporate governance standards define non-management directors to include any directors who are not executive officers of our Company, including any directors who are not independent by virtue of a material relationship, former status or family relationship, or for any other reason.

Presiding Director. The directors at each executive session of non-management or independent directors determine the Chairman for the executive session.

Communications with Stockholders and Other Constituencies. Our CEO is responsible for establishing effective communications with our stakeholder groups, including stockholders, the press, clients, suppliers, governments and representatives of the communities in which it operates. It is our policy to appoint individuals to communicate and interact fully with these stakeholders and the Board will look to senior management to speak for Bristol West. This policy does not preclude outside directors from communicating directly with stockholders or other constituencies about Bristol West matters, but any such communications will generally be held at the request of the Board or senior management with senior management present.

Communicating with Our Directors. So that our stockholders and other interested parties may make their concerns known, we have established a method for communicating with our directors, including non-management directors. A stockholder may communicate with the non-management directors or propose an individual to the Corporate Governance and Nominating Committee for its consideration as a nominee for election to the Board either (1) by writing to the Chief Legal Officer and Corporate Secretary at Bristol West Holdings, Inc., 5701 Stirling Road, Davie, Florida 33314, Attention: Corporate Governance Hotline, or (2) by calling our Corporate Governance Hotline at (800) 819-9714. Communications intended specifically for our non-management directors should be marked “**Attention: Non-Management Director Communications.**” Communications intended specifically for our Audit Committee should be marked “**Attention: Audit Committee.**” All other director communications should be marked “**Attention: Director Communications.**” Our Corporate Governance Hotline will forward to the Audit Committee all communications specifically directed to that committee and will forward all other Hotline communications to our Chief Legal Officer and Corporate Secretary. Our Chief Legal Officer and Corporate Secretary will facilitate all such communications. We have posted a summary of this method of communicating with our directors on our Internet website at www.bristolwest.com. More information regarding stockholder submissions of recommendations for director candidates is included below under the caption “**Election of Directors - Director Nominations - Stockholder Nominations.**”

Codes of Conduct and Business Ethics

Code of Conduct and Business Ethics. The Board adopted a Code of Conduct and Business Ethics for all of our directors, officers and employees. Failure to comply with the Code of Conduct and Business Ethics is a serious offense and will result in appropriate disciplinary action. We will disclose, to the extent and in the manner required by any applicable law or NYSE corporate governance standard, any waiver of any provision of this Code of Conduct and Business Ethics.

Code of Conduct and Business Ethics Policy for Chief Executive Officer and Senior Financial Officers. The Board also adopted a Code of Conduct and Business Ethics Policy for our principal executive officer (our Chairman and Chief Executive Officer) and our principal financial and principal accounting officer (our Chief Financial Officer) as well as our Corporate Controller and other senior financial officers. These officers are expected to adhere at all times to this Code of Conduct and Business Ethics Policy. Failure to comply with this Code of Conduct and Business Ethics Policy is a serious offense and will result in appropriate disciplinary action. Our Board has the authority to independently approve, in their sole discretion, any such disciplinary action as well as any amendment to and any waiver or material departure from a provision of this Code of Conduct and Business Ethics Policy. We will disclose on our website at www.bristolwest.com, to the extent and in the manner permitted by Item 5.05 of Form 8-K under the Exchange Act, the nature of any amendment to this Code of Conduct and Business Ethics Policy (other than technical, administrative, or other non-substantive amendments), our approval of any material departure from a provision of this Code of Conduct and Business Ethics Policy, and our failure to take action within a reasonable period of time regarding any material departure from a provision of this Code of Conduct and Business Ethics Policy that has been made known to any of our executive officers.

Copies. We have posted copies of each of these codes of conduct and business ethics on our website at www.bristolwest.com. Copies of these codes of conduct and business ethics are also available, without charge, at the

written request of any shareholder of record. Requests for copies should be mailed to: Bristol West Holdings, Inc., 5701 Stirling Road, Davie, Florida 33314, Attention: Corporate Secretary.

Meetings of the Board of Directors

The Board held five meetings during 2005. It is expected that the Board will hold at least five meetings during 2006.

Each of the incumbent directors who held office in 2005 attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all Board committees on which he or she served during his or her period of office. Our Corporate Governance Guidelines provide that all directors should make every effort to attend meetings of our stockholders, either in person or by telephone or video conference. All 11 of our directors attended the annual meeting of our stockholders held on May 12, 2005, either in person or by telephone.

Committees of the Board of Directors

Independent Board Committees

The Board has an audit committee, a compensation committee, and a corporate governance and nominating committee. The Board has determined that each member of these three committees is independent. See “*Election of Directors — Corporate Governance — Director Independence*”.

Audit Committee. The Audit Committee of the Board (which we refer to as the “**Audit Committee**”) is composed of three directors: James N. Meehan (Chairman), Richard T. Delaney and Mary R. Hennessy. The Board has determined that James N. Meehan qualifies as an “audit committee financial expert” as that term is defined in Item 401(h) of Regulation S-K under the Securities Act of 1933, as amended (which we refer to as the “**Securities Act**”). All members of the Audit Committee qualify as “financially literate” pursuant to the NYSE’s corporate governance standards.

The principal duties and responsibilities of the Audit Committee are set forth in its charter, which was adopted by the Board. See “*Copies of Committee Charters*” below. The Audit Committee’s purpose is to have direct responsibility for the duties and responsibilities that are set forth in its charter and are otherwise delegated to the committee by the Board. These duties and responsibilities include the following: (a) review the integrity of our financial reporting process, both internal and external; (b) retain and terminate the independent auditors and approve all engagement fees and terms; (c) oversee the work of the independent auditors and any other registered public accounting firm engaged by Bristol West; (d) review the qualifications, performance and independence of the independent auditors; (e) review and discuss the responsibilities, budget and staffing of Bristol West’s internal audit function; (f) discuss Bristol West’s guidelines and policies with respect to risk assessment and risk management; and (g) review and approve related party transactions to which Bristol West is a party.

The Audit Committee held 15 meetings during 2005. The report of the Audit Committee is included below under the heading “*Audit Committee Report.*”

Compensation Committee. The Compensation Committee of the Board (which we refer to as the “**Compensation Committee**”) is composed of three directors: R. Cary Blair (Chairman), Richard T. Delaney and Eileen Hilton.

The principal duties and responsibilities of the Compensation Committee are set forth in its charter, which was adopted by the Board. See “*Copies of Committee Charters*” below. The Compensation Committee’s purpose is to have direct responsibility for the duties and responsibilities that are set forth in its charter and are otherwise delegated to the committee by the Board. These duties and responsibilities include the following: (a) establish and review our overall compensation philosophy; (b) review and approve corporate goals and objectives relevant to the compensation of our CEO and other executive officers, including annual performance objectives; (c) evaluate the performance of our CEO and other executive officers in light of these goals and objectives and, based on this evaluation, determine and approve the annual salary, bonus, stock options and other benefits of the CEO and other executive officers; (d) oversee the

development and implementation of our executive compensation programs; and (e) review and make recommendations to the Board with respect to our incentive compensation plans and equity-based plans and oversee the activities of the individuals responsible for administering these plans.

The Compensation Committee held five meetings during 2005. The report of the Compensation Committee is included in this proxy statement under the heading “*Compensation Committee Report.*”

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee (which we refer to as the “**Corporate Governance and Nominating Committee**”) is composed of four directors: Arthur J. Rothkopf (Chairman), R. Cary Blair, Mary R. Hennessy and James N. Meehan.

The principal duties and responsibilities of the Corporate Governance and Nominating Committee are set forth in its charter, which was adopted by the Board. See “*Copies of Committee Charters*” below. The Corporate Governance and Nominating Committee’s purpose is to have direct responsibility for the duties and responsibilities that are set forth in its charter and are otherwise delegated to the committee by the Board. These duties and responsibilities include the following: (a) identify individuals believed to be qualified to serve on the Board and select, or recommend that the Board select, candidates to be nominated for election to the Board; (b) evaluate candidates for nomination to the Board, including those recommended by stockholders; (c) review and make recommendations regarding the composition and size of the Board; (d) recommend members of the Board to serve on Board committees and as the Chair of each committee; (e) review the adequacy of Bristol West’s charter and by-laws and propose amendments, as appropriate; (f) develop and recommend to the Board corporate governance principles for Bristol West and propose amendments, as appropriate; and (g) oversee and approve our management continuity planning process.

The Corporate Governance and Nominating Committee selects and evaluates director nominees using a process that is described below under the heading “*Election of Directors - Director Nominations*.” In addition, the Corporate Governance and Nominating Committee develops and recommends to the Board corporate governance principles applicable to Bristol West’s directors, officers and employees. The Corporate Governance and Nominating Committee will also consider and evaluate candidates properly submitted for nomination by stockholders in accordance with the procedures set forth in our by-laws, which are described below under the heading “*Election of Directors - Director Nominations - Stockholder Nominations.*”

The Corporate Governance and Nominating Committee held four meetings during 2005.

Copies of Committee Charters. We have posted on our Internet website at www.bristolwest.com copies of the charters of the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. A copy of the Audit Committee charter is also attached to this proxy statement as **Appendix B**. Copies of these charters are also available, without charge, at the written request of any shareholder of record. Requests for copies should be mailed to: Bristol West Holdings, Inc., 5701 Stirling Road, Davie, Florida 33314, Attention: Corporate Secretary.

Director Nominations

As provided in its charter, our Corporate Governance and Nominating Committee is responsible for evaluating and recommending candidates for the Board, including incumbent directors whose terms are expiring and potential new directors. The committee takes into account all factors it considers appropriate in identifying candidates for membership on the Board, which may include (1) ensuring that the Board as a whole is diverse and consists of individuals with various and relevant knowledge, skills, experience and expertise; (2) minimum individual qualifications, including strength of character, mature judgment, familiarity with our business and industry, independence of thought and an ability to work collegially; and (3) present needs on the Board. The committee periodically assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. If no vacancies are anticipated, the committee considers the current qualifications of incumbent directors whose terms are expiring. If vacancies arise or the committee anticipates vacancies, the committee considers various potential candidates for director.

Stockholder Nominations. The Corporate Governance and Nominating Committee will consider all stockholder recommendations for director candidates, which should be sent to the committee, c/o George G. O'Brien, Chief Legal Officer and Corporate Secretary, Bristol West Holdings, Inc., 5701 Stirling Road, Davie, FL 33314. Different requirements apply with respect to submitting shareholder proposals (including director nominations) for inclusion in the Proxy Statement and with respect to other proposals (including director nominations) to be considered at an Annual Meeting of Stockholders, as described above under the heading "***General Information - Stockholder Proposals, Director Nominations And Related By-law Provisions.***" Our Corporate Secretary received no stockholder nominations for consideration at the 2006 Annual Meeting.

Director Selection Process. In addition to considering candidates suggested by stockholders, the Committee considers candidates recommended by current directors, company officers, employees, professional search firms the committee may seek to engage, or other persons. Nine of the nominees that the Board has recommended for election by the stockholders are incumbent directors whose terms are expiring. The Board has also nominated Jeffrey J. Dailey, our President and Chief Operating Officer. The Board nominated Mr. Dailey at the recommendation of James R. Fisher. The Board's recommendations are described above under the heading "***Election of Directors - Recommendation of the Board of Directors.***"

Our by-laws do not establish a mandatory retirement age for directors. As described above under the heading "***Election of Directors - Retiring Directors,***" two of our directors have advised us that they do not intend to stand for re-election at the 2006 Annual Meeting and will retire from the Board at that time. At this time, the Board has elected to fill only one of these vacancies, as described above under the heading "***Election of Directors - Recommendation of the Board of Directors.***"

With respect to stockholder recommendations for director candidates, the Corporate Governance and Nominating Committee first will confirm that the recommending stockholders have met the applicable requirements with respect to stockholder nominations, which are described above under the heading "***General Information - Stockholder Proposals, Director Nominations and Related By-law Provisions.***" The committee will then aggregate and consider qualifying nominations. The committee screens all candidates in the same manner regardless of the source of the recommendation. The Corporate Governance and Nominating Committee uses the Director Selection Process included in our Corporate Governance Guidelines in performing its selection function. We have posted our Corporate Governance Guidelines on our Internet website at www.bristolwest.com. The committee reviews written materials provided with respect to the candidate. If a stockholder provides materials in connection with the nomination of a director candidate, our Corporate Secretary will forward such materials to the committee. The committee determines whether the candidate meets all of the qualifications applicable to Bristol West director candidates and whether it is appropriate to request additional information or an interview.

The Board, based on the recommendation of the Corporate Governance and Nominating Committee, will select new nominees for the position of director by reference to the Director Qualification Standards included in our Corporate Governance Guidelines, which, at a minimum, include the following factors: integrity, reputation, judgment, knowledge, experience, maturity, skills and personality, and commitment. The Board also considers the candidate's independence, as described above under the heading "***Election of Directors - Corporate Governance - Director Independence.***" Based on its evaluation of any director candidates nominated by stockholders, the Board will determine whether to include the candidate in its recommended slate of director nominees.

Director Compensation

Pursuant to the schedule for non-employee director compensation approved by the Compensation Committee and the Board, in 2005, the directors, other than Mr. James R. Fisher, received annual directors' fees of \$40,000. Mr. James N. Meehan received an additional annual fee of \$15,000 in 2005 for his duties as Chairman of the Audit Committee. Mr. Richard T. Delaney and Ms. Mary R. Hennessy each received an additional annual fee of \$7,500 in 2005 for their duties as members of the Audit Committee. The directors are entitled to receive currently any portion of their fees in the form of Common Stock and to defer receipt of any portion of their fees under the Bristol West Holdings, Inc. Non-Employee Directors' Deferred Compensation and Stock Award Plan (which we refer to as the "***Non-Employee Directors' Plan***"), and some of the directors have made such an election. Directors were also reimbursed for their reasonable out-of-pocket expenses in attending meetings. Mr. James R. Fisher received no separate compensation in 2005 for his services as a director.

Non-Employee Director Compensation Table for 2005

The following table provides information on compensation for non-employee directors who served during 2005:

Name	Annual Committee Compensation				Total 2005 Received in 2005	Dividends Credited in 2005 as Deferred Phantom Stock (#)		Value of Aggregate Phantom Stock Holdings at 12/31/2005 (2)
	Cash Retainer	Chair Retainer	Membership Retainer	Committee Compensation		in 2005	2005 to Deferred Phantom Account (1)	
R. Cary Blair	\$40,000	--	--	\$40,000	\$40,000	--	--	--
Richard T. Delaney	40,000	--	\$7,500	47,500	47,500 ⁽³⁾	--	--	--
Todd A. Fisher	40,000	--	--	40,000	--	2,267	\$533 ⁽⁴⁾	\$65,023
Perry Golkin	40,000	--	--	40,000	--	2,267	533 ⁽⁴⁾	65,023
Inder-Jeet S. Gujral	40,000	--	--	40,000	--	2,267	533 ⁽⁴⁾	65,023
Mary R. Hennessy	40,000	--	7,500	47,500	--	2,692	633 ⁽⁵⁾	77,215
Eileen Hilton	40,000	--	--	40,000	40,000	--	--	--
James N. Meehan	40,000	\$15,000	--	55,000	27,500	1,558	367 ⁽⁶⁾	44,704
Scott C. Nuttall	40,000	--	--	40,000	--	2,267	533 ⁽⁴⁾	65,023
Arthur J. Rothkopf	40,000	--	--	40,000	20,000	1,133	267 ⁽⁷⁾	32,512

⁽¹⁾No director has voting power with respect to phantom shares of Common Stock. This column reflects dividends accrued for the benefit of, but not yet received by, the directors with respect to the phantom shares. We pay such accrued dividends when the director elects to receive the deferred compensation.

⁽²⁾These values are based on the last reported closing price per share of Common Stock of \$19.03 on December 30, 2005, the last trading day of 2005, as reported on the NYSE.

⁽³⁾Mr. Delaney elected to receive all of his 2005 fees in Common Stock. During 2005, he received 2,692 shares of Common Stock at the following price per share for each quarter, which was determined based on the average fair market value of the shares over the quarter, in accordance with the Non-Employee Directors' Plan: \$18.28 for the first quarter, \$16.53 for the second quarter, \$17.37 for the third quarter, \$18.55 for the fourth quarter.

⁽⁴⁾The amount reflected was invested in Common Stock as follows: approximately \$56 at \$15.72 per share on March 10, 2005, approximately \$117 at \$17.71 per share on June 9, 2005, approximately \$160 at \$17.42 per share on September 1, 2005, and approximately \$201 at \$18.74 per share on November 25, 2005, with each per share price representing the last reported closing price per share of Common Stock on that date as reported on the NYSE.

⁽⁵⁾The amount reflected was invested in Common Stock as follows: approximately \$67 at \$15.72 per share on March 10, 2005, approximately \$139 at \$17.71 per share on June 9, 2005, approximately \$190 at \$17.42 per share on September 1, 2005, and approximately \$238 at \$18.74 per share on November 25, 2005, with each per share price representing the last reported closing price per share of Common Stock on that date as reported on the NYSE.

⁽⁶⁾The amount reflected was invested in Common Stock as follows: approximately \$39 at \$15.72 per share on March 10, 2005, approximately \$80 at \$17.71 per share on June 9, 2005, approximately \$110 at \$17.42 per share on September 1, 2005, and approximately \$138 at \$18.74 per share on November 25, 2005, with each per share price representing the last reported closing price per share of Common Stock on that date as reported on the NYSE.

⁽⁷⁾The amount reflected was invested in Common Stock as follows: approximately \$28 at \$15.72 per share on March 10, 2005, approximately \$58 at \$17.71 per share on June 9, 2005, approximately \$80 at \$17.42 per share on September 1, 2005, and approximately \$100 at \$18.74 per share on November 25, 2005, with each per share price representing the last reported closing price per share of Common Stock on that date as reported on the NYSE.

Restricted Stock Awards Granted, Dividends Paid and Aggregate Number and Value of Holdings

The following table sets forth certain information concerning restricted stock held by non-employee directors during 2005:

Name	Aggregate Restricted Stock Holdings at December 31, 2005 (1) (#)	Dividends Credited in 2005 on Aggregate Restricted Stock Holdings (2) (\$)	Value of Aggregate Restricted Stock Holdings at 12/31/2005 (3) (\$)
R. Cary Blair	2,174	\$565	\$41,371
Richard T. Delaney	2,174	565	41,371
Todd A. Fisher	--	--	--
Perry Golkin	--	--	--
Inder-Jeet S. Gujral	2,174	565	41,371
Mary R. Hennessy	2,174	565	41,371
Eileen Hilton	2,174	565	41,371
James N. Meehan	2,174	565	41,371
Scott C. Nuttall	--	--	--
Arthur J. Rothkopf	2,174	565	41,371

(1) These restricted stock awards will be forfeited if the director's service with Bristol West terminates prior to the vesting date, except for death or disability. The vesting of these restricted stock awards is accelerated in full for certain mergers, sales or other business combinations and for death or disability. Each director has sole voting power with respect to shares of restricted stock, but does not have investment power or the right to receive dividends with respect to the shares until the shares are vested pursuant to the terms of the restricted stock grants.

(2) This column reflects dividends accrued for the benefit of, but not received by, the directors for the restricted stock awards. We pay such accrued dividends to the directors upon the vesting of the restricted stock.

(3) These values are based on the last reported closing price per share of Common Stock of \$19.03 on December 30, 2005, the last trading day of 2005, as reported on the NYSE.

Non-Employee Director Compensation Schedule

Bristol West's employee directors receive no separate compensation for serving on our Board. In February 2006, the Compensation Committee and the Board approved the following schedule for non-employee director compensation, subject to change from time to time as determined by the Compensation Committee and the Board:

• *Fees in 2006:* Bristol West's non-employee directors will receive the following fees payable quarterly in arrears during 2006:

o *Annual Cash Retainer:* The non-employee directors will each receive annual directors' fees of \$40,000.

o

Audit Committee Retainers:

§ *Committee Chair Retainer:* The Chairperson of the Audit Committee will receive an additional annual fee of \$15,000.

§

Committee Member Retainer: The other members of the Audit Committee will each receive an additional annual fee of \$7,500.

o *Compensation Committee Chair Retainer:* The Chairperson of the Compensation Committee will receive an additional annual fee of \$7,500.

o *Corporate Governance and Nominating Committee Chair Retainer:* The Chairperson of the Corporate Governance and Nominating Committee will receive an additional annual fee of \$7,500.

o *Form of Awards:* Each non-employee director will receive such fees in cash unless he or she elects to receive all or a portion of such fees in the form of Common Stock issued pursuant to the 2004 Stock Incentive Plan and the Non-Employee Directors' Plan. The non-employee directors are also entitled to defer receipt of all or a portion of these fees in phantom shares of Common Stock under the Non-Employee Directors' Plan.

• *Restricted Stock Awards.* The Compensation Committee awarded the following directors restricted stock in the amount of \$40,000 in February 2006: R. Cary Blair, Richard T. Delaney, Inder-Jeet S. Gujral, Mary R. Hennessy, Eileen Hilton, James N. Meehan and Arthur J. Rothkopf. These directors are non-employee directors who are not affiliated with KKR. These restricted stock awards will cliff vest on February 21, 2008 and will be forfeited if the director ceases to serve as a director prior to the vesting date, except for death or disability. The vesting of these restricted stock awards is accelerated in full for certain mergers, sales or other business combinations and for death or disability. The Compensation Committee also approved the making of such awards every other year on a regular basis.

Directors will also be reimbursed for their reasonable out-of-pocket expenses in attending meetings.

EXECUTIVE OFFICERS

Set forth below are the names, ages and current positions of our executive officers.

Name	Age	Position
James R. Fisher	50	Chief Executive Officer and Chairman of the Board
Jeffrey J. Dailey	49	President and Chief Operating Officer
Simon J. Noonan	42	Executive Vice President—Actuarial/Product
Anne M. Bandi	49	Senior Vice President—Operations
George N. Christensen	60	Senior Vice President—Business Integration
Brian J. Dwyer	49	Senior Vice President—Product Research and Development
Craig E. Eisenacher	58	Senior Vice President—Chief Financial Officer
Nila J. Harrison	42	Senior Vice President—Human Resources
Ronald E. Latva	41	Senior Vice President—Product Management
George G. O'Brien	50	Senior Vice President—Chief Legal Officer and Corporate Secretary
John L. Ondeck	46	Senior Vice President—Chief Information Officer
Alexis S. Oster	37	Senior Vice President—General Counsel
Robert D. Sadler	42	Senior Vice President—Marketing
James J. Sclafani, Jr.	46	Senior Vice President—Claims
Audrey E. Sylvan	42	Senior Vice President—Product Management

James R. Fisher. Mr. Fisher has been our CEO and Chairman of the Board since September 2000 and has been a Bristol West director since July 1998. Mr. Fisher has been the managing member of Fisher Capital Corp. L.L.C. since March 1997. From 1986 through March 1997, Mr. Fisher held various executive positions at American Re Corporation. Currently, Mr. Fisher is a director of Willis (retiring April 2006) and Alea (Bermuda) and a trustee of Lafayette College in Easton, Pennsylvania. On February 21, 2006, Mr. Fisher notified our Board that, as part of our ongoing management succession process, he would like to relinquish his title as CEO effective as of July 1, 2006. The Board accepted Mr. Fisher's recommendations. Effective July 1, 2006, Mr. Fisher will continue to serve as Executive Chairman of the Board.

Jeffrey J. Dailey. Mr. Dailey has been our President since December 2003 and Chief Operating Officer since April 2001. Mr. Dailey has 26 years of experience in the insurance industry. Prior to joining Bristol West in 2001, Mr. Dailey was the Chief Executive Officer of Reliant Insurance. Prior to joining Reliant in 1996, Mr. Dailey spent 14 years with The Progressive Corporation, holding numerous executive positions culminating as President of Progressive's Northeast Division. On February 21, 2006, James R. Fisher notified our Board that, as part of our ongoing management succession process, he would like to relinquish his title as CEO effective as of July 1, 2006. Mr. Fisher recommended the promotion of Mr. Dailey to the position of CEO. The Board accepted Mr. Fisher's recommendations.

Simon J. Noonan, FIA, MAAA. Mr. Noonan has been our Executive Vice President—Actuarial/Product since May 2005. He served as our Senior Vice President—Actuarial/Product from April 2002 to May 2005. Prior to joining Bristol West in 2002, Mr. Noonan was the Chief Executive Officer of Metis Financial LLC, a consulting firm specializing in the property and casualty insurance market, since November of 1997. Prior to joining Metis, Mr. Noonan served as a Senior Manager and Director in the insurance practice of KPMG from 1991 through 1997. On February 21, 2006, James R. Fisher, our CEO and Chairman of the Board, notified our Board that, as part of our ongoing management succession process, he would like to relinquish his title as CEO effective as of July 1, 2006. Mr. Fisher recommended the promotion of Mr. Dailey, our President and Chief Operating Officer, to the position of CEO. Mr. Fisher also recommended that, effective as of July 1, 2006, Mr. Noonan succeed Mr. Dailey to the position of Chief Operating

Officer. The Board accepted Mr. Fisher's recommendations.

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Anne M. Bandi. Ms. Bandi has been our Senior Vice President—Operations since April 2001. Ms. Bandi has 26 years of insurance operations experience. Prior to joining Bristol West, Ms. Bandi had been the Senior Vice President of Operations at Reliant Insurance since February 1996. Prior to joining Reliant, Ms. Bandi spent 16 years with The Progressive Corporation in a variety of operations management positions.

George N. Christensen. Mr. Christensen has been our Senior Vice President—Business Integration since April 2001. Mr. Christensen joined Bristol West in 1978 and has served in various roles since that time, including Chief Information Officer.

Brian J. Dwyer. Mr. Dwyer has been our Senior Vice President—Product Research and Development since August 2003. Mr. Dwyer has 16 years of insurance industry experience. Prior to joining Bristol West, Mr. Dwyer served in various management roles for The Progressive Corporation from 1989 through 2002, including Regional Marketing Manager and General Manager. Prior to joining The Progressive Corporation, Mr. Dwyer served as a senior manager with Ernst & Whinney, a major accounting firm.

Craig E. Eisenacher. Mr. Eisenacher has been our Senior Vice President—Chief Financial Officer since June 1, 2004. From December 2003 until June 1, 2004, he was our Senior Vice President—Corporate Finance. Prior to joining Bristol West in December 2003, Mr. Eisenacher was a Managing Director with Century Capital Management, Inc., an investment management firm engaged in public and private equity investing with a focus on companies engaged in insurance and financial services. From 1996 through 1999, Mr. Eisenacher was Vice President of General Reinsurance Corp. Prior to 1996, Mr. Eisenacher held several senior management positions at insurance and reinsurance companies, including Treasurer and Controller of the CIGNA Property and Casualty Group, Vice President—Finance of American Re-Insurance Company and Senior Vice President and Chief Financial Officer of Prudential Reinsurance Company.

Nila J. Harrison. Ms. Harrison has been our Senior Vice President—Human Resources since April 2001. Ms. Harrison has 21 years of human resources experience. Prior to joining Bristol West, Ms. Harrison was the Senior Vice President, Human Resources for Reliant. Prior to joining Reliant in April 1996, Ms. Harrison was in the retail industry, where she spent 12 years in human resources management positions with Fabri-Centers of America Inc. and Limited Brands Inc.

Ronald E. Latva. Mr. Latva has been our Senior Vice President—Product Management since May 2004. From August 2000 until May 2004, he was a Vice President and National Product Manager for Bristol West. Mr. Latva has over 19 years of insurance product management experience. Prior to joining Bristol West, he served as an Assistant Vice President at Allmerica Financial from 1997 to 2000. From 1986 through 1997, he held various pricing and product management positions at Great American Insurance.

George G. O'Brien. Mr. O'Brien has been our Senior Vice President—Chief Legal Officer and Corporate Secretary since March 2004. Prior to joining Bristol West, Mr. O'Brien had his own litigation practice since 1994. He began consulting with Bristol West in March 2003. From 1980 until 1994, Mr. O'Brien was a partner with the law firm of Dechert Price & Rhoads, and from 1980 until 1988 he was an associate with that firm.

John L. Ondeck. Mr. Ondeck has been our Senior Vice President—Chief Information Officer since May 2002. Mr. Ondeck has over 14 years of information technology experience. Prior to joining Bristol West in 2002, Mr. Ondeck was President of Armstrong and Lures, Inc., a software consulting firm from 2001 to 2002 and 1998 to 2000. Mr. Ondeck was a Vice President of Sales and Operations for Digital Day, a software development firm, from 2000 to 2001. From 1990 through 1997, Mr. Ondeck held management positions at Oracle Corporation and Kraft General Foods.

Alexis S. Oster. Ms. Oster has been our Senior Vice President—General Counsel since April 2001. Ms. Oster has 13 years of experience in the insurance industry. Prior to joining Bristol West in 2001, Ms. Oster served as General Counsel for Reliant. Prior to joining Reliant in 1996, Ms. Oster was corporate counsel of USF&G Insurance, with a primary focus on regulatory matters, company licensing and general corporate legal matters.

Robert D. Sadler. Mr. Sadler has been our Senior Vice President—Marketing since April 2001. Prior to joining Bristol West in 2001, Mr. Sadler was the Chief Financial Officer for Reliant Insurance. Mr. Sadler was with Reliant Insurance from May 1996 through March 2001. Prior to joining Reliant, Mr. Sadler served as the Chief Financial Officer of Agency Insurance Company and as a manager for Ernst & Young in their insurance practice.

James J. Sclafani, Jr. Mr. Sclafani has been our Senior Vice President—Claims since January 2003. Mr. Sclafani has 22 years of automobile claims management experience. Prior to joining Bristol West, Mr. Sclafani was Vice President and world-wide manager of liability claims for Enterprise Rent-A-Car. Prior to joining Enterprise in 1994, Mr. Sclafani was with The Progressive Corporation for 10 years holding various claim management positions.

Audrey E. Sylvan. Ms. Sylvan has been our Senior Vice President-Product Management since May 2004. From April 2001 through May 2004, Ms. Sylvan was our Vice President-Product Management. Ms. Sylvan has 18 years of insurance experience in Product Management. Prior to joining Bristol West, Ms. Sylvan was Senior Vice President of Product Management for Reliant Insurance. Prior to joining Reliant in 1996, Ms. Sylvan was a Product Manager at The Progressive Corporation for eight years, where she managed both Specialty and Auto Products.

SECURITY OWNERSHIP

We are reporting the beneficial ownership of the shares of our Common Stock that is reflected in the two tables below on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Pursuant to SEC regulations, a person beneficially owns a security if that person, directly or indirectly, has or shares voting power (the power to vote or direct the voting) or investment power (the power to dispose or direct the disposition) with respect to that security. Under SEC regulations, more than one person may be considered to beneficially own the same securities and a person may be considered to beneficially own securities as to which that person has no economic interest. A person also beneficially owns securities if the person has a right to acquire beneficial ownership of the security within 60 days. In computing the number of shares of our Common Stock that a person beneficially owned and the percentage of beneficial ownership of that person, we have included in the table below with respect to each person any shares of Common Stock that the person may acquire through the exercise of options that are currently exercisable or exercisable within 60 days after the Record Date. However, these beneficially owned shares are not deemed outstanding for purposes of computing percentage beneficial ownership of any other person. Except as indicated in the footnotes to the table, each of the shareholders named in the table below has (or upon exercise will have) sole voting power and sole investment power with respect to the shares of Common Stock shown as beneficially owned by them.

Security Ownership of 5% Holders

The table below shows, as of April 3, 2006, the Record Date, with respect to each person known to us to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, how many shares of our Common Stock such person beneficially owned:

Name and Address	Number of Shares	Percentage of Shares ⁽¹⁾
Bristol West Associates LLC ⁽²⁾ c/o Kohlberg Kravis Roberts & Co 9 West 57 th St New York, NY 10019	12,434,318 ⁽³⁾	41.2%
Stadium Capital Management LLC ⁽⁴⁾ 19785 Village Office Court, Suite 101 Bend, OR 97702	3,045,400	10.1%
T. Rowe Price Associates Inc. ⁽⁵⁾ 100 E. Pratt Street Baltimore, MD 21202	1,972,150	6.5%

⁽¹⁾The amounts in this column are based on an aggregate of 30,160,493 shares of Common Stock issued and outstanding as of April 3, 2006.

⁽²⁾According to a Schedule 13G filed with the SEC on February 15, 2005, KKR 1996 GP, L.L.C. (which we refer to as “**KKR 1996 GP**”) is the general partner of KKR Associates 1996 L.P. (which we refer to as “**KKR Associates 1996**”), which is the general partner of KKR 1996 Fund L.P. (which we refer to as “**KKR 1996 Fund**”), which is the managing member of Bristol West Associates LLC (which we refer to as “**BW Associates**”). Further, according to this Schedule 13G, Messrs. Henry R. Kravis, George R. Roberts, Paul E. Raether, Michael W. Michelson, James H. Greene, Jr., Edward A. Gilhuly, Perry Golkin, Scott M. Stuart, Johannes P. Huth, Alex Navab and Todd A. Fisher, as members of KKR 1996 GP, may be deemed to share beneficial ownership of any shares beneficially owned by KKR 1996 GP, but disclaim such beneficial ownership. Accordingly, as of December 31, 2005, each of BW Associates, KKR 1996 Fund, KKR Associates 1996, and KKR 1996 GP had shared voting and shared dispositive power for 12,257,368 shares of Common Stock (approximately 40.6% of the outstanding shares)(See Note ⁽¹⁾). The address of Bristol West Associates LLC and of each individual listed in this footnote is c/o Kohlberg Kravis Roberts & Co. L.P., 9 West 57th Street, Suite 4200, New York, New York, 10019.

⁽³⁾ This amount includes 176,950 shares owned by Aurora Investments II LLC, an affiliate of Bristol West Associates LLC. (which we refer to as “**Aurora II**”).

⁽⁴⁾According to a Schedule 13G filed with the SEC on February 13, 2006, Stadium Capital Management LLC (which we refer to as “**SCM**”), is an investment adviser whose clients have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares reported. Accordingly, as of December 31, 2005, SCM had shared voting and shared dispositive power for all of the shares reported. SCM is the general partner of Stadium Relative Value Partners, L.P., which is also a client of SCM and as of December 31, 2005, had

shared voting power and shared dispositive power for 1,629,042 of the shares reported (approximately 5.4% of the outstanding Common Stock)(See Note ⁽¹⁾). Each of Alexander M. Seaver and Bradley R. Kent is a managing member of SCM and is reported to have had shared voting and shared dispositive power for all of the shares reported as of December 31, 2005.

⁽⁵⁾According to a Schedule 13G filed with the SEC on February 14, 2006, these securities are owned by various individuals which T. Rowe Price Associates Inc. (which we refer to as “**Price Associates**”) serves as investment adviser with power to direct investments and/or sole power to vote the securities. As of December 31, 2005, Price Associates had sole voting power for 251,300 of the shares reported and shared dispositive power for all of the shares reported. For purposes of the reporting requirements of the Exchange Act, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

Security Ownership of Directors and Management

The table below shows, as of April 3, 2006, how many shares of our Common Stock each of the following beneficially owned: our directors, our nominees for director, our NEOs (as defined below under “*Executive Compensation — Summary Compensation Table*”) and our directors and executive officers as a group:

Name	Number of Shares ^(A)	Percentage of Shares ^(B)
James R. Fisher	1,053,485 ⁽¹⁾	3.5%
R. Cary Blair	6,313 ⁽²⁾	*
Richard T. Delaney	12,649 ⁽³⁾	*
Todd A. Fisher ⁽⁴⁾	12,434,318 ⁽⁵⁾⁽⁶⁾	41.2%
Perry Golkin ⁽⁴⁾	12,434,318 ⁽⁵⁾⁽⁷⁾	41.2%
Inder-Jeet S. Gujral	82,474 ⁽⁸⁾	*
Mary R. Hennessy	4,313 ⁽⁹⁾	*
Eileen Hilton	4,313 ⁽¹⁰⁾	*
James N. Meehan	24,313 ⁽¹¹⁾	*
Scott C. Nuttall	-- ⁽¹²⁾	*
Arthur J. Rothkopf	4,313 ⁽¹³⁾	*
Jeffrey J. Dailey	433,043 ⁽¹⁴⁾	1.4%
Craig E. Eisenacher	85,258 ⁽¹⁵⁾	*
Simon J. Noonan	170,776 ⁽¹⁶⁾	*
James J. Sclafani, Jr.	109,294 ⁽¹⁷⁾	*
All directors and executive officers as a group (25 persons)	15,351,133	49.3%

* Less than 1%.

^(A)The shares reported in this column include restricted stock awards that the Compensation Committee granted under the 2004 Stock Incentive Plan to our executive officers, some of which had not vested as of April 3, 2006. Each such person has sole voting power with respect to the shares, but does not have investment power with respect to the shares. We pay accrued dividends to the holder only after the shares of restricted stock are vested pursuant to the terms of such awards. The shares reported in this column also include, for each individual and for all directors and executive officers as a group, the number of shares of Common Stock issuable upon exercise by each such individual and all members of the group of outstanding stock options that are or will become exercisable prior to June 2, 2006.

^(B)The percentages in this column are based on an aggregate of 30,160,493 shares of Common Stock issued and outstanding as of April 3, 2006. For each individual, the issued and outstanding shares also are deemed to include the number of shares of Common Stock issuable upon exercise by that individual of outstanding stock options that are or will become exercisable prior to June 2, 2006. For all directors and executive officers as a group, the issued and outstanding shares also are deemed to include the number of shares of Common Stock issuable upon exercise by all members of the group of outstanding stock options that are or will become exercisable prior to June 2, 2006.

⁽¹⁾This amount includes 14,749 shares of restricted stock issued under the 2004 Stock Incentive Plan for Bristol West Holdings, Inc. and Subsidiaries (which we refer to as the “**2004 Stock Incentive Plan**”) that vest on February 22, 2007. Mr. Fisher has sole voting power and no investment power with respect to these restricted shares during the restriction period. Also, Mr. Fisher is the managing member of Fisher Capital Corp. LLC. As such, Mr. Fisher may

be deemed to beneficially own 65,190 shares and 873,546 currently exercisable options to purchase shares of Common Stock at an exercise price of \$3.83 that are held by Fisher Capital; Mr. Fisher disclaims beneficial ownership of these securities, except to the extent of his pecuniary interest therein. Mr. Fisher also has an interest in, but does not beneficially own, 26,076 shares of Common Stock as an investor through an affiliate of KKR.

- (2) This amount includes 2,174 shares of restricted stock that vest on May 14, 2006 and 2,139 shares of restricted stock that vest on February 21, 2008.
- (3) This amount includes 5,000 shares held by Mr. Delaney's spouse. This amount also includes 2,174 shares of restricted stock that vest on May 14, 2006 and 2,139 shares of restricted stock that vest on February 21, 2008.
- (4) The address of each of Mr. Todd A. Fisher and Mr. Golkin is c/o Kohlberg Kravis Roberts & Co. L.P., 9 West 57th Street, Suite 4200, New York, New York, 10019.
- (5) This amount also includes 12,257,368 shares owned by BW Associates and 176,950 shares owned by Aurora II. KKR 1996 GP is the general partner of KKR Associates 1996, which is the general partner of KKR 1996 Fund, which is the managing member of BW Associates. Mr. Todd A. Fisher and Mr. Golkin, as members of KKR 1996 GP, may be deemed to share beneficial ownership of any shares beneficially owned by KKR 1996 GP, but disclaim such beneficial ownership. As of December 31, 2004, each of BW Associates, KKR 1996 Fund, KKR Associates 1996, and KKR 1996 GP had shared voting and shared dispositive power for 12,257,368 shares of Common Stock (see table above under the heading "*Security Ownership of 5% Holders*").
- (6) This amount does not include approximately 3,966 phantom shares held by Mr. Todd A. Fisher under the Non-Employee Directors' Plan.
- (7) This amount does not include approximately 3,966 phantom shares held by Mr. Golkin under the Non-Employee Directors' Plan.
- (8) This amount includes 2,174 shares of restricted stock that vest on May 14, 2006 and 2,139 shares of restricted stock that vest on February 21, 2008. This amount also includes 78,161 shares of Common Stock that are held by Firemark Partners LLC. We entered into a services agreement with Firemark Partners LLC (which we refer to as "**Firemark**"), a service company created by Mr. Gujral. Pursuant to the Firemark services agreement, we granted Firemark options to purchase 521,520 shares of our Common Stock (which we refer to as the "**Firemark Options**"). Twenty-five percent of the Firemark Options vested in the first year of the Firemark services agreement. On November 21, 2005, Firemark assigned to OneShield 15% of the Firemark Options, representing options to purchase 78,228 shares of Common Stock. Subsequently, on March 24, 2006, Firemark exercised vested Firemark Options to purchase 110,823 shares of Common Stock. Firemark settled the exercise price of \$424,452 for these options by foregoing 22,662 shares of Common Stock at a per share market close price of \$18.73 per share. As of April 3, 2006, Firemark held unvested Firemark Options to purchase 332,469 shares of Common Stock. See "*Certain Relationships and Related Transactions - OneShield*." Mr. Gujral as a member and partner of Firemark may be deemed to share beneficial ownership of any shares beneficially owned by Firemark but disclaims such beneficial ownership except to the extent of his pecuniary interest therein. This amount does not include approximately 3,966 phantom shares held by Mr. Gujral under the Non-Employee Directors' Plan.
- (9) This amount includes 2,174 shares of restricted stock that vest on May 14, 2006 and 2,139 shares of restricted stock that vest on February 21, 2008. This amount does not include approximately 4,710 phantom shares held by Ms. Hennessy under the Non-Employee Directors' Plan.
- (10) This amount includes 2,174 shares of restricted stock that vest on May 14, 2006 and 2,139 shares of restricted stock that vest on February 21, 2008.
- (11) This amount includes 2,174 shares of restricted stock that vest on May 14, 2006 and 2,139 shares of restricted stock that vest on February 21, 2008. This amount does not include approximately 2,727 phantom shares held by Mr. Meehan under the Non-Employee Directors' Plan.

⁽¹²⁾This amount does not include approximately 3,966 phantom shares held by Mr. Nuttall under the Non-Employee Directors' Plan.

⁽¹³⁾This amount includes 2,174 shares of restricted stock that vest on May 14, 2006 and 2,139 shares of restricted stock that vest on February 21, 2008. This amount does not include approximately 2,033 phantom shares held by Mr. Rothkopf under the Non-Employee Directors' Plan.

- (14) This amount includes options to purchase 292,172 shares that are currently exercisable or become exercisable by Mr. Dailey within 60 days. This amount also includes 4,204 shares of restricted stock that vest on February 22, 2007; 54,348 shares of restricted stock that vest on May 14, 2009; 8,850 shares of restricted stock that vest on February 22, 2010; and 18,717 shares of restricted stock that vest on February 21, 2011.
- (15) This amount includes options to purchase 19,557 shares that are currently exercisable or become exercisable by Mr. Eisenacher within 60 days and 2,500 shares held by Mr. Eisenacher's son. This amount also includes 1,770 shares of restricted stock that vest on February 22, 2007; 1,029 shares of restricted stock that vest on February 21, 2008; 27,174 shares of restricted stock that vest on May 14, 2009; 5,900 shares of restricted stock that vest on February 22, 2010; and 16,043 shares of restricted stock that vest on February 21, 2011.
- (16) This amount includes options to purchase 97,623 shares that are currently exercisable or become exercisable by Mr. Noonan within 60 days. This amount also includes 2,139 shares of restricted stock that vest on February 22, 2007; 1,003 shares of restricted stock that vest on February 21, 2008; 27,174 shares of restricted stock that vest on May 14, 2009; 5,900 shares of restricted stock that vest on February 22, 2010; and 17,380 shares of restricted stock that vest on February 21, 2011.
- (17) This amount includes options to purchase 52,103 shares that are currently exercisable or become exercisable by Mr. Sclafani within 60 days. This amount also includes 1,106 shares of restricted stock that vest on February 22, 2007; 869 shares of restricted stock that vest on February 21, 2008; 18,098 shares of restricted stock that vest on May 14, 2009; 5,900 shares of restricted stock that vest on February 22, 2010; and 13,369 shares of restricted stock that vest on February 21, 2011.

ITEM 2

RATIFICATION OF SELECTION OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITOR FOR 2006

The Audit Committee has selected Deloitte & Touche LLP as the independent registered public accounting firm to perform the audit of our financial statements for the fiscal year ending December 31, 2006. The Board has ratified this selection. Deloitte & Touche LLP acted as our independent auditor for the fiscal year ended December 31, 2005. Representatives of Deloitte & Touche LLP will attend the 2006 Annual Meeting, will have an opportunity to make a statement if they desire to do so and will be available to answer any appropriate questions.

Recommendation of the Board of Directors

The Board recommends that you vote FOR this proposal. Proxies returned without instructions will be voted FOR the ratification of the Audit Committee's selection of Deloitte & Touche LLP as the independent auditor for 2006.

Other Independent Auditor Information

Fees to Deloitte & Touche LLP

The Board delegates the determination of the audit fees of Deloitte & Touche LLP and their respective affiliates (which we refer to collectively as "**Deloitte**") to the Audit Committee. Deloitte has billed us for the following fees and expenses for professional services rendered to us for the fiscal years ended December 31, 2005 and December 31, 2004:

	2005 ⁽⁵⁾	2004 ⁽⁵⁾
Audit fees ⁽¹⁾	\$1,348,750	\$1,344,420

Audit-related fees ⁽²⁾	695,900	37,700
Tax fees ⁽³⁾	88,237	98,737
All other fees ⁽⁴⁾	--	--
Total fees	\$2,132,887	\$1,480,857

⁽¹⁾ Audit fees consist primarily of fees and expenses related to professional services rendered for the audit of our annual financial statements and the review of interim financial statements included in our quarterly reports on Form 10-Q during fiscal years ended December 31, 2005 and December 31, 2004, accounting consultations to the extent necessary for Deloitte to fulfill its responsibility under generally accepted auditing standards, as well as services that are normally provided by Deloitte in connection with other statutory and regulatory filings or engagements for those fiscal years. The amounts reflected for this fee category for fiscal 2005 and 2004 include the audit fees and expenses regardless of when billed.

- (2) Audit-related fees consist primarily of fees and expenses related to professional services rendered for assurance and related services that are reasonably related to the performance of the audit or review of our annual financial statements for the fiscal years ended December 31, 2005 and December 31, 2004, that are not included in the amounts disclosed as audit fees above. For 2005, audit-related fees represent internal control advisory services outside the scope of the audit (\$660,500) as well as fees associated with the audit of our retirement plan. For 2004, audit-related fees represent fees associated with the audit of our retirement plan. The amounts reflected for this fee category for fiscal 2005 and 2004 include the audit-related fees and expenses billed in 2005 and 2004.
- (3) Tax fees consist primarily of fees and expenses related to professional services rendered for tax compliance, tax consulting, and tax planning for the fiscal years ended December 31, 2005 and December 31, 2004. The amounts reflected for this fee category for fiscal 2005 and 2004 include the tax fees and expenses billed in 2005 and 2004.
- (4) All other fees consist primarily of fees and expenses related to products and professional services for the fiscal years ended December 31, 2005 and December 31, 2004, that are not included in the amounts disclosed in the three other categories above. Deloitte did not perform any such services for which it billed us during 2005 or 2004.
- (5) The Audit Committee approved 100% of Deloitte's services and the fees and expenses reflected in the line items entitled Audit fees, Audit-related fees, Tax fees and All other fees.

Audit Committee Pre-Approval of Services by the Independent Auditor

The Audit Committee approves in advance any audit or non-audit engagement or relationship between Bristol West and our independent auditor, other than prohibited non-auditing services. The Audit Committee has adopted procedures for the approval of audit and non-audit services between regularly scheduled Audit Committee meetings. The Chief Financial Officer is required to contact the Audit Committee Chairperson to request such approval. The Audit Committee Chairperson or another member of the Audit Committee designated by the Chairperson is empowered to approve in writing such services that in the aggregate will not exceed \$100,000. The entire Audit Committee at the next regularly scheduled meeting is required to review and affirm this engagement. This procedure relates only to pre-approval of engagements by our independent auditor.

AUDIT COMMITTEE REPORT

The Audit Committee of Bristol West's Board of Directors is composed of three directors each of whom is "independent" in accordance with the corporate governance standards of the NYSE, applicable rules and regulations of the SEC and Bristol West's Corporate Governance Guidelines. The Audit Committee operates pursuant to a charter, a copy of which is attached to this proxy statement as **Appendix B** and is available on Bristol West's Internet website at www.bristolwest.com. The Audit Committee met 15 times in 2005. Audit Committee members also engaged in other discussions with management, Bristol West's independent auditors, Deloitte & Touche LLP, and each other from time to time during the year.

The Audit Committee's purpose is to have direct responsibility for the duties and responsibilities that are set forth in its charter and are otherwise delegated to the committee by the Board. These duties and responsibilities include (a) review the integrity of Bristol West's financial reporting process, both internal and external; (b) retain and terminate the independent auditors and approve all engagement fees and terms; (c) oversee the work of the independent auditors and any other registered public accounting firm engaged by Bristol West; (d) review the qualifications, performance and independence of the independent auditors; (e) review and discuss the responsibilities, budget and staffing of Bristol West's internal audit function; (f) discuss Bristol West's guidelines and policies with respect to risk assessment and risk management; and (g) review and approve related party transactions to which Bristol West is a party.

Bristol West's executive management is responsible for the financial statements and overall reporting process, including the system of internal control over financial reporting. The independent auditors are responsible for conducting annual audits and quarterly reviews of the financial statements and conducting an annual audit of management's assessment that Bristol West maintained effective internal control over financial reporting as of the end of the year. The independent auditors report directly to the Audit Committee, consistent with the committee's responsibilities. The independent auditors are responsible for expressing an opinion as to whether the consolidated financial statements present fairly in all material respects Bristol West's financial position, results of operations and cash flows as of and for the periods presented in conformity with generally accepted accounting principles.

In the performance of its oversight function, the Audit Committee discussed with Bristol West's internal auditors and the independent auditors the overall scope and plans for their respective audits. The Audit Committee met with Bristol West's internal auditors and the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of Bristol West's internal control over financial reporting, and the overall quality of Bristol West's financial reporting. The Audit Committee also reviewed and discussed with management and the independent auditors the fiscal 2005 audited financial statements and management's assessment that Bristol West maintained effective internal control over financial reporting as of December 31, 2005.

The Audit Committee monitored the progress and results of testing of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee has been updated no less than quarterly on management's process to assess the adequacy of the system of internal control over financial reporting, the framework used to make the assessment, and management's conclusions regarding the effectiveness of internal control over financial reporting. The Audit Committee has also discussed with the independent auditors Bristol West's internal control assessment process, management's assessment with respect thereto and the independent auditors' evaluation of the system of internal control over financial reporting.

The Audit Committee also received from the independent auditors the required communications, including the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as amended. The Audit Committee also discussed with the independent auditors the independent auditors' independence and the matters required to be discussed by the Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended.

It is not the duty or responsibility of the Audit Committee to conduct auditing or accounting reviews or procedures. In performing their oversight responsibility, members of the Audit Committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Audit Committee's review, discussions and recommendations do not assure that the audit of Bristol West's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles, or that management's assessment that Bristol West maintained effective internal control over financial reporting as of the end of the year is fairly stated.

Based on the review and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Audit Committee Charter, the Audit Committee recommended to the Board that the audited financial statements be included in Bristol West's Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the SEC, and selected Deloitte & Touche LLP to serve as Bristol West's independent auditor for 2006.

James N. Meehan (Audit Committee Chairperson)
Richard T. Delaney (Audit Committee member)
Mary R. Hennessy (Audit Committee member)

The foregoing report should not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed to be soliciting material or to be filed under such Acts.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth cash and other compensation paid or accrued for services rendered in 2005, 2004, and 2003 to our CEO and each of our four most highly compensated executive officers other than the CEO (whom we refer to, collectively with our CEO, as the “NEOs”).

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards		
		Salary (\$)	Bonus (\$) ^(A)	Other Annual Compensation (\$) ^(B)	Restricted Stock Awards (\$) ^(C)	Securities Underlying Options (#) ^(D)	All Other Compensation (\$) ^(E)
James R. Fisher ⁽¹⁾ Chairman and Chief Executive Officer	2005	\$700,000	-- ⁽²⁾	--	--	--	--
	2004	700,000	\$175,000 ⁽³⁾	--	\$ 250,000 ⁽⁴⁾	--	--
	2003	-	--	25,000 ⁽¹⁾	--	-- ⁽¹⁾	--
Jeffrey J. Dailey President and Chief Operating Officer	2005	\$390,000	-- ⁽²⁾	--	\$ 150,000 ⁽⁵⁾	--	\$6,000
	2004	390,000	\$213,750	56,138 ⁽⁶⁾	1,071,250 ⁽⁵⁾	--	2,340
	2003	387,115	232,500	--	--	3,706 ⁽⁷⁾	398
Simon J. Noonan Executive Vice President-Actuarial/Product	2005	\$293,305	\$ 56,250	--	\$ 118,750 ⁽⁸⁾	--	\$6,000
	2004	282,692	108,750	--	536,250 ⁽⁸⁾	--	6,000
	2003	260,096	112,500	--	--	1,793 ⁽⁹⁾	4,456
Craig E. Eisenacher Senior Vice President- Chief Financial Officer	2005	\$280,553	\$ 57,750	--	\$ 119,250 ⁽¹⁰⁾	--	\$6,000
	2004	275,000	90,000	--	530,000 ⁽¹⁰⁾	--	--
	2003	10,577	150,000 ⁽¹¹⁾	\$202,580 ⁽¹²⁾	--	--	--
James J. Sclafani, Jr. Senior Vice President-Claims	2005	\$291,906	\$ 48,750	--	\$ 116,250 ⁽¹³⁾	--	\$2,322
	2004	283,077	56,250	--	351,750 ⁽¹³⁾	--	2,054
	2003	266,538	284,353 ⁽¹⁴⁾	--	--	1,255 ⁽¹⁵⁾	--

^(A)Twenty-five percent of the annual bonus awards with respect to each of 2005 and 2004 was in the form of restricted stock awards. These restricted stock awards are included in the “*Restricted Stock Awards*” column of this table, not in this column. Twenty-five percent of the annual bonus awards with respect to 2003 was in the form of stock option awards. These stock option awards are included in the “*Securities Underlying Options*” column of this table, not in this column.

^(B)Unless reported in this column, the aggregate amount of perquisites and other personal benefits for any fiscal year did not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus reported for a named executive officer.

(C) Dollar amounts shown equal the number of shares of restricted stock multiplied by the closing market price of our Common Stock on the dates of grant (i.e., \$18.70 on February 21, 2006, \$16.95 on February 22, 2005, and \$18.40 on May 14, 2004). These restricted stock awards will be forfeited if the NEO's employment with Bristol West terminates prior to the vesting date, except for death or disability. The vesting of these restricted stock awards is accelerated in full for certain mergers, sales or other business combinations and for death or disability. Each NEO has sole voting power with respect to shares of restricted stock, but does not have investment power with respect to the shares. We pay accrued dividends to the holder only after the shares of restricted stock are vested pursuant to the terms of such awards.

(D) These stock option awards vested 50% on April 5, 2005 and 50% on April 5, 2006, the first and second anniversaries of the grant date, respectively. These stock option awards will expire on the following dates, among others, (1) April 5, 2014, the tenth anniversary of the grant date; (2) the first anniversary of the date on which the NEO's employment with Bristol West terminates by reason of death, permanent disability or retirement; (3) immediately on the date on which Bristol West terminates the NEO's employment for cause, or (4) 90 days after the date on which the NEO's employment with Bristol West terminates for any other reason.

- (E) Dollar amounts reflected in this column represent matching contributions to the NEO's 401(k) account under The Bristol West Retirement Plan (the "**401(k) Plan**"). These matching contributions vest 20% per year over a five year period provided that the participant is credited with at least 1,000 hours of service (as defined in the 401(k) Plan) for each year. The vesting of matching contributions under the 401(k) Plan is accelerated in full when a participant reaches age 65.
- (1) For the year ended December 31, 2003, James R. Fisher was not a direct employee of Bristol West. Mr. Fisher served as Chairman and Chief Executive Officer in 2003 pursuant to an agreement with Fisher Capital Corp., LLC (which we refer to as "**Fisher Capital**") to provide to us management, consulting and certain other services (which we refer to as the "**Fisher Capital Contract**"), which is also described below under the heading "**Certain Relationships and Related Party Transactions.**" We paid to Fisher Capital all compensation for services provided to us by Mr. Fisher in 2003 pursuant to the Fisher Capital Contract. Mr. Fisher is the managing member of Fisher Capital, and received 86.5% of all compensation we paid to Fisher Capital in 2003 for his services. For the year ended December 31, 2003, the fee we paid to Fisher Capital as compensation for Mr. Fisher's services was \$700,000. In addition, for the year ended December 31, 2003, we granted Fisher Capital options to purchase 221,646 shares at an exercise price of \$3.83 per option share. Mr. Fisher may be deemed to beneficially own these options, as described above under the heading entitled "**Security Ownership - Security Ownership of Directors and Management.**" In 2003, Mr. Fisher directly received a \$25,000 annual fee for serving on the Board as a non-employee director. Effective January 1, 2004, we entered into an employment agreement with Mr. Fisher pursuant to which he became a direct employee of Bristol West and we pay his compensation directly to him, as described below under the heading "**Executive Compensation - Chairman and CEO Employment Agreement.**" As an employee director, Mr. Fisher is no longer eligible to receive fees for serving on the Board.
- (2) Messrs. Fisher and Dailey recommended that they receive no bonus awards for 2005. The Compensation Committee believed that both men had earned a bonus award, but, after discussion, concurred with their recommendation despite their successful management of Bristol West in a very competitive market.
- (3) We paid Mr. Fisher a one-time signing bonus of \$175,000 for entering into his employment agreement effective as of January 1, 2004.
- (4) Mr. Fisher received \$250,000 in a restricted stock award as a bonus for 2004 performance. This restricted stock cliff vests on February 22, 2007, two years after the grant date. The number and value of the aggregate restricted stock holdings of Mr. Fisher as of December 31, 2005 are disclosed below under the caption "**Executive Compensation - Restricted Stock Holdings, Dividends Paid and Value of Holdings.**"
- (5) In 2005, Mr. Dailey received a restricted stock award of \$150,000, which cliff vests on February 22, 2010, five years after the grant date and a restricted stock award of \$71,250 as a bonus for 2004 performance, which cliff vests on February 22, 2007, two years after the grant date. In 2004, Mr. Dailey received a restricted stock award of \$1,000,000, which cliff vests on May 14, 2009, five years after the grant date. The number of shares and value of the aggregate restricted stock holdings of Mr. Dailey as of December 31, 2005 are disclosed below under the caption "**Executive Compensation - Restricted Stock Holdings, Dividends Paid and Value of Holdings.**"
- (6) The amount in this column for 2004 includes \$22,388 of expenses paid by us in connection with an automobile provided to Mr. Dailey for personal use and \$33,750 in expenses paid by us to Mr. Dailey for unused paid time off.
- (7) In 2004, Mr. Dailey received a stock option award to purchase 3,706 shares of Common Stock as a bonus for 2003 performance.
- (8) In 2006, Mr. Noonan received a restricted stock award of \$18,750 as a bonus for 2005 performance, which cliff vests on February 21, 2008, two years after the grant date. In 2005, Mr. Noonan received a restricted stock award of

\$100,000, which cliff vests on February 22, 2010, five years after the grant date, and a restricted stock award of \$36,250 as a bonus for 2004 performance, which cliff vests on February 22, 2007, two years after the grant date. In 2004, Mr. Noonan received a restricted stock award of \$500,000, which cliff vests on May 14, 2009, five years after the grant date. The number of shares and value of the aggregate restricted stock holdings of Mr. Noonan as of December 31, 2005 are disclosed below under the caption “*Executive Compensation - Restricted Stock Holdings, Dividends Paid and Value of Holdings.*”

(9) In 2004, Mr. Noonan received a stock option award to purchase 1,793 shares of Common Stock as a bonus for 2003 performance.

(10) In 2006, Mr. Eisenacher received a restricted stock award of \$19,250 as a bonus for 2005 performance, which cliff vests on February 21, 2008, two years after the grant date. In 2005, Mr. Eisenacher received a restricted stock award of \$100,000, which cliff vests on February 22, 2010, five years after the grant date, and a restricted stock award of \$30,000 as a bonus for 2004 performance, which cliff vests on February 22, 2007, two years after the grant date. In 2004, Mr. Eisenacher received a restricted stock award of \$500,000, which cliff vests on May 14, 2009, five years after the grant date. The number of shares and value of the aggregate restricted stock holdings of Mr. Eisenacher as of December 31, 2005 are disclosed below under the caption “*Executive Compensation - Restricted Stock Holdings, Dividends Paid and Value of Holdings.*”

(11) Mr. Eisenacher began his employment with Bristol West in December 2003 and received a one-time signing bonus of \$150,000.

(12) This amount consists of expenses paid by us in connection with the relocation of Mr. Eisenacher.

(13) In 2006, Mr. Sclafani received a restricted stock award of \$16,250 as a bonus for 2005 performance, which cliff vests of February 21, 2008, two years after the grant date. In 2005, Mr. Sclafani received a restricted stock award of \$100,000, which cliff vests on February 22, 2010, five years after the grant date, and a restricted stock award of \$18,750 as a bonus for 2004 performance, which cliff vests on February 22, 2007, two years after the grant date. In 2004, Mr. Sclafani received a restricted stock award of \$333,000, which cliff vests on May 14, 2009, five years after the grant date. The number of shares and value of the aggregate restricted stock holdings of Mr. Sclafani as of December 31, 2005 are disclosed below under the caption “*Executive Compensation - Restricted Stock Holdings, Dividends Paid and Value of Holdings.*”

(14) This amount includes a one-time signing bonus of \$205,603 in 2003.

(15) In 2004, Mr. Sclafani received a stock option award to purchase 1,255 shares of Common Stock as a bonus for 2003 performance.

Restricted Stock Holdings, Dividends Paid and Value of Holdings

The following table sets forth certain information concerning restricted stock held by the NEOs during 2005:

Name	Aggregate Restricted Stock Holdings at December 31, 2005 (#)	Dividends Credited in 2005 on Aggregate Restricted Stock Holdings ⁽¹⁾ (\$)	Value of Aggregate Restricted Stock Holdings at 12/31/2005 ⁽²⁾ (\$)
James R. Fisher	14,749	\$ 3,835	\$ 280,673
Jeffrey J. Dailey	67,402	17,525	1,282,660
Simon J. Noonan	35,213	9,155	670,103
Craig E. Eisenacher	34,844	9,059	663,081
James J. Sclafani, Jr.	25,104	6,527	477,729

(1) Each NEO has sole voting power with respect to shares of restricted stock, but does not have investment power with respect to the shares. We pay accrued dividends to the holder only after the shares of restricted stock are vested pursuant to the terms of such awards. This column reflects market rate dividends accrued for the benefit of, but not

received by, the NEOs for the restricted stock awards.

⁽²⁾These values are based on the last reported closing price per share of Common Stock of \$19.03 on December 30, 2005, the last trading day of 2005, as reported on the NYSE.

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Aggregated Option Exercises and Fiscal Year-End Option Value

The NEOs exercised no stock options during 2005. The following table shows the number and value of specified unexercised options at December 31, 2005. The actual amount, if any, realized upon exercise of stock options will depend upon the market price of the underlying shares of Common Stock relative to the exercise price per share at the time the stock option is exercised. There can be no assurance that any of the NEOs will realize the values of unexercised in-the-money stock options reflected in this table.

Name	Shares Acquired On Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at 12/31/2005		Value of Unexercised in-the-Money Options/SARs at 12/31/2005 ⁽¹⁾ (\$)	
			Exercisable (#)	Unexercisable	Exercisable	Unexercisable
James R. Fisher	--	--	873,546 ⁽²⁾	--	\$13,277,899	--
Jeffrey J. Dailey	--	--	238,167	54,005	3,560,681	\$792,710
Simon J. Noonan	--	--	96,726	897	1,444,098	--
Craig E. Eisenacher	--	--	19,557	29,336	72,165	108,250
James J. Sclafani, Jr.	--	--	34,525	51,477	515,250	772,905

(1) These amounts are presented pursuant to SEC rules and reflect the difference between:
 • the fair market value of the shares of Common Stock underlying the options held by each NEO based on the last reported closing price per share of Common Stock of \$19.03 on December 30, 2005, the last trading day of 2005, as reported on the NYSE, and
 • the aggregate exercise price of such options.

(2) Consists of options to purchase Common Stock that we granted to Fisher Capital, as discussed above under the caption entitled "*Security Ownership - Security Ownership of Directors and Management.*"

Equity Compensation Plan Information

The table below shows information with respect to our equity compensation plans as of December 31, 2005:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance (1)
Equity compensation plans approved by security holders: None ⁽²⁾	--	--	--
Equity compensation plans not approved by security holders:			

1998 Stock Option Plan	1,330,606	\$ 4.50	114,692
2004 Stock Incentive Plan	22,212	\$20.91	2,502,547
Total	1,352,818	\$ 4.77	2,617,239

(1) Amounts reflected in this column exclude securities reflected in the column entitled “*Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights.*”

(2) The 1998 Stock Option Plan and the 2004 Stock Incentive Plan were not subject to stockholder approval because Bristol West was privately held until its initial public offering on February 12, 2004.

Chairman and CEO's Employment Agreement

Effective as of January 1, 2004, we entered into an employment agreement with James R. Fisher. Under this agreement, Mr. Fisher will serve as our Chairman and Chief Executive Officer for a term expiring on June 30, 2006. In connection with entering into this agreement, Mr. Fisher received a one-time signing bonus of \$175,000 in 2004. While employed under this agreement, Mr. Fisher will receive an annual base salary of \$700,000 and will be eligible to receive an annual bonus in an amount determined by the Compensation Committee of the Board. Effective July 1, 2006, Mr. Fisher will relinquish his position as Bristol West's Chief Executive Officer and will continue to serve as Executive Chairman, as discussed above under the heading "**Executive Officers.**" At that time, Mr. Fisher's annual base salary will be reduced to \$350,000. If, during the term of his employment agreement, we terminate Mr. Fisher's employment without cause (as defined in the employment agreement), Mr. Fisher will be entitled to receive his base salary and group health insurance coverage (at the same rates as he paid immediately prior to the termination) for the remainder of the applicable term of his employment, which will terminate on the following June 30th.

While Mr. Fisher is subject to a non-competition provision under this agreement, which requires him to fulfill his duties and responsibilities to Bristol West, he is permitted to provide services to KKR and its affiliates and to manage and direct his personal investments without limitation. KKR and its affiliates are not subject to any non-competition agreements with us. In addition, Mr. Fisher is permitted to engage in certain investment and advisory activities related to his position with Fisher Capital.

Employment Agreements for the Other NEOs

We entered into Employee Stockholder Agreements with each of our other NEOs, Messrs. Dailey, Noonan, Eisenacher and Sclafani, on or about the time that they became employees (which we refer to as the "**Employee Stockholder Agreements**"). Each Employee Stockholder Agreement provides for the grant of shares of Common Stock and options to purchase Common Stock under our 1998 Stock Option Plan for Management and Key Employees (which we refer to as the "**1998 Stock Option Plan**") and the 2004 Stock Incentive Plan. These agreements impose restrictions on the executives' ability to transfer shares of Common Stock prior to the fifth anniversary of the date on which the executive acquired the shares. We waived these transfer restrictions with respect to each executive on a pro rata basis relative to the percentage of shares Bristol West Associates LLC sold in our initial public offering in February 2004.

Under the Employee Stockholder Agreements with Messrs. Dailey, Noonan and Eisenacher, in the case of termination of the executive officers and in exchange for a promise not to compete with us for 12 months or disclose our confidential information, each will receive payments and benefits in an amount equal to 12 months' salary and benefits due him. Under the Employee Stockholder Agreement with Mr. Sclafani, in the case of termination and in exchange for a promise not to compete with us for 12 months or disclose our confidential information, he will receive payments and benefits in an amount equal to 36 months' salary and benefits due him.

In addition, under the Employee Stockholder Agreements with Messrs. Dailey and Sclafani, other than options granted in connection with annual bonus awards, options granted under the 1998 Stock Option Plan become exercisable by the executives in installments over a five-year period: 20% of the stock subject to the option becomes exercisable on each of the first five anniversaries of the grant date of the particular option. Under the Employee Stockholder Agreement with Mr. Noonan, options granted under the 1998 Stock Option Plan become exercisable by Mr. Noonan in installments over a two-year period: 50% of the stock subject to the options becomes exercisable on each of the first two anniversaries of the grant of the particular option.

In addition, Messrs. Dailey, Noonan, Eisenacher and Sclafani have entered into sale participation agreements with us that provide that if we sell shares of Common Stock other than in a qualified public offering (as defined in the Employee Stockholder Agreements), they have a right to participate in that sale.

COMPENSATION COMMITTEE REPORT

Report of the Compensation Committee on Executive Compensation

The Compensation Committee, which consists entirely of independent directors as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (which is referred to as the “**Code**”), oversees a management compensation program designed to further the attainment of Bristol West’s strategic goals of growth and profitability and thus increase shareholder value. For each executive officer, the Compensation Committee is responsible for the establishment of base salary, as well as the award level for the annual Incentive Compensation Program (which is referred to as the “**ICP**”). The Compensation Committee is also responsible for the award level and administration of the stock programs for executive officers, as well as recommendations regarding other executive benefits and plans, subject to the approval of the Board.

Compensation Philosophy

Bristol West's vision is to be the insurer of choice for its distribution force and policyholders. To achieve this vision, Bristol West must align all of its business processes to create value for policyholders and producers. Bristol West must continually refine its sales practices and technology to make it easier for producers and policyholders to do business with the Company. Bristol West must strive to provide insureds with faster, higher quality and more flexible service when interacting with its representatives. To accomplish these goals, Bristol West must recruit and retain highly competent executives.

Within this context, the three major objectives for Bristol West's executive compensation program are:

§ **Alignment:** Link executive compensation rewards with growth in earnings and strategic operational performance that ultimately results in sustainable increases in shareholder value.

§ **Motivation:** Motivate executives to be accountable for and accomplish Bristol West's financial and strategic operational objectives.

§ **Retention and Attraction:** Retain and attract key executives to drive increases in shareholder value.

Bristol West's total compensation philosophy encompasses the following:

§ **Salary levels and salary increases** that reflect position responsibilities, competitive market rates, strategic importance of the position, and individual performance and contributions.

§ **Annual incentive payments**, based on Bristol West's performance relative to its earnings goals and other strategic objectives and individual performance.

§ **Long-term incentives**, provided through restricted stock and stock option grants, that reward key executives for performance related to increasing shareholder value, vest over time, and encourage executive stock ownership.

§ **Benefit programs** provided to all employees in which Bristol West's executives are eligible to participate.

Compensation Methodology

The purpose of Bristol West's compensation program is to enable it to appropriately compete for talented and experienced executives with companies of similar size within the property and casualty insurance industry. Bristol West seeks to attract and retain high performing executives and reward them for above average performance. To determine competitive compensation levels, the Compensation Committee reviews data regarding rates for compensation and compensation plan structures employed by peer companies and other companies of similar size within the insurance industry. The data is derived from analysis of publicly available information and proprietary survey sources.

In 2005, total compensation was comprised of fixed compensation (annual base salary), variable compensation (annual ICP awards, paid 75% in cash and 25% in restricted stock), and long-term incentive in the form of restricted stock. In general, the Compensation Committee's objective is to structure total cash compensation (base salary plus the cash portion of ICP awards) paid to executive officers to be within the third quartile (50% to 75%) of companies of similar size within the property and casualty insurance industry, subject to Bristol West's needs and the experience and performance of the executive officers. The Compensation Committee works closely with the CEO and the Chief Operating Officer in evaluating the individual performances of the other executive officers.

The specific components of the Bristol West's compensation program and how these components function are set forth below:

Base Salary

Consistent with the compensation philosophy discussed above, annual base salaries for Bristol West's executive officers are designed to be competitive with companies of similar size within the property and casualty insurance industry. The Compensation Committee determines salaries and any increases for executive officers after the close of the fiscal year based on a combination of individual performance and competitive compensation data.

Annual Incentive Compensation Program

The Board each year adopts a business plan with earnings goals and other strategic objectives. The purpose of the 2005 ICP bonus awards was to pay each of Bristol West's executive officers a maximum award at levels ranging from 30% to 100% of their individual annual base salary based upon the executive officer's position and responsibilities, Bristol West's performance relative to its earnings goals and other strategic objectives and the executive officer's individual performance. In assessing Bristol West's performance in 2005 for the purpose of making ICP awards to the Company's executive officers, the Compensation Committee considered Bristol West's return on equity, net income, gross written premium and combined ratio relative to business plan objectives and in light of a very competitive market and the Company's maintenance of its underwriting discipline in that market. The Compensation Committee approved the payment of the 2005 ICP awards 75% in cash and 25% in restricted stock issued pursuant to the 2004 Stock Incentive Plan. These restricted stock awards will cliff vest in February 2008 and will be forfeited if the executive's employment with Bristol West terminates prior to the vesting date, except for death or disability. ICP restricted stock award vesting is accelerated for certain mergers, sales or other business combinations and for death or disability.

Long-Term Restricted Stock Awards

Bristol West's success is dependent upon its senior management team. From time to time, the Compensation Committee grants restricted stock awards under the 2004 Stock Incentive Plan for the purpose of retaining key employees over a long-term period, providing them direct ownership in Common Stock with a view toward preserving shareholder value, and encouraging decisions related to increased shareholder value in the future.

In 2005, the Compensation Committee granted such restricted stock awards to certain key employees, including all of the executive officers other than James R. Fisher, the CEO. The total value of these grants was \$2 million, which included aggregate awards of \$1.25 million to executive officers. These restricted stock awards will cliff vest on February 21, 2011 and will be forfeited if the executive officer's employment with Bristol West terminates prior to the vesting date, except for death or disability. The vesting of these restricted stock awards is accelerated for certain mergers, sales or other business combinations and for death or disability.

Determination of the Chief Executive Officer's Compensation

James R. Fisher has served as the CEO since September 2000. Mr. Fisher's compensation package for 2003 through 2005 is detailed in this proxy statement in the section above entitled "***Executive Compensation.***"

Mr. Fisher's base salary for 2005 was set at \$700,000 per annum. Mr. Fisher's annual base salary was not increased from the level established in 2004 in his employment agreement with Bristol West dated as of January 1, 2004. Mr. Fisher recommended that the Compensation Committee not consider awarding him any ICP bonus with respect to 2005 or any long-term restricted stock grants. After discussing the recommendation with Mr. Fisher, the Committee concurred with his recommendation despite his successful management of Bristol West in a very competitive market.

Deductibility of Executive Compensation

The Compensation Committee has reviewed the applicability of Code Section 162(m). In certain circumstances, Code Section 162(m) may deny a federal income tax deduction for compensation in excess of \$1 million paid in any fiscal year to a company's CEO or other four most highly compensated executive officers (which is referred to as "**covered officers**"). No compensation that Bristol West paid during 2005 to any covered officer was subject to the Code Section 162(m) deduction limitation.

Certain compensation that qualifies as “performance based” and is approved by stockholders may be exempt from the Section 162(m) limit. The Compensation Committee intends that Bristol West qualify certain compensation paid to its executive officers for deductibility under the Code, including Section 162(m). The Compensation Committee also believes that the interests of Bristol West and its stockholders may sometimes be best served by providing compensation that is not deductible in order to attract, retain, motivate and reward executive talent. Accordingly, the Compensation Committee intends to retain the flexibility to provide for payments of compensation that is not deductible.

Bristol West is seeking stockholder approval of the Executive Officer Incentive Plan (which is referred to as the “EIP”) pursuant to this proxy statement, as discussed below under the heading entitled “***Approval of the Executive Officer Incentive Plan.***” It is the Compensation Committee’s intention that, if approved by Bristol West’s stockholders, awards under the EIP will meet the conditions necessary for deductibility under Code Section 162(m). The performance goals for awards to be approved by the Compensation Committee and issued under the EIP are set forth below under the heading “***Approval of the Executive Officer Incentive Plan - Individual Bonus Targets and Performance Goals.***”

R. Cary Blair (Compensation Committee Chairperson)
Richard T. Delaney (Compensation Committee member)
Eileen Hilton (Compensation Committee member)

The foregoing report should not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed to be soliciting material or to be filed under such Acts.

COMPARISON OF CUMULATIVE TOTAL STOCKHOLDER RETURN

Our Common Stock has been traded on the NYSE under the ticker symbol “BRW” since Bristol West’s initial public offering on February 12, 2004. The initial public offering price of the Common Stock was \$20.00 per share. The following chart reflects cumulative stockholder return (assuming the reinvestment of dividends) on our Common Stock compared with the total return on the S&P 500 Index and the S&P 500 Property and Casualty Insurance Index (which we refer to as the “**S&P 500 - P&C**”). The graph reflects the investment of \$100 in our Common Stock, the S&P 500 Index and the S&P 500 - P&C Index at the close of trading on February 12, 2004, and the reinvestment of dividends.

	02/12/2004	12/31/2004	12/31/2005
Bristol West Holdings, Inc. Common Stock	\$100.00	\$ 88.42	\$ 85.26
S&P 500 Property & Casualty Insurance Index ⁽¹⁾	\$100.00	\$106.80	\$119.27
S&P 500 Index ⁽¹⁾	\$100.00	\$103.61	\$112.05

⁽¹⁾ Source: Index Services, Standard & Poor’s Company

The stock price performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed to be soliciting material or to be filed under such Acts.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Consulting Services Fees

KKR performs consulting and certain other services for us pursuant to an agreement to provide management, consulting and certain other services (the “**KKR Contract**”). Pursuant to the KKR Contract, we agreed to pay KKR \$500,000 per year, plus reasonable expenses incurred to provide the services. The KKR Contract continues in effect from year to year unless KKR agrees with us to amend or terminate the contract. Partnerships affiliated with KKR owned 40.5% of our Common Stock as of December 31, 2005. Pursuant to the KKR Contract, during 2005, we paid fees to KKR of \$500,000 and reimbursed KKR for expenses in the amount of approximately \$21,800. We owed KKR fees of \$125,000 as of December 31, 2005.

Pursuant to the Fisher Capital Contract, Fisher Capital performs management, consulting and certain other services for us. Pursuant to the Fisher Capital Contract, we agreed to pay Fisher Capital \$95,000 per year, plus reasonable expenses incurred to provide the services. The Fisher Capital Contract continues in effect from year to year unless Fisher Capital agrees with us to amend or terminate the contract. James R. Fisher, our CEO, is the managing member of Fisher Capital. Pursuant to the Fisher Capital Contract, during 2005, we paid fees to Fisher Capital of \$95,000 and reimbursed Fisher Capital for expenses incurred on our behalf in the amount of approximately \$42,870. Mr. Fisher did not receive any portion of the fees paid to Fisher Capital in 2005. We owed no fees to Fisher Capital as of December 31, 2005.

Investigation Expenses

In 2005, each of KKR; Gary Colton, a member of Fisher Capital; and James R. Fisher, our CEO, incurred separate expenses in connection with governmental investigations by the SEC and the United States Attorney for the Southern District of New York relating to our reinsurance agreements. Please see the disclosure under the heading “**Item 3. Legal Proceedings**” of our Annual Report on Form 10-K with respect to the fiscal year ended December 31, 2005 that we filed with the SEC on March 14, 2006. We and these individuals and entities are cooperating with these investigations. In 2005, we paid on behalf of KKR legal fees and related expenses associated with these investigations of approximately \$479,600. In 2005, we paid on behalf of Mr. Colton legal fees and related expenses associated with these investigations of approximately \$89,200. In 2005, we paid on behalf of James R. Fisher legal fees and related expenses associated with these investigations of approximately \$214,700.

Firemark Services Agreement and OneShield

We entered into a services agreement, dated July 24, 2002, as corrected and amended on November 8, 2005 (which we refer to as the “**Firemark Agreement**”), with Firemark, a service company created by Inder-Jeet Gujral. Mr. Gujral is one of the founders of OneShield Inc. (which we refer to as “**OneShield**”), the developer of our OneStep® software. He is also the Chairman of the Board of Directors of OneShield and a controlling partner of Firemark. Mr. Gujral became a Bristol West director on March 24, 2004. Mr. Gujral has advised us that he does not intend to stand for re-election at the 2006 Annual Meeting and will retire from the Board at that time, as described above under the heading “**Election of Directors - Retiring Directors.**” As of December 31, 2005, Mr. Gujral owned 0.57% of OneShield’s shares on a fully diluted basis. Certain members and employees of KKR, Fisher Capital and James R. Fisher also have interests in OneShield through Aurora Investments LLC (which we refer to as “**Aurora**”). As of December 31, 2005, Aurora’s interest in OneShield was 13.0% on a fully diluted basis. In addition, Mr. Fisher has been granted vested rights to purchase common stock equal to 0.02% of the fully diluted capital of OneShield in connection with his role on its strategic advisory board. Jeffrey J. Dailey, our President and Chief Operating Officer, became a director of OneShield on November 25, 2003.

We paid Firemark and OneShield collectively approximately \$3,411,000 for services and license fees under the Firemark Agreement in 2005. Pursuant to the Firemark Agreement, we agreed to pay Firemark during 2006 license fees of \$900,000 and to pay OneShield fees for consulting services provided during 2006 plus reasonable expenses. Pursuant to the Firemark Agreement, in exchange for providing development and implementation assistance to us with respect to OneStep, we granted Firemark options to purchase 521,520 shares of our Common Stock at a price of \$3.83 per share. Twenty-five percent of the Firemark Options vested in the first year of the Firemark Agreement and the remaining 75% of the Firemark Options will vest based upon delivery of the OneStep system and future specified improvements in our underwriting expense ratio, as measured against the underwriting expense ratio for the four quarters prior to the effective date of the Firemark Agreement. On November 21, 2005, Firemark assigned to OneShield 15% of the Firemark Options, representing options to purchase 78,228 shares of Common Stock, based on OneShield's 15% ownership interest in Firemark. Subsequently, on November 21, 2005, OneShield exercised vested Firemark Options to purchase 19,557 shares of Common Stock. OneShield settled the exercise price of \$74,903 for these options by foregoing 3,863 shares of Common Stock at a per share market close price of \$19.39 per share. As of December 31, 2005, Firemark held Firemark Options to purchase 443,292 shares of Common Stock and OneShield held Firemark Options to purchase 58,671 shares of Common Stock. Please also see the disclosure under the heading "*Security Ownership - Security Ownership of Directors and Management.*"

As consideration for OneShield being chosen as the subcontractor for the Firemark Agreement, OneShield granted us warrants to purchase OneShield common stock equal to 2% of the then fully diluted capital stock of OneShield. In addition, we purchased 8.0 million shares of Series D preferred stock of OneShield. Our total ownership of OneShield stock, including the warrants, represented 6.2% of the fully diluted capital stock of OneShield as of December 31, 2005. As of December 31, 2005, we had loans receivable, including accrued interest receivable, from OneShield of approximately \$290,300. Effective March 30, 2006, OneShield completed a recapitalization and an equity financing with the consent of its stockholders, including Bristol West. Pursuant to the recapitalization, our 8.0 million shares of OneShield Series D preferred stock were converted into 1.6 million shares of OneShield Series E-2 preferred stock and 1.6 million shares of OneShield Series C-2 common stock. Our warrants to purchase OneShield common stock also were converted into warrants to purchase OneShield Series C-3 common stock. Pursuant to the recapitalization and the financing, OneShield authorized and issued Series E-1 preferred stock with liquidation preferences senior to the Series E-2 preferred stock. As of March 31, 2006, taking into account the recapitalization and financing, our total ownership of OneShield stock (including the warrants but excluding debt conversion rights) represented 6.6% of the fully diluted capital stock of OneShield.

SECTION 16 (a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors and persons who own more than 10% of our Common Stock to file reports of ownership and changes in ownership (Forms 3, 4 and 5) with the SEC and the NYSE, and to furnish us with copies of all such forms which they file. To our knowledge, based on representations to us by such persons and a review of the copies of reports furnished to us, all of our directors and officers made all required filings on time during 2005 except for Craig E. Eisenacher, one of our executive officers, who filed late in April 2006 a statement of changes in beneficial ownership on Form 4 to report his purchase of 1,885 shares of Common Stock in June 2004.

ITEM 3

APPROVAL OF THE EXECUTIVE OFFICER INCENTIVE PLAN

We are providing the following description of the Bristol West Executive Officer Incentive Plan in connection with the solicitation of proxies for approval of the EIP. The following description is a summary of the material terms of the EIP and does not purport to be complete. The summary is qualified in its entirety by reference to the text of the EIP, which is attached hereto as **Appendix C**.

Description

Background

In certain circumstances, Code Section 162(m) may deny a federal income tax deduction for compensation in excess of \$1 million per year that we pay to any of our CEO or our other four most highly compensated executive officers (which we refer to as our “**covered officers**”). See the related discussion above under the heading entitled “**Compensation Committee Report - Deductibility of Executive Compensation.**” We can only deduct compensation in excess of that amount if it qualifies as “performance-based compensation” under Code Section 162(m).

To date, we have not paid compensation to any covered officer that has been subject to the Code Section 162(m) deduction limitation. Through 2005, the Compensation Committee approved annual incentive bonus awards to the NEOs and our other executive officers under Bristol West’s previously disclosed annual Incentive Compensation Program (which we refer to as the “**ICP**”). Effective for fiscal 2006, the Compensation Committee replaced the ICP with both the EIP, subject to the approval of our stockholders, and the Bristol West Holdings, Inc. Management Incentive Plan (the “**MIP**”). The MIP is an exhibit to our Current Report on Form 8-K that we filed with

the SEC on February 27, 2005. The Compensation Committee will award bonuses to our executive officers under the EIP and the MIP. Annually, with respect to each executive officer, the Compensation Committee will establish, for the applicable fiscal year, the executive officer's individual bonus target as a participant under the EIP and the MIP. Eighty percent of the executive officer's individual bonus target will be based on achievement of performance goals under the EIP. Twenty percent of the executive officer's individual bonus target will be based upon individual performance determined under the MIP, as measured by the executive officer's achievement of his or her performance objectives and contributions to achievement of our strategic objectives.

The Compensation Committee adopted the EIP to permit us to pay incentive compensation that qualifies as performance-based compensation, thereby permitting us to receive a federal income tax deduction for the payment of such incentive compensation. As described above under the heading entitled “*Compensation Committee Report - Deductibility of Executive Compensation*,” the Compensation Committee believes that the interests of Bristol West and its stockholders may sometimes be best served by providing compensation that is not deductible in order to attract, retain, motivate and reward executive talent. Accordingly, the Compensation Committee intends to retain the flexibility to provide in certain instances compensation that is not deductible. The Compensation Committee does not expect MIP bonuses to qualify as performance-based compensation under Code Section 162(m).

For incentive compensation under the EIP to qualify as performance-based compensation under Code Section 162(m), our stockholders must approve the EIP. On February 21, 2006, our Compensation Committee and Board adopted the EIP subject to the approval of our stockholders pursuant to Code Section 162(m). To approve the EIP, if a quorum is present at the 2006 Annual Meeting, the “FOR” votes must exceed the “AGAINST” votes cast at the 2006 Annual Meeting.

Purpose

The purpose of the EIP is to establish and maintain a result and profit oriented environment and to motivate and reward eligible employees by making a portion of their compensation dependent on the achievement of certain performance goals related to the performance of Bristol West and our affiliates and operating units. The EIP aims to align the interests of management and Bristol West towards the completion of our strategic objectives, while providing incentives to constantly expand our earning power. The EIP also seeks to have direct ties to our business plan and encourage teamwork in accomplishing our goals. The EIP is designed to preserve the income tax deductibility of incentives paid under the EIP to covered officers who are subject to the limitations of Code Section 162(m) and the regulations and interpretations promulgated under Code Section 162(m).

Administration

The EIP is administered by our Compensation Committee, each member of which is an “outside director” within the meaning of Code Section 162(m).

Eligible Individuals

Each of our 15 executive officers, including our CEO, and other key employees will be eligible to participate in the EIP for any fiscal year. Our Compensation Committee has the discretionary authority to designate for each fiscal year which executive officers and key employees will be participants in the EIP for such fiscal year.

Individual Bonus Targets and Performance Goals

Annually, our Compensation Committee will establish individual bonus targets and performance goals for each participant in compliance with Code Section 162(m). The Compensation Committee will establish the performance goals during the first quarter while the outcome of the performance goals is substantially uncertain.

The Compensation Committee will establish each participant’s individual bonus target and performance goal(s) for the fiscal year. The Compensation Committee may provide that performance goals for any fiscal year will be adjusted based on factors that relate to unusual or extraordinary items. The performance goals will include one or more objective measurable performance factors as determined by the Compensation Committee with respect to each fiscal year based upon one or more factors of the following factors: (1) gross written premium; (2) net written premium; (3) underwriting income; (4) operating income; (5) earnings (including earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), and earnings before interest, taxes,

depreciation and amortization and other non-cash items); (6) net income; (7) cash flow; (8) loss ratio; (9) expense ratio; (10) combined ratio; (11) return on equity; (12) return on assets; (13) earnings or net income per share; (14) book value or book value per share; and/or (15) stock price, each with respect to the Bristol West and/or one or more of our affiliates or operating units. For purposes of the EIP, such criteria may be measured by comparing actual results in a current period to either or both of the following: (i) comparable estimates in our business plan or (ii) comparable actual results in prior periods.

Payment of Bonus Award

The Compensation Committee will determine whether the terms and conditions underlying the payment of each participant's bonus award under the EIP have been satisfied in compliance with Code Section 162(m). No EIP bonus award shall become payable to a participant with respect to any fiscal year until the Compensation Committee has certified in writing (in the manner prescribed under applicable regulations under Code Section 162(m)) that the terms and conditions underlying the payment of the award have been satisfied. Finally, our Compensation Committee, in its sole discretion, may reduce or eliminate (but not increase) the bonus award payable under the EIP to any participant. Payments of EIP awards may be made either in cash and/or in the form of any award available under the 2004 Stock Incentive Plan, as determined by the Committee in its sole discretion.

Maximum Annual Individual Bonus

The maximum annual bonus awards payable under the EIP to any participant during any fiscal year cannot exceed \$1 million.

Amendments

The Board may terminate the EIP at any time, provided such termination will not affect the payment of any awards accrued under the EIP before the date of the termination. The Board may, at any time, or from time to time, amend or suspend and, if suspended, reinstate, the EIP in whole or in part, provided however, that any amendment of the EIP will be subject to the approval of our stockholders to the extent required to comply with the requirements of Code Section 162(m), or any other applicable laws, regulations or rules.

Fiscal 2006 Participants, Performance Goal and Estimate of Benefits

At its meeting on February 21, 2006, our Compensation Committee selected our CEO and our other executive officers to participate in the EIP. Subject to our stockholders approving the EIP, the Compensation Committee established performance goals for the EIP participants. The 2006 EIP performance goal includes a range of potential bonus payouts based on Bristol West's 2006 Adjusted Pre-Tax Underwriting Income (as defined below) measured against pre-tax underwriting income as set forth in Bristol West's 2006 business plan. For purposes of the EIP in 2006, "**Adjusted Pre-Tax Underwriting Income**" will mean an amount equal to the following measured for fiscal year 2006: (1) pre-tax income, plus (2) interest expense, less (3) investment income, less (4) realized gains on investments, plus (5) realized losses on investments, and adjusted to reflect (6) the effect of unusual or extraordinary items, unless the Compensation Committee determines such adjustments to be inconsistent with the requirements of Code Section 162(m)(4)(C). In 2006, each EIP award will be paid 75% in cash and 25% in restricted stock issued under the 2004 Stock Incentive Plan that cliff vests in two years.

The following table sets forth the maximum 2006 EIP award that would be payable to each NEO and the maximum 2006 EIP awards that would be payable to all current executive officers as a group if Bristol West achieves the 2006 EIP performance goal at the top end of the range and the Compensation Committee does not exercise its discretion to reduce or eliminate the EIP award otherwise payable to any participant. We have assumed for purposes of the following table that salaries for the 2006 fiscal year remain as established by the Compensation Committee on February 21, 2006, including the scheduled changes for Messrs. Fisher, Dailey and Noonan effective July 1, 2006, as discussed above under the heading “*Executive Officers.*”

Maximum 2006 Potential Awards Under the Bristol West Executive Officer Incentive Plan

Name and Position	Maximum Total EIP Bonus (\$)	Maximum EIP Cash Bonus Portion (\$)	Maximum EIP Restricted Stock Award Portion (\$)
James R. Fisher Chairman and Chief Executive Officer	\$ 630,000	\$ 472,500	\$157,500
Jeffrey J. Dailey President and Chief Operating Officer	\$ 563,538	\$ 422,654	\$140,885
Simon J. Noonan Executive Vice President-Actuarial/Product	\$ 279,404	\$ 209,553	\$ 69,851
Craig E. Eisenacher Senior Vice President-Chief Financial Officer	\$ 245,933	\$ 184,450	\$ 61,483
James J. Sclafani, Jr Senior Vice President-Claims	\$ 179,253	\$ 134,440	\$ 44,813
All current executive officers as a group	\$3,329,862	\$2,497,397	\$832,466
All current directors who are not executive officers as a group	--	--	--
All employees, including current officers who are not executive officers, as a group	--	--	--

Recommendation of the Board of Directors

Your Board recommends that you vote FOR the proposal to approve the EIP. Proxies returned without instructions will be voted FOR the approval of the EIP.

Appendices

Categorical Standards

Appendix

A

Appendix Audit Committee Charter

B

Appendix Bristol West Executive Officer Incentive Plan

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Categorical Standards

The Categorical Standards provide as follows:

The Board and the Corporate Governance and Nominating Committee will broadly consider all relevant facts and circumstances and will apply the following standards.

- a) A director will not be considered independent if,
- the director is, or has been within the last three years, an employee of the Company, or an immediate family member is or has been within the last three years, an executive officer, of the Company; or
 - the director or an immediate family member of the director, has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service with the Company); except that compensation received by an immediate family member of the director for services as a non-executive employee of the Company need not be considered in determining independence under this test; or
 - the director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; or the director is a current employee of such a firm; or the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time frame; or the director, or an immediate family member of the director, is or has been within the last three years, employed as an executive officer of another company where any of the Company's present executives at the same time serves or served on that company's compensation committee; or
 - the director, or an immediate family member of the director, is or has been within the last three years, employed as an executive officer of another company where any of the Company's present executives at the same time serves or served on that company's compensation committee; or
 - the director is a current employee, or an immediate family member is a current executive officer, of a company (other than a charitable organization) that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues; provided, however, that in applying this test, both the payments and the consolidated gross revenues to be measured will be those reported in the last completed fiscal year; and provided, further, that this test applies solely to the financial relationship between the Company and the director's (or immediate family member's) current employer - the former employment of the director or immediate family member need not be considered.
- b) A director will only be appointed as a member of the Board Audit Committee if he or she also satisfies the independence criteria laid down in SEC Rule 10A-3.
- c) The following relationships will not be considered to be material relationships that would impair a director's independence:
- **Commercial Relationship:** If a director of the Company is an executive officer or an employee, or whose immediate family member is an executive officer, of another company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, does not exceed the greater of (a) \$1,000,000 or (b) 2% of such other company's consolidated gross revenues:
 - **Indebtedness Relationship:** If a director of the Company is an executive officer of another company which is indebted to the Company, or to which the Company is indebted, and the total amount of either company's

indebtedness is less than 2% of the consolidated assets of the company wherein the director serves as an executive officer;

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- Equity Relationship: If the director is an executive officer of another company in which the Company owns a common stock interest, and the amount of the common stock interest is less than 10% of the total shareholders' equity of the company where the director serves as an executive officer; or
 - Charitable Relationship: If a director of the Company, or the spouse of a director of the Company, serves as a director, officer or trustee of a charitable organization, and the Company's contributions to the organization in any single fiscal year are less than the greater of (a) \$1,000,000 or (b) 2% of that organization's gross revenues.
- (d)For relationships that do not meet the categorical standards of immateriality set forth in section (c) above, or for relationships that are covered, but as to which the Board believes a director may nevertheless be considered independent, the determination of whether the relationship is material or not, and therefore whether the director would be independent, will be made by the directors who satisfy the independence guidelines set forth in Sections (a) to (c) above. The Company will explain in its proxy statement any Board determination that a relationship was immaterial in the event that it did not meet the categorical standards of immateriality set forth in Section (c) above.
- (e)For the purposes of these standards, an "immediate family member" includes a person's spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares such person's home; except that when applying the independence tests described above, the Company need not consider individuals who are no longer immediate family members as a result of legal separation or divorce or those who have died or have become incapacitated.

Appendix B

BRISTOL WEST HOLDINGS, INC.

**AUDIT COMMITTEE OF
THE BOARD OF DIRECTORS CHARTER**

I. PURPOSE

The Audit Committee's (the "Committee") purpose shall be to have direct responsibility for those duties and responsibilities set forth in Section IV of this Charter, as well as any other duties and responsibilities delegated to the Committee by the Board of Directors from time to time.

II. STRUCTURE AND OPERATIONS

Composition and Qualifications

The Committee shall be comprised of three or more members of the Board of Directors, each of whom is determined by the Board of Directors to be "independent" under the rules of the New York Stock Exchange, Inc. and the Sarbanes-Oxley Act. No member of the Committee may serve on the audit committee of more than three public companies, including the corporation, unless the Board of Directors (i) determines that such simultaneous service would not impair the ability of such member to effectively serve on the Committee and (ii) discloses such determination in the annual proxy statement.

All members of the Committee shall have a working familiarity with basic finance and accounting practices (or acquire such familiarity within a reasonable period after his or her appointment) and at least one member must be a "financial expert" under the requirements of the Sarbanes-Oxley Act. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the corporation or by an outside consultant.

No member of the Committee shall receive compensation other than (i) director's fees for service as a director of the corporation, including reasonable compensation for serving on the Committee and regular benefits that other directors receive and (ii) a pension or similar compensation for past performance, provided that such compensation is not conditioned on continued or future service to the corporation.

Appointment and Removal

The members of the Committee shall be appointed by the Board of Directors and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority vote of the Board of Directors.

Chairman

Unless a Chairman is elected by the full Board of Directors, the members of the Committee shall designate a Chairman by the majority vote of the full Committee membership.

The Chairman shall be entitled to cast a vote to resolve any ties. The Chairman will chair all regular sessions of the Committee and set the agendas for Committee meetings.

III. MEETINGS

The Committee shall meet at least quarterly, or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet separately with each of management, the director of the internal auditing department and the independent auditors to discuss any matters that the Committee or each of these groups believe would be appropriate to discuss privately. In addition, the Committee should meet with the independent auditors and management quarterly to review the corporation's financial statements in a manner consistent with that outlined in Section IV of this Charter. The Chairman of the Board or any member of the Committee may call meetings of the Committee. All meetings of the Committee may be held telephonically.

All non-management directors that are not members of the Committee may attend meetings of the Committee but may not vote. Additionally, the Committee may invite to its meetings any director, management of the corporation and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. RESPONSIBILITIES AND DUTIES

The following functions shall be the common recurring activities of the Committee. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of the Committee outlined in Section I of this Charter.

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside legal, accounting or other advisors for this purpose, including the authority to approve the fees payable to such advisors and any other terms of retention.

The Committee shall be given full access to the corporation's internal audit group, Board of Directors, corporate executives and independent accountants as necessary to carry out these responsibilities. While acting within the scope of its stated purpose, the Committee shall have all the authority of the Board of Directors.

Notwithstanding the foregoing, the Committee is not responsible for certifying the corporation's financial statements or guaranteeing the auditor's report. The fundamental responsibility for the corporation's financial statements and disclosures rests with management and the independent auditors.

Documents/Reports Review

1. Review with management and the independent auditors prior to public dissemination the corporation's annual audited financial statements and quarterly financial statements, including the corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and a discussion with the independent auditors of the matters required to be discussed by Statement of Auditing Standards No. 61.
2. Review and discuss with management and the independent auditors the corporation's earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies. The Committee's discussion in this regard may be general in nature (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and need not take place in advance of each earnings release or each instance in which the corporation may provide earnings guidance.
3. Perform any functions required to be performed by it or otherwise appropriate under applicable law, rules or regulations, the corporation's by-laws and the resolutions or other directives of the Board, including review of any certification required to be reviewed in accordance with applicable law or regulations of the SEC.

Independent Auditors

4. Retain and terminate independent auditors and approve all audit engagement fees and terms.
5. Inform each registered public accounting firm performing work for the corporation that such firm shall report directly to the Committee.
6. Oversee the work of any registered public accounting firm employed by the corporation, including the resolution of any disagreement between management and the auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or related work.
7. Approve in advance any significant audit or non-audit engagement or relationship between the corporation and the independent auditors, other than "prohibited non-auditing services".

The following shall be "prohibited non-auditing services": (i) bookkeeping or other services related to the accounting records or financial statements of the audit client; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, providing fairness opinions or preparing contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service that the Public Company Accounting Oversight Board prohibits through regulation.

Notwithstanding the foregoing, pre-approval is not necessary for minor audit services if: (i) the aggregate amount of all such non-audit services provided to the corporation constitutes not more than five percent of the total amount of revenues paid by the corporation to its auditor during the fiscal year in which the non-audit services are provided; (ii) such services were not recognized by the corporation at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board to whom authority to grant such approvals has been delegated by the Committee. The Committee may delegate to one or more of its members the authority to approve in advance all significant audit or non-audit services to be provided by the independent auditors so long as it is presented to the full Committee at a later time.

8. Review, at least annually, the qualifications, performance and independence of the independent auditors. In conducting its review and evaluation, the Committee should:

(a) Obtain and review a report by the corporation's independent auditor describing: (i) the auditing firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; and (iii) to assess the auditor's independence, all relationships between the independent auditor and the corporation;

(b) Ensure the rotation of the lead audit partner at least every five years, and consider whether there should be regular rotation of the audit firm itself.

(c) Confirm with any independent auditor retained to provide audit services for any fiscal year that the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has not performed audit services for the corporation in each of the five previous fiscal years of that corporation.

(d) Take into account the opinions of management and the corporation's internal auditors (or other personnel responsible for the internal audit function).

Financial Reporting Process

9. In consultation with the independent auditors, management and the internal auditors, review the integrity of the corporation's financial reporting processes, both internal and external. In that connection, the Committee should obtain and discuss with management and the independent auditor reports from management and the independent auditor regarding: (i) all critical accounting policies and practices to be used by the corporation; (ii) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the corporation's management, the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the independent auditor; (iii) major issues regarding accounting principles and financial

statement presentations, including any significant changes in the corporation's selection or application of accounting principles; (iv) major issues as to the adequacy of the corporation's internal controls and any specific audit steps adopted in light of material control deficiencies; and (v) any other material written communications between the independent auditor and the corporation's management.

10. Review periodically the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the corporation.
11. Review with the independent auditor (i) any audit problems or other difficulties encountered by the auditor in the course of the audit process, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management and (ii) management's responses to such matters. Without excluding other possibilities, the Committee may wish to review with the independent auditor (i) any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise), (ii) any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the corporation.
12. Review and discuss with the independent auditor the responsibilities, budget and staffing of the corporation's internal audit function.

Legal Compliance / General

13. Review periodically, with the corporation's counsel, any legal matter that could have a significant impact on the corporation's financial statements.
14. Discuss with management and the independent auditors the corporation's guidelines and policies with respect to risk assessment and risk management. The Committee should discuss the corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.
15. Set clear hiring policies for employees or former employees of the independent auditors. At a minimum, these policies should provide that any registered public accounting firm may not provided audit services to the corporation if the CEO, controller, CFO, chief accounting officer or any person serving in an equivalent capacity for the corporation was employed by the registered public accounting firm and participated in the audit of the corporation within one year of the initiation of the current audit.
16. Establish procedures for: (i) the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the corporation of concerns regarding questionable accounting or auditing matters.
17. Review and approve all related party transactions to which the corporation is a party.

Reports

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18. Prepare all reports required to be included in the corporation's proxy statement, pursuant to and in accordance with applicable rules and regulations of the SEC.

19. Report regularly to the full Board of Directors including:

(i) with respect to any issues that arise with respect to the quality or integrity of the corporation's financial statements, the corporation's compliance with legal or regulatory requirements, the performance and independence of the corporation's independent auditors or the performance of the internal audit function;

(ii) following all meetings of the Committee; and

(iii) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities.

The Committee shall provide such recommendations as the Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.

20. Maintain minutes or other records of meetings and activities of the Committee.

V. ANNUAL PERFORMANCE EVALUATION

The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee and its members, including by reviewing the compliance of the Committee with this Charter. In addition, the Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee considers necessary or valuable. The Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

10/05 Revision

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BRISTOL WEST HOLDINGS, INC.
EXECUTIVE OFFICER INCENTIVE PLAN
As Adopted by the Board of Directors on February 21, 2006

1. PURPOSE

The purpose of the Plan is to establish and maintain a result and profit oriented environment and to motivate and reward eligible employees by making a portion of their compensation dependent on the achievement of certain Performance Goals related to the performance of Bristol West Holdings, Inc. (the “**Company**”) and its affiliates and operating units. The Plan aims to align the interests of management and the Company towards the completion of the Company’s strategic objectives, while providing incentives to constantly expand the Company’s earning power. The Plan also seeks to have direct ties to the Company’s business plan and encourage teamwork in accomplishing Company goals. The Plan is designed to preserve the income tax deductibility of incentives paid hereunder to Company executive officers who are subject to the limitations of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder (the “**Code**”). Accordingly, the adoption of the Plan is subject to the approval of the Company’s stockholders pursuant to Code Section 162(m).

2. DEFINITIONS

The following definitions shall be applicable throughout the Plan:

- (a) “**Award**” means the amount of bonus payable under the Plan to a Participant with respect to a Fiscal Year.
- (b) “**Board**” means the Board of Directors of the Company.
- (c) “**Business Plan**” means the Company’s Business Plan as approved by the Board from time to time (but in no event later than 90 days after the commencement of the applicable Fiscal Year).
- (d) “**Committee**” means the Compensation Committee of the Board or another Committee designated by the Board that is comprised of two or more “outside directors” as defined in Code Section 162(m).
- (e) “**Covered Employees**” means those persons who are (or who in the Committee’s sole discretion may become) subject to the limitations of Code Section 162(m).
- (f) “**Fiscal Year**” means the Company's fiscal year.
- (g) “**Individual Bonus Target**” means a Participant’s incentive target with respect to a Fiscal Year.
- (h) “**Participant**” means each Covered Employee and any officer or key employee of the Company who is designated as a Participant by the Committee.

(i) “**Performance Goals**” means one or more objective measurable performance factors as determined by the Committee with respect to each Fiscal Year based upon one or more factors, including, but not limited to: (1) gross written premium; (2) net written premium; (3) underwriting income; (4) operating income; (5) earnings (including earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), and earnings before interest, taxes, depreciation and amortization and other non-cash items); (6) net income; (7) cash flow; (8) loss ratio; (9) expense ratio; (10) combined ratio; (11) return on equity; (12) return on assets; (13) earnings or net income per share; (14) book value or book value per share; and/or (15) stock price, each with respect to the Company and/or one or more of its affiliates or operating units. For purposes of the Plan, such criteria may be measured by comparing actual results in a current period to either or both of the following: (i) comparable estimates in the Business Plan, or (ii) comparable actual results in prior periods.

(j) “**Plan**” means this Bristol West Holdings, Inc. Executive Officer Incentive Plan, as amended from time to time.

3. ADMINISTRATION

The Plan shall be administered by the Committee, which shall have the discretionary authority to interpret the provisions of the Plan and to take any actions and make any other determinations that it deems necessary or desirable for the administration of the Plan to the extent any such action would be permitted under Code Section 162(m), including, without limitation, all decisions on eligibility to participate, participation, the establishment of payment targets and the amount and terms of the Awards payable under the Plan. The decisions of the Committee shall be final and binding on all parties making claims under the Plan.

4. ELIGIBILITY

Officers and key employees of the Company shall be eligible to participate in the Plan as determined at the sole discretion of the Committee.

5. AMOUNT OF BONUS

With respect to each Participant, the Committee will establish the Participant’s Individual Bonus Target for the Fiscal Year and the Participant’s Performance Goal or Goals for the Fiscal Year (increased or decreased, in each case in accordance with factors adopted by the Committee with respect to the Fiscal Year that relate to unusual or extraordinary items). With respect to each Participant, the Committee will also determine whether the terms and conditions underlying the payment of the Participant’s Award have been satisfied. The selection and adjustment of applicable Performance Goals and Individual Bonus Targets and determination of Awards for Participants shall be made in compliance with the rules of Code Section 162(m). The maximum amount of any Awards that can be paid under the Plan to any Participant during any Fiscal Year is \$1,000,000. The Committee reserves the right, in its sole discretion, to reduce or eliminate the amount of an Award otherwise payable to a Participant with respect to any Fiscal Year in its sole discretion.

6. PAYMENT OF BONUS

- (a) Unless otherwise determined by the Committee, a Participant must be on the Company's payroll on the date the Award is to be paid. The Committee may make exceptions to this requirement in the case of retirement, death or disability or under other circumstances, as determined by the Committee in its sole discretion.
- (b) Payments of Awards may be made (i) in cash; and/or (ii) in the form of any award available under the Bristol West Holdings, Inc. 2004 Stock Incentive Plan as it may be replaced, modified, amended or supplemented from time to time (the "**Stock Incentive Plan**"), as determined by the Committee in its sole discretion. The number of shares underlying any award granted under the Stock Incentive Plan shall be determined by dividing the applicable cash amount to be converted into a stock award by the fair market value of the shares on the applicable grant date. Fair market value for such purpose shall be determined based on any objective and appropriate method determined by the Committee in its sole discretion.
- (c) Any distribution or payment made under the Plan shall occur within a reasonable period of time after the end of the Fiscal Year in which the Participant has earned the Award (but in no event later than two and one-half months following the Fiscal Year in which the Award is no longer subject to a substantial risk of forfeiture as determined under Code Section 409A and all applicable guidance and Treasury regulations); provided, that no Award shall become payable to a Participant with respect to any Fiscal Year until the Committee has certified in writing (in the manner prescribed under applicable regulations under Code Section 162(m)) that the terms and conditions underlying the payment of such Award have been satisfied. The Committee, in its sole discretion, may permit a Participant to defer receipt of cash that would otherwise be delivered to the Participant under the Plan. Any such deferral elections shall be subject to such rules and procedures as determined by the Committee in its sole discretion.
- (d) If a Participant entitled to the payment of an Award under the Plan dies prior to the distribution of such Award, the distribution shall be made to the Participant's beneficiary or legal representative in accordance with Section 7(d) of the Plan within the same time period in which the Award otherwise would have been paid to the Participant.

7. GENERAL

- (a) **TAX WITHHOLDING.** The Company shall have the right to deduct from all Awards paid in cash any federal, state or local income and/or payroll taxes required by law to be withheld with respect to such payments. In the case of Awards settled by an award granted under the Stock Incentive Plan, the terms of the Stock Incentive Plan regarding tax withholding shall govern or, if the Stock Incentive Plan does not address tax withholding, the person receiving such common stock may be required to pay to the Company the amount of any such taxes which the Company is required to withhold with respect to such common stock or, at the Committee's sole discretion, the Company may withhold a number of shares of Company common stock which have a fair market value equal to the amount of such withholdings. The Company also may withhold from any other amount payable by the Company or any affiliate to the Participant an amount equal to the taxes required to be withheld from any Award.

(b) **CLAIM TO AWARDS AND EMPLOYMENT RIGHTS.** Nothing in the Plan shall confer on any Participant the right to continued employment with the Company or any of its affiliates, or affect in any way the right of the Company or any affiliate to terminate the Participant's employment at any time, and for any reason, or change the Participant's responsibilities. Awards represent unfunded and unsecured obligations of the Company and a holder of any right hereunder in respect of any Award shall have no rights other than those of a general unsecured creditor to the Company.

(c) **BENEFICIARIES.** To the extent the Committee permits beneficiary designations, any payment of Awards due under the Plan to a deceased Participant shall be paid to the beneficiary duly designated by the Participant in accordance with the Company's practices. If no such beneficiary has been designated or survives the Participant, payment shall be made to the Participant's legal representative. A beneficiary designation may be changed or revoked by a Participant at any time, provided the change or revocation is filed with the Company prior to the Participant's death.

(d) **NONTRANSFERABILITY.** A person's rights and interests under the Plan, including any Award previously made to such person or any amounts payable under the Plan, may not be assigned, pledged, or transferred except, in the event of a Participant's death, to a designated beneficiary as provided in the Plan, or in the absence of such designation, by will or the laws of descent and distribution.

(e) **INDEMNIFICATION.** Each person who is or shall have been a member of the Committee and each employee of the Company or an affiliate who is delegated a duty under the Plan shall be indemnified and held harmless by the Company from and against any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit or proceeding to which he may be a party or in which he may be involved by reason of any action or failure to act under the Plan and against and from any and all amounts paid by him in satisfaction of judgment in any such action, suit or proceeding against him, provided such loss, cost, liability or expense is not attributable to such person's willful misconduct. Any person seeking indemnification under this provision shall give the Company prompt notice of any claim and shall give the Company an opportunity, at its own expense, to handle and defend the same before the person undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(f) **EXPENSES.** The expenses of administering the Plan shall be borne by the Company.

(g) **PRONOUNS.** Masculine pronouns and other words of masculine gender shall refer to both men and women.

(h) **TITLES AND HEADINGS.** The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

(i) **INTENT.** The intention of the Company and the Committee is to administer the Plan in compliance with Code Section 162(m) so that the Awards paid under the Plan to Covered Employees will be treated as performance-based compensation under Code Section 162(m)(4)(C). If any provision of the Plan applicable to Covered Employees does not comply with the requirements of Code Section 162(m), then such provision shall be construed or deemed amended to the extent necessary to conform to such requirements. The Company and/or the Committee, in their sole discretion, may pay bonuses outside of and independent of the Plan to any Participant.

(j) **GOVERNING LAW.** The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan, and any Award shall be determined in accordance with the laws of the State of Delaware (without giving effect to principles of conflicts of laws thereof) and applicable Federal law.

(k) **AMENDMENTS AND TERMINATION.** The Board may terminate the Plan at any time, provided such termination shall not affect the payment of any Awards accrued under the Plan prior to the date of the termination. The Board may, at any time, or from time to time, amend or suspend and, if suspended, reinstate, the Plan in whole or in part, provided however, that any amendment of the Plan shall be subject to the approval of the Company's stockholders to the extent required to comply with the requirements of Code Section 162(m), or any other applicable laws, regulations or rules.

BRISTOL WEST HOLDINGS, INC.
PROXY FOR ANNUAL MEETING OF STOCKHOLDERS MAY 19, 2006
SOLICITED BY THE BOARD OF DIRECTORS

The stockholder(s) whose signature(s) appear(s) on the reverse side of this Proxy Card hereby appoints James R. Fisher, Chief Executive Officer and Chairman of the Board, Jeffrey J. Dailey, President and Chief Operating Officer, and Craig E. Eisenacher, Chief Financial Officer, the proxies, and each of them (with power to act without the others and with power of substitution) the proxy of the stockholder(s), for and in the name of the stockholder(s), to vote at the Annual Meeting of Stockholders of Bristol West Holdings, Inc., (the "Meeting") to be held at Bristol West Holdings, Inc., 5701 Stirling Road, Davie, Florida 33314, on the 19th day of May, 2006 at 1:30 p.m., and at any adjournment thereof, the shares of stock which the stockholder(s) would be entitled to vote if personally present.

The stockholder(s) hereby ratifies all actions of said proxies, or any of them, or their or his substitutes or substitute by virtue hereof; and hereby revokes any authorization to vote such shares heretofore given by the stockholder(s) to anyone. The undersigned hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders dated April 24, 2006, and the Proxy Statement furnished therewith.

This proxy will be voted as directed, or, if the stockholder(s) fails to specify herein how this proxy is to be voted, this proxy shall be voted "FOR" proposals (1), (2) and (3) and in the discretion of the proxy holders with respect to any other matter.

(over)

BRISTOL WEST HOLDINGS, INC.
P.O. BOX 11364
NEW YORK, NY 10203-0364

DETACH PROXY CARD HERE

Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.

x
**Votes MUST be indicated
 (x) in Black or Blue ink.**

BOARD OF DIRECTORS RECOMMENDS VOTES “FOR” PROPOSALS (1), (2) and (3).

1. SELECTION OF DIRECTORS:

FOR AGAINST ABSTAIN

VOTE FOR ALL NOMINEES
 WITHHOLD ALL
 FOR ALL EXCEPT

Nominees:
 01- James R. Fisher, 02-R. Cary Blair, 03- Jeffrey J. Dailey,
 04-Richard T. Delaney, 05-Todd A. Fisher, 06-Perry Golkin,
 07-Mary R. Hennessy, 08-Eileen Hilton, 09-James N.
 Meehan, 10-Arthur J. Rothkopf

2. THE RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITOR FOR 2006.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark “For All Except” and write the nominee’s number on the line below.

FOR ALL
 EXCEPT _____

3. APPROVAL OF
 THE BRISTOL
 WEST
 EXECUTIVE
 OFFICER
 INCENTIVE
 PLAN.

To change your
 address, please
 mark this box.
 Attend Meeting
 mark here.

**In their discretion,
 the Proxies are
 authorized to vote
 upon all other
 business that may
 properly come
 before the Meeting
 with all the
 powers the
 undersigned
 would possess if**

**personally
present.**

NOTE: The signature(s) should correspond with the name of the stockholder(s) as it appears hereon



Date

Stockholder sign here

Co-owner sign here

t;font-size:10pt;">

\$
8.49

Net Proceeds per Share to Issuer

\$
10.21

\$
9.68

\$
8.06

Decrease to NAV

Total Shares Outstanding

275,000,000

288,750,000

5.00
%

302,500,000

10.00
%

343,750,000

25.00
%

NAV per Share

\$
10.75

\$
10.72

(0.24
)%

\$

10.65

(0.91
)%

\$
10.21

(5.00
)%

Dilution to Nonparticipating Stockholder

Shares Held by Stockholder A

—

13,750

27,500

68,750

Percentage Held by Stockholder A

—
%

—
%

0.01
%

0.02
%

Total NAV Held by Stockholder A

\$
—

\$
147,461

\$
292,938

\$
702,109

Total investment by Stockholder A

\$
148,128

\$
280,382

\$
583,786

Total Dilution to Stockholder A (Total NAV Less Total investment)

\$
(667
)

\$
12,556

\$
118,323

NAV per Share Held by Stockholder A

\$

10.72

\$
10.65

\$
10.21

Investment per Share Held by Stockholder A

\$
10.77

\$
10.20

\$
8.49

Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)

\$
(0.05)

)

\$
0.45

\$
1.72

Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)

(0.45
)%

4.48
%

20.27
%

DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, when our Board of Directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend in cash by notifying the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator sets up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends in cash and hold such shares

in non-certificated form. Upon request by a stockholder participating in the plan, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share. Such request by a stockholder must be received three days prior to the dividend payable date in order for that dividend to be paid in cash. If such request is received less than three days prior to the dividend payable date, then the dividends are reinvested and shares are repurchased for the stockholder's account; however, future dividends are paid out in cash on all balances. Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

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We primarily use newly-issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of our common stock at the close of regular trading on The NASDAQ Global Select Market on the valuation date for such dividend. If we use newly-issued shares to implement the plan, the valuation date will not be earlier than the last day that stockholders have the right to elect to receive cash in lieu of shares. Market price per share on that date will be the closing price for such shares on The NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated. Stockholders who do not elect to receive dividends in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium at the time we issue new shares under the plan and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the dividend payable to a stockholder.

There are no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator's fees under the plan are paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a \$15 transaction fee plus a \$0.10 per share brokerage commissions from the proceeds.

Stockholders who receive dividends in the form of stock are subject to the same U.S. Federal, state and local tax consequences as are stockholders who elect to receive their dividends in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend from us will be equal to the total dollar amount of the dividend payable to the stockholder. Any stock received in a dividend will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at www.amstock.com or by filling out the transaction request form located at the bottom of their statement and sending it to the plan administrator at American Stock Transfer & Trust Company, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the plan administrator's Interactive Voice Response System at (888) 888-0313. The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any payable date for the payment of any dividend by us. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, NY 11219 or by telephone at (718) 921-8200.

Stockholders who purchased their shares through or hold their shares in the name of a broker or financial institution should consult with a representative of their broker or financial institution with respect to their participation in our dividend reinvestment plan. Such holders of our stock may not be identified as our registered stockholders with the plan administrator and may not automatically have their cash dividend reinvested in shares of our common stock by the administrator.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to us or our investors on such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, U.S. Stockholders (as defined below) whose functional currency is not the U.S. dollar, persons who mark-to-market our shares and persons who hold our shares as part of a "straddle," "hedge" or

"conversion" transaction. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). This discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations thereof, each as of the date of this prospectus and all of which are subject to differing interpretation or change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service, or the IRS, regarding this offering. No assurance can be

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given that the IRS would not assert, or that a court would not sustain, a position contrary to the any of the tax aspects set forth below.

This summary does not discuss the consequences of an investment in shares of our preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities. The tax consequences of such an investment will be discussed in a relevant prospectus supplement.

A "U.S. Stockholder" is a beneficial owner of shares of our common stock that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in place to be treated as a U.S. person.

A "Non-U.S. Stockholder" is a beneficial owner of shares of our common stock that is not a partnership and is not a U.S. Stockholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partner of a partnership holding shares of our common stock should consult its tax advisors with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of U.S. federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

Election To Be Taxed As A RIC

As a business development company, we have elected and intend to continue to qualify to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally are not subject to corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to obtain RIC tax treatment, we must distribute to our stockholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses (the Annual Distribution Requirement).

Taxation As A RIC

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

- qualify to be treated as a business development company or be registered as a management investment company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock or other securities or currencies or other income derived with respect to our business of investing in such stock, securities or currencies and net income derived from an interest in a "qualified publicly traded partnership" (as defined in the Code) (the 90% Income Test); and
- diversify our holdings so that at the end of each quarter of the taxable year:
 - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer (which for these purposes includes the equity securities of a "qualified publicly traded partnership"); and

no more than 25% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, (i) of one issuer, (ii) of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) of one or more "qualified publicly traded partnerships."

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To the extent that we invest in entities treated as partnerships for U.S. federal income tax purposes (other than a "qualified publicly traded partnership"), we generally must include the items of gross income derived by the partnerships for purposes of the 90% Income Test, and the income that is derived from a partnership (other than a "qualified publicly traded partnership") will be treated as qualifying income for purposes of the 90% Income Test only to the extent that such income is attributable to items of income of the partnership which would be qualifying income if realized by us directly. In addition, we generally must take into account our proportionate share of the assets held by partnerships (other than a "qualified publicly traded partnership") in which we are a partner for purposes of the asset diversification tests. If the partnership is a "qualified publicly traded partnership," the net income derived from such partnership will be qualifying income for purposes of the 90% Income Test, and interests in the partnership will be "securities" for purposes of the diversification tests. We intend to monitor our investments in equity securities of entities that are treated as partnerships for U.S. federal income tax purposes to prevent our disqualification as a RIC. In order to meet the 90% Income Test, we may establish one or more special purpose corporations to hold assets from which we do not anticipate earning dividend, interest or other qualifying income under the 90% Income Test. Any such special purpose corporation would generally be subject to U.S. federal income tax, and could result in a reduced after-tax yield on the portion of our assets held by such corporation.

Provided that we qualify as a RIC and satisfy the Annual Distribution Requirement, we will not be subject to U.S. federal income tax on the portion of our investment company taxable income and net capital gain (which we define as net long-term capital gains in excess of net short-term capital losses) we timely distribute to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any investment company taxable income and net capital gain not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% non-deductible U.S. federal excise tax on certain undistributed income unless we distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year and (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in preceding years. In addition, the minimum amounts that must be distributed in any year to avoid the excise tax will be increased or decreased to reflect any under-distribution or over-distribution, as the case may be, from the previous year.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount, we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant. As a RIC, we are not allowed to carry forward or carry back a net operating loss for purposes of computing our investment company taxable income in other taxable years.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the diversification tests. If we dispose of assets in order to meet the Annual Distribution Requirement or to avoid the excise tax, we may make such dispositions at times that, from an investment standpoint, are not advantageous. If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to "qualified dividend income" to the extent of our current and accumulated

earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributees 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 stockholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge on 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

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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.

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gain and qualified dividend income into higher taxed short-term capital gain or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (iv) cause us to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (vi) adversely alter the characterization of certain complex financial transactions, and (vii) produce income that will not be qualifying income for purposes of the 90% Income Test. We will monitor our transactions and may make certain tax elections in order to mitigate the effect of these provisions.

We may invest in preferred securities or other securities the U.S. federal income tax treatment of which may be unclear or may be subject to recharacterization by the IRS. To the extent the tax treatment of such securities or the income from such securities differs from the expected tax treatment, it could affect the timing or character of income recognized, requiring us to purchase or sell securities, or otherwise change our portfolio, in order to comply with the tax rules applicable to RICs under the Code.

Taxation Of U.S. Stockholders

Distributions by us generally are taxable to U.S. Stockholders as ordinary income or capital gains. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. Stockholders to the extent of our current and accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. Provided that certain holding period and other requirements are met, such distributions (if designated by us) may qualify (i) for the dividends received deduction available to corporations, but only to the extent that our income consists of dividend income from U.S. corporations and (ii) in the case of individual shareholders, as qualified dividend income eligible to be taxed at long-term capital gain rates to the extent that we receive qualified dividend income (generally, dividend income from taxable domestic corporations and certain qualified foreign corporations). There can be no assurance as to what portion, if any, of our distributions will qualify for favorable treatment as qualified dividend income.

Distributions of our net capital gain (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by us as "capital gain dividends" will be taxable to a U.S. Stockholder as long-term capital gains, regardless of the U.S. Stockholder's holding period for its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. Stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. Stockholder. Although we currently intend to distribute any long-term capital gains at least annually, we may in the future decide to retain some or all of our long-term capital gains, and designate the retained amount as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. Stockholder will be required to include its proportionate share of the deemed distribution in income as if it had been actually distributed to the U.S. Stockholder, and the U.S. Stockholder will be entitled to claim a credit equal to its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. Stockholder's tax basis for its common stock. Since we expect to pay tax on any retained capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. Stockholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds such U.S. Stockholder's liability for U.S. federal income tax. A U.S. Stockholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution

approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution." For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. Stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a

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specified date in any such month and actually paid during January of the following year, will be treated as if it had been received by our U.S. Stockholders on December 31 of the year in which the dividend was declared.

If a U.S. Stockholder purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of its investment.

A U.S. Stockholder generally will recognize taxable gain or loss if such U.S. Stockholder sells or otherwise disposes of its shares of our common stock. Any gain or loss arising from such sale or taxable disposition generally will be treated as long-term capital gain or loss if the U.S. Stockholder has held its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or taxable disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a taxable disposition of shares of our common stock may be disallowed if other substantially identical shares are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. Capital losses are deductible only to the extent of capital gains (subject to an exception for individuals under which a limited amount of capital losses may be offset against ordinary income).

In general, individual U.S. Stockholders currently are subject to a preferential rate on their net capital gain, or the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year, including long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. Stockholders currently are subject to U.S. federal income tax on net capital gain at ordinary income rates.

Certain U.S. Stockholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on all or a portion of their "net investment income," which includes dividends received from us and capital gains from the sale or other disposition of our stock.

We will send to each of our U.S. Stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. Stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the amount and the U.S. federal tax status of each year's distributions generally will be reported to the IRS. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. Stockholder's particular situation.

Payments of dividends, including deemed payments of constructive dividends, or the proceeds of the sale or other taxable disposition of our common stock generally are subject to information reporting unless the U.S. Stockholder is an exempt recipient. Such payments may also be subject to U.S. federal backup withholding at the applicable rate if the recipient of such payment fails to supply a taxpayer identification number and otherwise comply with the rules for establishing an exemption from backup withholding. Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against the holder's U.S. federal income tax liability, provided that certain information is provided timely to the IRS.

Taxation Of Non-U.S. Stockholders

Whether an investment in our common stock is appropriate for a Non-U.S. Stockholder will depend upon that person's particular circumstances. An investment in our common stock by a Non-U.S. Stockholder may have adverse tax consequences. Non-U.S. Stockholders should consult their tax advisers before investing in our common stock.

Distributions of our investment company taxable income to Non-U.S. Stockholders that are not "effectively connected" with a U.S. trade or business conducted by the Non-U.S. Stockholder, will generally be subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) to the extent of our current and accumulated earnings and profits.

For our taxable years beginning before January 1, 2014 (and, if extended as has happened in the past, for taxable years covered by such extension), properly reported distributions to Non-U.S. Stockholders are generally exempt from U.S. federal withholding tax where they (i) are paid in respect of our "qualified net interest income" (generally, our U.S.-source interest income, other than certain contingent interest and interest from obligations of a corporation or partnership in which we are at least a 10% shareholder, reduced by expenses that are allocable to such income) or

(ii) are paid in respect of our "qualified short-term capital gains" (generally, the excess of our net short-term capital gain over our long-term capital loss for such taxable year). There can be no assurance as to whether this provision will be extended. In addition, depending on our circumstances, we may report all, some or none of our potentially eligible dividends as such qualified net interest income or as qualified short-term capital gains, and/or treat such dividends, in whole or in part, as ineligible for this exemption from withholding. In order to qualify for this exemption from withholding, a Non-U.S. Stockholder needs to comply with applicable certification

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requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN or substitute Form). In the case of shares held through an intermediary, the intermediary may withhold even if we report the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. Stockholders should contact their intermediaries with respect to the application of these rules to their accounts. There can be no assurance as to what portion of our distributions will qualify for favorable treatment as qualified net interest income or qualified short-term capital gains.

Actual or deemed distributions of our net capital gain to a Non-U.S. Stockholder, and gains recognized by a Non-U.S. Stockholder upon the sale of our common stock, that are not effectively connected with a U.S. trade or business conducted by the Non-U.S. Stockholder will generally not be subject to U.S. federal withholding tax and generally will not be subject to U.S. federal income tax unless the Non-U.S. Stockholder is a nonresident alien individual and is physically present in the U.S. for 183 or more days during the taxable year and meets certain other requirements.

Distributions of our investment company taxable income and net capital gain (including deemed distributions) to Non-U.S. Stockholders, and gains recognized by Non-U.S. Stockholders upon the sale of our common stock, that are effectively connected with a U.S. trade or business conducted by the Non-U.S. Stockholder will be subject to U.S. federal income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. In addition, if such Non-U.S. Stockholder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments, if its investment in our common stock is effectively connected with its conduct of a U.S. trade or business.

If we distribute our net capital gain in the form of deemed rather than actual distributions (which we may do in the future), a Non-U.S. Stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. Stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the Non-U.S. Stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return.

In addition, after June 30, 2014, withholding at a rate of 30% will be required on dividends in respect of, and after December 31, 2016, withholding at a rate of 30% will be required on gross proceeds from the sale of, shares of our stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to interests in, and accounts maintained by, the institution to the extent such interests or accounts are held by certain U.S. persons or by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments. Accordingly, the entity through which our shares are held will affect the determination of whether such withholding is required. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury regulations or other guidance, may modify these requirements. Similarly, dividends in respect of, and gross proceeds from the sale of, our shares held by an investor that is a non-financial non-U.S. entity that does not qualify under certain exemptions will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any "substantial United States owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we will in turn provide to the Internal Revenue Service. We will not pay any additional amounts to stockholders in respect of any amounts withheld. Non-U.S. Stockholders are encouraged to consult their tax advisors regarding the possible implications of the legislation on their investment in our shares.

A Non-U.S. Stockholder generally will be required to comply with certain certification procedures to establish that such holder is not a U.S. person in order to avoid backup withholding with respect to payments of dividends, including deemed payments of constructive dividends, or the proceeds of a disposition of our common stock. In addition, we are required to annually report to the IRS and each Non-U.S. Stockholder the amount of any dividends or constructive dividends treated as paid to such Non-U.S. Stockholder, regardless of whether any tax was actually withheld. Copies of the information returns reporting such dividend or constructive dividend payments and the amount withheld may also be made available to the tax authorities in the country in which a Non-U.S. Stockholder resides under the provisions of an applicable income tax treaty. Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against a

Non-U.S. Stockholder's U.S. federal income tax liability, if any, provided that certain required information is provided timely to the IRS.

Non-U.S. persons should consult their tax advisors with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in our common stock.

Failure To Obtain RIC Tax Treatment

If we were unable to obtain tax treatment as a RIC, 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 they be required to be made.

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Distributions would generally be taxable to our stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction.

Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

The discussion set forth herein does not constitute tax advice, and potential investors should consult their own tax advisors concerning the tax considerations relevant to their particular situation.

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DESCRIPTION OF OUR CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

Capital Stock

Our authorized capital stock consists of 500,000,000 shares of stock, par value \$0.001 per share, all of which is initially classified as common stock. Our common stock is traded on The NASDAQ Global Select Market under the symbol "PSEC." There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter, our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock, and to authorize the issuance of such shares, without obtaining stockholder approval. Our Board of Directors will only take such actions in accordance with Section 18 as modified by Section 61 of the 1940 Act. The 1940 Act limits business development companies to only one class or series of common stock and only one class of preferred stock. As permitted by the Maryland General Corporation Law, our charter provides that the Board of Directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

The below table sets forth each class of our outstanding securities as of October 10, 2013 including shares sold with settlement dates through October 16, 2013:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by the Company or for its Account	(4) Amount Outstanding Exclusive of Amount Shown Under (3)
Common Stock	500,000,000	—	276,844,568
Common Stock			

All shares of our common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by U.S. Federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of us, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that prior to the issuance of preferred stock holders of a majority of the outstanding shares of common stock will elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Preferred Stock

Our charter authorizes our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by our charter to set the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution (other

than in shares of stock) is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock become in arrears by two years or more until all arrears are cured. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding

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preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to operate other than as an investment company. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

Limitation On Liability Of Directors And Officers; Indemnification And Advance Of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to obligate ourselves to indemnify any present or former director or officer or any individual who, while serving as a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as a director or officer and at our request, serves or has served another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner, manager, member or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Our insurance policy does not currently provide coverage for claims, liabilities and expenses that may arise out of activities that a present or former director or officer of us has performed for another entity at our request. There is no

assurance that such entities will in fact carry such insurance. However, we note that we do not expect to request our present or former directors or officers to serve another entity as a director, officer, partner or trustee unless we can obtain insurance providing coverage for such persons for any claims, liabilities or expenses that may arise out of their activities while serving in such capacities.

Provisions Of The Maryland General Corporation Law And Our Charter And Bylaws

Anti-takeover Effect

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire

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control of us to negotiate first with our Board of Directors. These provisions could have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of us. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Control Share Acquisitions

The Maryland General Corporation Law under the Control Share Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the affirmative vote of holders of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third,
- one-third or more but less than a majority, or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the Board of Directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will notify the Division of Investment Management at the SEC prior to amending our bylaws to be subject to the Control Share Act and will make such amendment only if the Board of Directors determines that it would be in our best interests.

Business Combinations

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity

securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's shares; or
an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation. A person is not an interested stockholder under this statute if the Board of Directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the Board of

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Directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the Board of Directors.

After the five-year prohibition, any such business combination must be recommended by the Board of Directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute provides various exemptions from its provisions, including for business combinations that are exempted by the Board of Directors before the time that the interested stockholder becomes an interested stockholder. Our Board of Directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the Board of Directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflicts with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

Classified Board of Directors

Our Board of Directors is divided into three classes of directors serving staggered three-year terms. The current terms of the first, second and third classes will expire at the annual meeting of stockholders held in 2014, 2015 and 2013 respectively, and in each case, until their successors are duly elected and qualify. Each year one class of directors will be elected to the Board of Directors by the stockholders to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of our management and policies.

Election of Directors

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Under the charter, our Board of Directors may amend the bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the Board of Directors in accordance with our bylaws. Our bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than three nor more than eight. Our charter provides that, at such time as we are eligible to make the election provided for under Section 3-802(b) of the Maryland General Corporation Law, we elect to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. Accordingly, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy

occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act. Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

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Action by Stockholders

The Maryland General Corporation Law provides that stockholder action can be taken only at an annual or special meeting of stockholders or (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not) by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of the Board of Directors or (3) by a stockholder who was a stockholder of record both at the time of provision of notice and at the annual meeting, who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting.

Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) by or at the direction of the Board of Directors or (2) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who was a stockholder of record both at the time of provision of notice and at the special meeting, who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board of Directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board of Directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meetings of Stockholders

Our bylaws provide that special meetings of stockholders may be called by our Board of Directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter.

Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The "continuing directors" are defined in our charter as our current directors

as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the Board of Directors. Our charter and bylaws provide that the Board of Directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

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No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Control Share Act discussed above, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

DESCRIPTION OF OUR PREFERRED STOCK

In addition to shares of common stock, our charter authorizes the issuance of preferred stock. If we offer preferred stock under this prospectus, we will issue an appropriate prospectus supplement. We may issue preferred stock from time to time in one or more series, without stockholder approval. Our Board of Directors is authorized to fix for any series of preferred stock the number of shares of such series and the designation, relative powers, preferences and rights, and the qualifications, limitations or restrictions of such series; except that, such an issuance must adhere to the requirements of the 1940 Act, Maryland law and any other limitations imposed by law.

The 1940 Act requires, among other things, that (1) immediately after issuance and before any distribution is made with respect to common stock, the liquidation preference of the preferred stock, together with all other senior securities, must not exceed an amount equal to 50% of our total assets (taking into account such distribution) and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on the preferred stock are in arrears by two years or more. For any series of preferred stock that we may issue, our Board of Directors will determine and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, the cumulative nature of such dividends and whether such dividends have any participating feature;
- any provisions relating to convertibility or exchangeability of the shares of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on our ability to issue additional shares of such series or other securities;
- if applicable, a discussion of certain U.S. Federal income tax considerations; and
- any other relative power, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our Board of Directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which cumulative dividends thereon will be cumulative.

DESCRIPTION OF OUR DEBT SECURITIES

We currently have the Notes outstanding. However, we may issue additional debt securities in one or more series in the future which, if publicly offered, will be under an indenture to be entered into between us and a trustee. The specific terms of each series of debt securities we publicly offer will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series. The description below is a summary with respect to future debt securities we may issue and not a summary of the Notes. Please see "Business—General—Notes" for a description of the Notes.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an "indenture." On March 9, 2012, we entered into an Agreement of Resignation, Appointment and Acceptance (the "Agreement") with American Stock Transfer & Trust Company, LLC (the

"Retiring Trustee") and U.S. Bank National Association (the "trustee"). Under the Agreement, we formally accepted the resignation of the Retiring Trustee and appointed the trustee under the Indenture, dated as of February 16, 2012 (the "indenture"), by and between us and the Retiring Trustee, as supplemented by the First Supplemental Indenture, dated as of March 1, 2012, by and between us and the Retiring

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Trustee, as further supplemented by the Second Supplemental Indenture, dated as of March 8, 2012, by and between us and the Retiring Trustee, and as further supplemented by the Joinder Supplemental Indenture, dated as of March 8, 2012, by and among us, the Retiring Trustee and the trustee. We accepted the resignation of the Retiring Trustee and appointed the trustee in order to take advantage of a more efficient money market based system of settling issuances of notes issued pursuant to the indenture not available through the Retiring Trustee. The indenture is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under "Events of Default—Remedies if an Event of Default Occurs." Second, the trustee performs certain administrative duties for us.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. Some of the definitions are repeated in this prospectus, but for the rest you will need to read the indenture. We have filed the form of the indenture with the SEC. See "Available Information" for information on how to obtain a copy of the indenture.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities;
- the denominations in which the offered debt securities will be issued;
- the provision for any sinking fund;
- any restrictive covenants;
- any events of default;
- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- any special federal income tax implications, including, if applicable, federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination;
- the listing, if any, on a securities exchange; and
- any other terms.

The debt securities may be secured or unsecured obligations. Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue debt only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200%

after each issuance of debt. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

General

The indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement ("offered debt securities") and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities ("underlying debt securities"), may be issued under the indenture in one or more series.

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For purposes of this prospectus, any reference to the payment of principal of or premium or interest, if any, on debt securities will include additional amounts if required by the terms of the debt securities.

The indenture limits the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the "indenture securities." The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See "Resignation of Trustee" below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term "indenture securities" means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt. We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

Conversion and Exchange

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

Issuance of Securities in Registered Form

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in "certificated" form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will usually issue debt securities in book-entry only form represented by global securities.

We also will have the option of issuing debt securities in non-registered form as bearer securities if we issue the securities outside the United States to non-U.S. persons. In that case, the prospectus supplement will set forth the mechanics for holding the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities for registered securities of the same series, and for receiving notices. The prospectus supplement will also describe the requirements with respect to our maintenance of offices or agencies outside the United States and the applicable U.S. federal tax law requirements.

Book-Entry Holders

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depository that will hold them on behalf of financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depository or its nominee. These institutions may hold these interests on behalf of themselves or customers. Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depository as the holder of the debt securities and we will make all payments on the debt securities to the depository. The depository will then pass along the payments it receives to its participants, which in turn will pass the payments along to their

customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

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As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary's book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

Street Name Holders

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in "street name." Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor would hold a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

Legal Holders

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

- how it handles securities payments and notices,
- whether it imposes fees or charges,
- how it would handle a request for the holders' consent, if ever required,
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities,
- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests, and
- if the debt securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

Global Securities

As noted above, we usually will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository

Trust Company, New York, New York, known as DTC, will be the depository for all debt securities issued in book-entry form.

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A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under "Special Situations when a Global Security Will Be Terminated". As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that has an account with the depositary. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

An investor cannot cause the debt securities to be registered in his or her name, and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below.

An investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under "Issuance of Securities in Registered Form" above.

An investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form.

An investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective.

The depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global security. We and the trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way.

If we redeem less than all the debt securities of a particular series being redeemed, DTC's practice is to determine by lot the amount to be redeemed from each of its participants holding that series.

- An investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC's records, to the applicable trustee.
- DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds. Your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security.

Financial institutions that participate in the depositary's book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations when a Global Security will be Terminated

In a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of legal holders and street name investors under "Issuance of Securities in Registered Form" above.

The special situations for termination of a global security are as follows:

- if the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary for that global security, and we do not appoint another institution to act as depositary within 60 days, if we notify the trustee that we wish to terminate that global security, or if an event of default has occurred with regard to the debt securities represented by that global security and has not been cured or waived; we discuss defaults later under "Events of Default."

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The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated, only the depositary, and not we or the applicable trustee, is responsible for deciding the names of the institutions in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

Payment and Paying Agents

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the "record date." Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called "accrued interest."

Payments on Global Securities

We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depositary and its participants, as described under "—Special Considerations for Global Securities."

Payments on Certificated Securities

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, NY and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Payment When Offices Are Closed

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

Events of Default

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following:

- We do not pay the principal of, or any premium on, a debt security of the series on its due date.
- We do not pay interest on a debt security of the series within 30 days of its due date.
- We do not deposit any sinking fund payment in respect of debt securities of the series on its due date.

We remain in breach of a covenant in respect of debt securities of the series for 90 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series.

• We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur.

• Any other Event of Default in respect of debt securities of the series described in the prospectus supplement occurs.

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An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series under certain circumstances.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an "indemnity"). (Section 315 of the Trust Indenture Act of 1939) If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

• You must give your trustee written notice that an Event of Default has occurred and remains uncured.

The holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action.

• The trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity.

• The holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than:

- the payment of principal, any premium or interest or

in respect of a covenant that cannot be modified or amended without the consent of each holder.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities or else specifying any default.

Merger or Consolidation

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

• Where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities.

The merger or sale of assets must not cause a default on the debt securities and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under "Events of Default" above. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us a notice of default or our default having to exist for a specific period of time were disregarded.

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Under the indenture, no merger or sale of assets may be made if as a result any of our property or assets or any property or assets of one of our subsidiaries, if any, would become subject to any mortgage, lien or other encumbrance unless either (i) the mortgage, lien or other encumbrance could be created pursuant to the limitation on liens covenant

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in the indenture (see "Indenture Provisions—Limitation on Liens" below) without equally and ratably securing the indenture securities or (ii) the indenture securities are secured equally and ratably with or prior to the debt secured by the mortgage, lien or other encumbrance.

• We must deliver certain certificates and documents to the trustee.

• We must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

Modification or Waiver

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

Changes Requiring Your Approval

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

• change the stated maturity of the principal of, or interest on, a debt security;

• reduce any amounts due on a debt security;

• reduce the amount of principal payable upon acceleration of the maturity of a security following a default;

• adversely affect any right of repayment at the holder's option;

• change the place (except as otherwise described in the prospectus or prospectus supplement) or currency of payment on a debt security;

• impair your right to sue for payment;

• adversely affect any right to convert or exchange a debt security in accordance with its terms;

• modify the subordination provisions in the indenture in a manner that is adverse to holders of the debt securities;

• reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;

• reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;

• modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and

• change any obligation we have to pay additional amounts.

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

Changes Requiring Majority Approval

Any other change to the indenture and the debt securities would require the following approval:

• If the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series.

If the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture.

However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under "—Changes Requiring Your Approval."

Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

• For original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default.

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• For debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement.

• For debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "Defeasance—Full Defeasance."

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

Defeasance

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

Covenant Defeasance

Under current United States federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called "covenant defeasance." In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. In order to achieve covenant defeasance, we must do the following:

If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

We must deliver to the trustee a legal opinion of our counsel confirming that, under current United States federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with.

Full Defeasance

If there is a change in United States federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

We must deliver to the trustee a legal opinion confirming that there has been a change in current United States federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

• Under current United States federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with.

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Form, Exchange and Transfer of Certificated Registered Securities

If registered debt securities cease to be issued in book-entry form, they will be issued:

- only in fully registered certificated form,
- without interest coupons, and
- unless we indicate otherwise in the prospectus supplement, in denominations of \$1,000 and amounts that are multiples of \$1,000.

Holders may exchange their certificated securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities at the office of their trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in book-entry form, only the depositary will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

Resignation of Trustee

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

Indenture Provisions—Subordination

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment or distribution of our assets by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all Senior Indebtedness is paid in full, the payment or distribution must be paid over, upon written notice to the Trustee, to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

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Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on: our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities, and

renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness outstanding as of a recent date.

The Trustee under the Indenture

U.S. Bank National Association will serve as trustee under the indenture.

Certain Considerations Relating to Foreign Currencies

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

General

We may issue subscription rights to the holders of the class of securities to whom the subscription rights are being distributed, or the Holders to purchase our Securities. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to the Holders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to the Holders on the record date that we set for receiving subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the period of time the offering would remain open (which shall be open a minimum number of days such that all record holders would be eligible to participate in the offering and shall not be open longer than 120 days);
- the title of such subscription rights;
- the exercise price for such subscription rights (or method of calculation thereof);
- the ratio of the offering;
- the number of such subscription rights issued to each Holder;
- the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;
- if applicable, a discussion of certain U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights shall commence, and the date on which such right shall expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;
- any termination right we may have in connection with such subscription rights offering; and
- any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

Exercise of Subscription Rights

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of our Securities at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After

the close of business on the expiration date, all unexercised subscription rights would become void.

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Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement we will forward, as soon as practicable, the Securities purchasable upon such exercise. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

DESCRIPTION OF OUR WARRANTS

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities from time to time. Such warrants may be issued independently or together with one of our Securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title of such warrants;
- the aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- the number of shares of common stock, preferred stock or debt securities issuable upon exercise of such warrants;
- the price at which and the currency or currencies, including composite currencies, in which the shares of common stock, preferred stock or debt securities purchasable upon exercise of such warrants may be purchased;
- the date on which the right to exercise such warrants will commence and the date on which such right will expire;
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;
- if applicable, the number of such warrants issued with each share of common stock, preferred stock or debt securities;
- if applicable, the date on and after which such warrants and the related shares of common stock, preferred stock or debt securities will be separately transferable;
- information with respect to book-entry procedures, if any;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Under the 1940 Act, we may generally only offer warrants provided that (1) the warrants expire by their terms within ten years; (2) the exercise or conversion price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such warrants, and our Board of Directors approves such issuance on the basis that the issuance is in our best interests and the best interest of our stockholders; and (4) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants at the time of issuance may not exceed 25% of our outstanding voting securities.

DESCRIPTION OF OUR UNITS

A unit is a separate security consisting of two or more other securities that either may or must be traded or transferred together as a single security. The following is a general description of the terms of the units we may issue from time to time. Particular terms of any units we offer will be described in the prospectus supplement relating to such units. For a

complete description of the terms of particular units, you should read both this prospectus and the prospectus supplement relating to those particular units.

We may issue units comprised of one or more of the other securities described in this prospectus in any combination. Each unit may also include contracts for purchase of any such security or debt obligations of third parties, such as U.S. Treasury

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securities, such that the holder holds each component. Thus, the holder of a unit will have the rights and obligations of a holder of each included security.

A prospectus supplement will describe the particular terms of any series of units we may issue, including the following:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances the securities comprising the units may be held or transferred separately;
- a description of the terms of any unit agreement governing the units;
- a description of the provisions for the payment, settlement, transfer or exchange of the units; and
- whether the units will be issued in fully registered or global form.

REGULATION

We are a closed-end, non-diversified investment company that has filed an election to be treated as a business development company under the 1940 Act and has elected to be treated as a RIC under Subchapter M of the Code. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly-traded securities of our portfolio companies, except that we may enter into hedging transactions to manage the risks associated with interest rate and other market fluctuations. However, in connection with an investment or acquisition financing of a portfolio company, we may purchase or otherwise receive warrants to purchase the common stock of the portfolio company. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, except with respect to money market funds we generally cannot acquire more than 3% of the voting stock of any registered investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments subject our stockholders indirectly to additional expenses. None of these policies are fundamental and may be changed without stockholder approval.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our business are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An "eligible portfolio company" is defined in the 1940 Act and rules adopted pursuant thereto as any issuer which:
 - (a) is organized under the laws of, and has its principal place of business in, the United States;
 - (b) is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for exclusions under the 1940 Act for certain financial companies such as banks, brokers, commercial finance companies, mortgage companies and insurance companies; and

(c) satisfies any of the following:

1. does not have any class of securities with respect to which a broker or dealer may extend margin credit;

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2. is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company;
 3. is a small and solvent company having total assets of not more than \$4 million and capital and surplus of not less than \$2 million;
 4. does not have any class of securities listed on a national securities exchange; or
 5. has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million.
- (2) Securities in companies that were eligible portfolio companies when we made our initial investment if certain other requirements are satisfied.
 - (3) Securities of any eligible portfolio company which we control.
 - (4) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing agreements.
 - (5) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
 - (6) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
 - (7) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2), (3) or (4) above.

Managerial Assistance to Portfolio Companies

In order to count portfolio securities as qualifying assets for the purpose of the 70% test, a business development company must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, exercising control, either on its own or together with others, over a portfolio company or any arrangement whereby the business development company, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

Temporary Investments

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, including money market funds, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in money market funds, U.S. treasury bills or in repurchase agreements that are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests in order to qualify as a RIC for U.S. Federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our Investment Adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

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Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and classes of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. The 1940 Act allows BDCs to issue multiple series of the same class of preferred stock and to issue multiple classes in connection with certain refundings or reorganizations. In addition, while any preferred stock or public debt securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios after giving effect to such distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Risk Factors."

Code of Ethics

We, Prospect Capital Management and Prospect Administration have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. For information on how to obtain a copy of each code of ethics, see "Available Information."

Investment Concentration

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. While we are broadening the portfolio, many of our existing investments are in the energy and energy related industries.

Compliance Policies and Procedures

We and our Investment Adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the U.S. Federal securities laws, and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation, and to designate a Chief Compliance Officer to be responsible for administering the policies and procedures. Brian H. Oswald serves as our Chief Compliance Officer.

Proxy Voting Policies and Procedures

We have delegated our proxy voting responsibility to Prospect Capital Management. The Proxy Voting Policies and Procedures of Prospect Capital Management are set forth below. The guidelines are reviewed periodically by Prospect Capital Management and our independent directors, and, accordingly, are subject to change.

Introduction. As an investment adviser registered under the Advisers Act, Prospect Capital Management has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, Prospect Capital Management recognizes that it must vote client securities in a timely manner free of conflicts of interest and in the best interests of its clients.

These policies and procedures for voting proxies for Prospect Capital Management's Investment Advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy policies. These policies are designed to be responsive to the wide range of subjects that may be the subject of a proxy vote. These policies are not exhaustive due to the variety of proxy voting issues that Prospect Capital Management may be required to consider. In general, Prospect Capital Management will vote proxies in accordance with these guidelines unless: (1) Prospect Capital Management has determined to consider the matter on a case-by-case basis (as is stated in these guidelines), (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) Prospect Capital Management might find it necessary to vote contrary to its general guidelines to maximize stockholder value and vote in its clients' best interests. In such cases, a decision on how to vote will be made by the Proxy Voting Committee (as described below). In reviewing proxy issues, Prospect Capital Management will apply the following general policies:

Elections of directors. In general, Prospect Capital Management will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on the Board of Directors or Prospect Capital Management determines that there are other compelling reasons for withholding votes for directors, the Proxy Voting Committee will determine the appropriate vote on the matter. Prospect Capital Management believes that directors have a duty to

respond to stockholder actions that have received significant stockholder support. Prospect Capital Management may withhold votes for directors that fail to act on key issues such as failure to implement proposals to declassify boards, failure to implement a majority vote requirement, failure to submit a rights plan to a stockholder vote and failure to act on tender offers where a majority of

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stockholders have tendered their shares. Finally, Prospect Capital Management may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

Appointment of auditors. Prospect Capital Management believes that the Company remains in the best position to choose the auditors and will generally support management's recommendation.

Changes in capital structure. Changes in a company's charter, articles of incorporation or by-laws may be required by state or U.S. Federal regulation. In general, Prospect Capital Management will cast its votes in accordance with the Company's management on such proposal. However, the Proxy Voting Committee will review and analyze on a case-by-case basis any proposals regarding changes in corporate structure that are not required by state or U.S. Federal regulation.

Corporate restructurings, mergers and acquisitions. Prospect Capital Management believes proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, the Proxy Voting Committee will analyze such proposals on a case-by-case basis.

Proposals affecting the rights of stockholders. Prospect Capital Management will generally vote in favor of proposals that give stockholders a greater voice in the affairs of the Company and oppose any measure that seeks to limit those rights. However, when analyzing such proposals, Prospect Capital Management will weigh the financial impact of the proposal against the impairment of the rights of stockholders.

Corporate governance. Prospect Capital Management recognizes the importance of good corporate governance in ensuring that management and the Board of Directors fulfill their obligations to the stockholders. Prospect Capital Management favors proposals promoting transparency and accountability within a company.

Anti-takeover measures. The Proxy Voting Committee will evaluate, on a case-by-case basis, proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

Stock splits. Prospect Capital Management will generally vote with the management of the Company on stock split matters.

Limited liability of directors. Prospect Capital Management will generally vote with management on matters that would affect the limited liability of directors.

Social and corporate responsibility. The Proxy Voting Committee may review and analyze on a case-by-case basis proposals relating to social, political and environmental issues to determine whether they will have a financial impact on stockholder value. Prospect Capital Management may abstain from voting on social proposals that do not have a readily determinable financial impact on stockholder value.

Proxy voting procedures. Prospect Capital Management will generally vote proxies in accordance with these guidelines. In circumstances in which (1) Prospect Capital Management has determined to consider the matter on a case-by-case basis (as is stated in these guidelines), (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) Prospect Capital Management might find it necessary to vote contrary to its general guidelines to maximize stockholder value and vote in its clients' best interests, the Proxy Voting Committee will vote the proxy.

Proxy voting committee. Prospect Capital Management has formed a proxy voting committee to establish general proxy policies and consider specific proxy voting matters as necessary. In addition, members of the committee may contact the management of the Company and interested stockholder groups as necessary to discuss proxy issues. Members of the committee will include relevant senior personnel. The committee may also evaluate proxies where we face a potential conflict of interest (as discussed below). Finally, the committee monitors adherence to guidelines, and reviews the policies contained in this statement from time to time.

Conflicts of interest. Prospect Capital Management recognizes that there may be a potential conflict of interest when it votes a proxy solicited by an issuer that is its advisory client or a client or customer of one of our affiliates or with whom it has another business or personal relationship that may affect how it votes on the issuer's proxy. Prospect Capital Management believes that adherence to these policies and procedures ensures that proxies are voted with only its clients' best interests in mind. To ensure that its votes are not the product of a conflict of interests, Prospect Capital Management requires that: (i) anyone involved in the decision making process (including members of the Proxy Voting Committee) disclose to the chairman of the Proxy Voting Committee any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees

involved in the decision making process or vote administration are prohibited from revealing how Prospect Capital Management intends to vote on a proposal in order to reduce any attempted influence from interested parties.

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Proxy voting. Each account's custodian will forward all relevant proxy materials to Prospect Capital Management, either electronically or in physical form to the address of record that Prospect Capital Management has provided to the custodian.

Proxy recordkeeping. Prospect Capital Management must retain the following documents pertaining to proxy voting:

• copies of its proxy voting policies and procedures;

• copies of all proxy statements;

• records of all votes cast by Prospect Capital Management;

• copies of all documents created by Prospect Capital Management that were material to making a decision how to vote proxies or that memorializes the basis for that decision; and

• copies of all written client requests for information with regard to how Prospect Capital Management voted proxies on behalf of the client as well as any written responses provided.

All of the above-referenced records will be maintained and preserved for a period of not less than five years from the end of the fiscal year during which the last entry was made. The first two years of records must be maintained at our office.

Proxy voting records. Clients may obtain information about how Prospect Capital Management voted proxies on their behalf by making a written request for proxy voting information to: Compliance Officer, Prospect Capital Management LLC, 10 East 40th Street, 44th Floor, New York, NY 10016.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 imposes a variety of regulatory requirements on publicly-held companies. In addition to our Chief Executive and Chief Financial Officers' required certifications as to the accuracy of our financial reporting, we are also required to disclose the effectiveness of our disclosure controls and procedures as well as report on our assessment of our internal controls over financial reporting, the latter of which must be audited by our independent registered public accounting firm.

The Sarbanes-Oxley Act also requires us to continually review our policies and procedures to ensure that we remain in compliance with all rules promulgated under the Act.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Our Securities are held under a custody agreement by U.S. Bank National Association. The address of the custodian is: 1555 North Rivercenter Drive, MK-WI-5302, Milwaukee, WI 53212, Attention: Mutual Fund Custody Account Administrator, facsimile: (866) 350-1430. American Stock Transfer & Trust Company acts as our transfer agent, dividend paying agent and registrar. The principal business address of American Stock Transfer & Trust Company is 6201 15th Avenue, Brooklyn, NY 11219, telephone number: (718) 921-8200.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. We have not paid any brokerage commissions during the three most recent fiscal years. Subject to policies established by our Board of Directors, Prospect Capital Management is primarily responsible for the execution of the publicly-traded securities portion of our portfolio transactions and the allocation of brokerage commissions.

Prospect Capital Management does not expect to execute transactions through any particular broker or dealer, but seeks to obtain the best net results for the Company, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While Prospect Capital Management generally seeks reasonably competitive trade execution costs, the Company will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, Prospect Capital Management may select a broker based partly upon brokerage or research services provided to it and the Company and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if Prospect Capital Management determines in good faith that such commission is reasonable in relation to the services provided.

PLAN OF DISTRIBUTION

We may sell the Securities pursuant to this prospectus and a prospectus supplement in any of four ways (or in any combination): (a) through underwriters or dealers; (b) directly to a limited number of purchasers or to a single purchaser,

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including existing stockholders in a rights offering; (c) through agents; or (d) directly to our stockholders and others through the issuance of transferable or non-transferable rights to our stockholders. In the case of a rights offering, the applicable prospectus supplement will set forth the number of shares of our common stock or units issuable upon the exercise of each right and the other terms of such rights offering. Any underwriter or agent involved in the offer and sale of the Securities will also be named in the applicable prospectus supplement. The Securities may be sold "at-the-market" to or through a market maker or into an existing trading market for the securities, on an exchange or otherwise. The prospectus supplement will set forth the terms of the offering of such securities, including:

- the name or names of any underwriters or agents and the amounts of Securities underwritten or placed by each of them;

- the offering price of the Securities and the proceeds to us and any discounts, commissions or concessions allowed or reallocated or paid to underwriters or agents; and

- any securities exchanges on which the Securities may be listed.

In addition, we may enter into registration rights agreements or other similar agreements in the future pursuant to which certain of our stockholders may resell our Securities under this prospectus and as described in any related prospectus supplement.

We may use Securities to acquire investments in companies, the terms of which will be further disclosed in a prospectus supplement if such stock is issued in an offering hereunder.

Any offering price and any discounts or concessions allowed or reallocated or paid to underwriters or agents may be changed from time to time.

We may sell our common stock, subscription rights, units, warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain circumstances, including if (i)(1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders' best interests and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at the annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share.

If underwriters are used in the sale of any Securities, Securities acquired by the underwriters for their own account may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Securities may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, any obligations by the underwriters to purchase the Securities will be subject to certain conditions precedent.

In compliance with the guidelines of FINRA, the maximum compensation to the underwriters or dealers in connection with the sale of our Securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the Securities as set forth on the cover page of the supplement to this prospectus. In connection with any rights offering to our stockholders, we may also enter into a standby underwriting arrangement with one or more underwriters pursuant to which the underwriter(s) will purchase our common stock remaining unsubscribed for after the rights offering.

We may sell the Securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the Securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

Agents, dealers and underwriters may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents, dealers and underwriters may be customers of, engage in transactions

with, or perform services for us in the ordinary course of business.

We may enter into derivative transactions with third parties, or sell Securities outside of this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell Securities covered by this prospectus and the applicable prospectus supplement, including in short sale

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transactions. If so, the third party may use Securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment). We or one of our affiliates may loan or pledge Securities to a financial institution or other third party that in turn may sell the securities using this prospectus. Such financial institution or third party may transfer its short position to investors in our Securities or in connection with a simultaneous offering of other Securities offered by this prospectus or otherwise.

Any of our common stock sold pursuant to a prospectus supplement will be listed on The NASDAQ Global Select Market, or another exchange on which our common stock is traded.

In order to comply with the securities laws of certain states, if applicable, the Securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, the Securities may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirements is available and is complied with.

LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP, New York, NY, and Venable LLP as special Maryland counsel.

INDEPENDENT REGISTERED ACCOUNTING FIRM

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

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our Securities offered by this prospectus. The registration statement contains additional information about us and the Securities being registered by this prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2013, are available free of charge by contacting us at 10 East 40th Street, 44th floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090 or by calling 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Prospect Capital Corporation

New York, New York

We have audited the accompanying consolidated statements of assets and liabilities of Prospect Capital Corporation, the "Company", including the consolidated schedule of investments, as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended June 30, 2013, and the financial highlights for each of the five years in the period ended June 30, 2013. These consolidated financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and financial highlights are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. Our procedures include confirmation of securities owned as of June 30, 2013 and 2012 by correspondence with the custodian, trustees and portfolio companies, and alternative procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Prospect Capital Corporation at June 30, 2013 and 2012, the results of its operations, the changes in its net assets, and its cash flows for each of the three years in the period ended June 30, 2013, and the financial highlights for each of the five years in the period ended June 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Prospect Capital Corporation's internal control over financial reporting as of June 30, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 21, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

New York, New York

August 21, 2013, except for Note 16 which is dated October 11, 2013

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CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

	June 30, 2013	June 30, 2012
Assets (Note 4)		
Investments at fair value:		
Control investments (net cost of \$830,151 and \$518,015, respectively)	\$811,634	\$564,489
Affiliate investments (net cost of \$49,189 and \$44,229, respectively)	42,443	46,116
Non-control/Non-affiliate investments (net cost of \$3,376,438 and \$1,537,069, respectively)	3,318,775	1,483,616
Total investments at fair value (net cost of \$4,255,778 and \$2,099,313, respectively, Note 3)	4,172,852	2,094,221
Investments in money market funds	143,262	118,369
Cash	59,974	2,825
Receivables for:		
Interest, net	22,863	14,219
Other	4,397	784
Prepaid expenses	540	421
Deferred financing costs	44,329	24,415
Total Assets	4,448,217	2,255,254
Liabilities		
Credit facility payable (Notes 4 and 8)	124,000	96,000
Senior convertible notes (Notes 5 and 8)	847,500	447,500
Senior unsecured notes (Notes 6 and 8)	347,725	100,000
Prospect Capital InterNotes® (Notes 7 and 8)	363,777	20,638
Due to Broker	43,588	44,533
Dividends payable	27,299	14,180
Due to Prospect Administration (Note 12)	1,366	658
Due to Prospect Capital Management (Note 12)	5,324	7,913
Accrued expenses	2,345	2,925
Interest payable	24,384	6,723
Other liabilities	4,415	2,210
Total Liabilities	1,791,723	743,280
Net Assets	\$2,656,494	\$1,511,974
Components of Net Assets		
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 247,836,965 and 139,633,870 issued and outstanding, respectively) (Note 9)	\$248	\$140
Paid-in capital in excess of par (Note 9)	2,739,864	1,544,801
Undistributed net investment income	77,084	23,667
Accumulated realized losses on investments	(77,776	) (51,542
Unrealized depreciation on investments	(82,926	) (5,092
Net Assets	\$2,656,494	\$1,511,974
Net Asset Value Per Share	\$10.72	\$10.83
See notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Investment Income			
Interest income: (Note 3)			
Control investments	\$ 106,425	\$ 53,408	\$ 21,747
Affiliate investments	6,515	12,155	11,307
Non-control/Non-affiliate investments	234,013	144,592	101,400
CLO Fund securities	88,502	9,381	—
Total interest income	435,455	219,536	134,454
Dividend income:			
Control investments	78,282	63,144	13,569
Affiliate Investments	728	—	—
Non-control/Non-affiliate investments	3,656	1,733	1,507
Money market funds	39	4	16
Total dividend income	82,705	64,881	15,092
Other income: (Note 10)			
Control investments	16,821	25,464	2,829
Affiliate investments	623	108	190
Non-control/Non-affiliate investments	40,732	10,921	16,911
Total other income	58,176	36,493	19,930
Total Investment Income	576,336	320,910	169,476
Operating Expenses			
Investment advisory fees:			
Base management fee (Note 12)	69,800	35,836	22,496
Income incentive fee (Note 12)	81,231	46,671	23,555
Total investment advisory fees	151,031	82,507	46,051
Interest and credit facility expenses	76,341	38,534	17,598
Legal fees	1,918	279	1,062
Valuation services	1,579	1,212	992
Audit, compliance and tax related fees	1,566	1,446	876
Allocation of overhead from Prospect Administration (Note 12)	8,737	6,848	4,979
Insurance expense	356	324	285
Directors' fees	300	273	255
Excise tax	6,500	—	—
Other general and administrative expenses	3,084	2,803	3,157
Total Operating Expenses	251,412	134,226	75,255
Net Investment Income	324,924	186,684	94,221
Net realized (loss) gain on investments (Note 3)	(26,234	) 36,588	16,465
Net change in unrealized (depreciation) appreciation on investments (Note 3)	(77,834	) (32,368	) 7,552
Net Increase in Net Assets Resulting from Operations	\$ 220,856	\$ 190,904	\$ 118,238
Net increase in net assets resulting from operations per share: (Notes 11 and 15)	\$ 1.07	\$ 1.67	\$ 1.38
Weighted average shares of common stock outstanding:	207,069,971	114,394,554	85,978,757
See notes to consolidated financial statements.			

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CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except share data)

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Increase in Net Assets from Operations:			
Net investment income	\$324,924	\$186,684	\$94,221
Net (loss) gain on investments	(26,234	) 36,588	16,465
Net change in unrealized (depreciation) appreciation on investments	(77,834	) (32,368	) 7,552
Net Increase in Net Assets Resulting from Operations	220,856	190,904	118,238
Dividends to Shareholders:			
Distribution of net investment income	(271,507	) (136,875	) (94,326
Distribution of return of capital	—	(4,504	) (11,841
Total Dividends to Shareholders	(271,507	) (141,379	) (106,167
Capital Share Transactions:			
Net proceeds from capital shares sold	1,180,899	338,270	381,316
Less: Offering costs of public share offerings	(1,815	) (708	) (1,388
Reinvestment of dividends	16,087	10,530	10,934
Net Increase in Net Assets Resulting from Capital Share Transactions	1,195,171	348,092	390,862
Total Increase in Net Assets:	1,144,520	397,617	402,933
Net assets at beginning of year	1,511,974	1,114,357	711,424
Net Assets at End of Year	\$2,656,494	\$1,511,974	\$1,114,357
Capital Share Activity:			
Shares sold	101,245,136	30,970,696	37,494,476
Shares issued to acquire controlled investments	5,507,381	—	—
Shares issued through reinvestment of dividends	1,450,578	1,056,484	1,025,352
Net increase in capital share activity	108,203,095	32,027,180	38,519,828
Shares outstanding at beginning of year	139,633,870	107,606,690	69,086,862
Shares Outstanding at End of Year	247,836,965	139,633,870	107,606,690

See notes to consolidated financial statements.

Table of ContentsPROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except share data)

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Cash Flows from Operating Activities:			
Net increase in net assets resulting from operations	\$220,856	\$190,904	\$118,238
Net realized loss (gain) on investments	26,234	(36,588)	(16,465)
Net change in unrealized depreciation (appreciation) on investments	77,834	32,368	(7,552)
Amortization of discounts and premiums	(11,016)	(7,284)	(23,035)
Amortization of deferred financing costs	8,232	8,511	5,365
Payment-in-kind interest	(10,947)	(5,647)	(9,634)
Structuring fees	(52,699)	(8,075)	(13,460)
Change in operating assets and liabilities:			
Payments for purchases of investments	(2,980,320)	(901,833)	(930,243)
Proceeds from sale of investments and collection of investment principal	931,534	500,952	285,862
Net (increase) decrease of investments in money market funds	(24,893)	(58,466)	8,968
Increase in interest receivable, net	(8,644)	(4,950)	(3,913)
(Increase) decrease in other receivables	(3,613)	(517)	153
(Increase) decrease in prepaid expenses	(119)	(320)	270
Decrease in other assets	—	—	534
Decrease in due to Broker	(945)	—	—
Increase (decrease) in due to Prospect Administration	708	446	(82)
Increase (decrease) in due to Prospect Capital Management	(2,589)	207	(1,300)
(Decrease) increase in accrued expenses	(580)	1,052	(1,998)
Increase in interest payable	17,661	2,720	3,817
Increase (decrease) in other liabilities	2,205	(1,361)	2,866
Net Cash Used In Operating Activities:	(1,811,101)	(287,881)	(581,609)
Cash Flows from Financing Activities:			
Borrowings under credit facility (Note 4)	223,000	726,800	465,900
Payments under credit facility (Note 4)	(195,000)	(715,000)	(482,000)
Issuance of Senior Convertible Notes (Note 5)	400,000	130,000	322,500
Repurchases under Senior Convertible Notes (Note 5)	—	(5,000)	—
Issuance of Senior Unsecured Notes	247,725	100,000	—
Issuance of Prospect Capital InterNotes® (Note 7)	343,139	20,638	—
Financing costs paid and deferred	(28,146)	(17,651)	(13,061)
Net proceeds from issuance of common stock	1,121,648	177,699	381,316
Offering costs from issuance of common stock	(1,815)	(708)	(1,388)
Dividends paid	(242,301)	(127,564)	(91,247)
Net Cash Provided By Financing Activities:	1,868,250	289,214	582,020
Total Increase in Cash	57,149	1,333	411
Cash balance at beginning of year	2,825	1,492	1,081
Cash Balance at End of Year	\$59,974	\$2,825	\$1,492
Cash Paid For Interest	\$45,363	\$24,515	\$6,101
Non-Cash Financing Activity:			
Amount of shares issued in connection with dividend reinvestment plan	\$16,087	\$10,530	\$10,934

Amount of shares issued in conjunction with controlled investments	\$ 59,251	\$ 160,571	\$—
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See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
LEVEL 3 PORTFOLIO INVESTMENTS:							
Control Investments (greater than 25.00% 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)	\$28,750	\$28,750	\$28,750	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)		—	3,478	0.1	%
				51,170	54,648	2.1	%
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note—Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(3)(4)	19,737	19,737	19,737	0.7	%
		Subordinated Unsecured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 3/30/2018)(4)	19,700	19,700	19,700	0.7	%
		Convertible Preferred Stock—Series A (6,142.6 shares)		6,057	—	—	%
		Unrestricted Common Stock (6 shares)		—	—	—	%
				45,494	39,437	1.4	%
APH Property Holdings, LLC(32)	Georgia / Real Estate	Senior Secured Note (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4)	125,892	125,892	125,892	4.8	%
		Common Stock (148,951 shares)		26,648	26,648	1.0	%
				152,540	152,540	5.8	%
AWCNC, LLC(19)	North Carolina / Machinery	Members Units—Class A (1,800,000 units)		—	—	—	%
		Members Units—Class B-1 (1 unit)		—	—	—	%
		Members Units—Class B-2 (7,999,999 units)		—	—	—	%
				—	—	—	%
Borga, Inc.	California / Manufacturing	Revolving Line of Credit—\$1,150,150 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual		1,095	586	—	%

status effective 03/02/2010, past due)(4)(25)					
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)	1,611	1,501	—	—	%
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)	9,738	706	—	—	%
Common Stock (100 shares)(21)		—	—	—	%
Warrants (33,750 warrants)(21)		—	—	—	%
		3,302	586	—	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
CCPI Holdings, Inc.(33)	Ohio / Manufacturing	Senior Secured Note (10.00%, due 12/31/2017)(3)	\$17,663	\$17,663	\$17,663	0.7	%
		Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018)	7,659	7,659	7,659	0.3	%
		Common Stock (100 shares)		8,581	7,977	0.3	%
		Net Revenue Interest (4% of Net Revenue)		—	604	—	%
			33,903	33,903	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 12/31/2022)(4) (25)	38,082	38,082	38,082	1.4	%
		Common Stock (100 shares)		9,581	8,361	0.3	%
		Net Revenue Interest (5% of Net Revenue)		—	4,019	0.2	%
				47,663	50,462	1.9	%
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	Junior Secured Note (18.00%, due 12/12/2016)	8,500	8,500	8,500	0.3	%
		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, past due)(4)	13,906	12,503	8,449	0.3	%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449	—	—	%
		Escrow Receivable		—	—	—	%
		Common Stock (100 shares)		8,318	6,247	0.2	%
			34,270	26,696	0.9	%	
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	10.0	%
				43,193	20,447	0.8	%

		Common Stock (83,729,323 shares)					
		Net Revenue Interest (5% of Net Revenue & Distributions)	—	12,877	0.5	%	
			307,953	298,084	11.3	%	
Manx Energy, Inc. ("Manx")(12)	Kansas / Oil & Gas Production	Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)	500	500	346	—	%
		Preferred Stock (6,635 shares)	—	—	—	—	%
		Common Stock (17,082 shares)	—	—	—	—	%
			500	346	—	—	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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	2,142	0.1	%
		Net Revenue Interest (5% of Net Revenue)		—	1,701	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	13,149	0.5	%
		Senior Subordinated Term Loan (15.00%, due 5/6/2016)	2,800	2,800	—	—	%
		Series A Preferred Stock (4,400 shares)		4,400	—	—	%
				23,200	13,149	0.5	%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(4)	32,750	32,750	32,750	1.2	%
		Warrants (200,000 warrants, expiring 6/30/2017)		1,682	6,796	0.3	%
		Common Stock (545,107 shares)		5,087	18,522	0.7	%
				39,519	58,068	2.2	%
The Healing Staff, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,686	—	—	%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170	—	—	%
		Common Stock (1,000 shares)		975	—	—	%
				3,831	—	—	%
Valley Electric Holdings I, Inc.	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)	34,063	34,063	34,063	1.3	%
		Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)	10,026	10,026	10,026	0.4	%
		Common Stock (50,000 shares)		9,526	8,288	0.3	%
				—	1,238	0.1	%

Net Revenue Interest (5% of Net
Revenue)

53,615 53,615 2.1 %

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
Wolf Energy Holdings, Inc.(12)(37)	Kansas / Oil & Gas Production	Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)	\$22,000	\$—	\$3,832	0.1	%
		Appalachian Energy Holdings, LLC ("AEH")—Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, past due)	2,642	2,000	546	—	%
		Appalachian Energy Holdings, LLC ("AEH")—Senior Secured First Lien Note (8.00%, in non-accrual status, past due)	51	50	51	—	%
		Coalbed, LLC—Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	7,930	5,990	—	—	%
		Common Stock (100 shares)		—	—	—	%
		Net Profits Interest (8.00% payable on Equity distributions)(7)		—	520	—	%
		Total Control Investments			8,040	4,949	0.1
Affiliate Investments (5.00% to 24.99% voting control)			830,151	811,634	30.6	%	
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)(3)(4)	29,550	29,550	29,550	1.1	%
		Preferred Stock Series A (9,925.455 shares)(13)		2,300	2,832	0.1	%
		Preferred Stock Series B (1,753.64 shares)(13)		579	533	—	%
				32,429	32,915	1.2	%
Boxercraft Incorporated(20)	Georgia / Textiles & Leather	Senior Secured Term Loan A (10.00% plus 1.00% PIK, due 9/15/2015)	1,712	1,702	1,712	0.1	%
		Senior Secured Term Loan B (10.00% plus 1.00% PIK, due 9/15/2015)	4,892	4,809	4,892	0.2	%
		Senior Secured Term Loan C (10.00% plus 1.00% PIK, due	2,371	2,371	2,371	0.1	%

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		9/15/2015)					
		Senior Secured Term Loan					
		(10.00% plus 1.00% PIK, due	8,325	7,878	410	—	%
		9/15/2015)					
		Preferred Stock (1,000,000					
		shares)		—	—	—	%
		Common Stock (10,000 shares)		—	—	—	%
		Warrants (1 warrant, expiring		—	—	—	%
		8/31/2022)					
				16,760	9,385	0.4	%
Smart, LLC(14)	New York /						
	Diversified /						
	Conglomerate	Membership Interest		—	143	—	%
	Service						
				—	143	—	%
		Total Affiliate Investments	49,189	42,443	1.6	%	

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
Non-control/Non-affiliate Investments (less than 5.00% of voting control)							
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 335	—	%
				141	335	—	%
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	6,900	7,000	0.3	%
				6,900	7,000	0.3	%
Aircraft Fasteners International, LLC	California / Machinery	Convertible Preferred Stock (32,500 units)		396	565	—	%
				396	565	—	%
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	12,000	0.4	%
				11,764	12,000	0.4	%
American Gilsonite Company	Utah / Specialty Minerals	Second Lien Term Loan (11.50%, due 9/1/2017) Membership Interest in AGC/PEP, LLC (99.9999%)(15)	38,500	38,500	38,500	1.4	%
				—	4,058	0.2	%
				38,500	42,558	1.6	%
Apidos CLO VIII, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	19,730	19,931	19,718	0.7	%
				19,931	19,718	0.7	%
Apidos CLO IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	20,525	19,609	19,294	0.7	%
				19,609	19,294	0.7	%
Apidos CLO XI, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	38,340	39,239	37,972	1.4	%
				39,239	37,972	1.4	%
Apidos CLO XII, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	44,063	43,480	40,294	1.5	%
				43,480	40,294	1.5	%

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Arctic Glacier U.S.A, Inc.(4)	Canada / Food Products	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 11/10/2019)	150,000	150,000	150,000	5.6	%
				150,000	150,000	5.6	%
Armor Holding II LLC(4)	New York / Diversified Financial Services	Second Lien Term Loan (9.25% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/26/2020)	7,000	6,860	7,000	0.3	%
				6,860	7,000	0.3	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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)	\$2,000	\$2,000	\$2,000	0.1	%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)	39,352	39,352	39,352	1.5	%
				41,352	41,352	1.6	%
Babson CLO Ltd 2011-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,000	34,499	34,450	1.3	%
				34,499	34,450	1.3	%
Babson CLO Ltd 2012-IA(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	29,075	25,917	27,269	1.0	%
				25,917	27,269	1.0	%
Babson CLO Ltd 2012-IIA(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	27,850	28,863	27,510	1.0	%
				28,863	27,510	1.0	%
Blue Coat Systems, Inc.	Massachusetts / Software & Computer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(4)	11,000	10,890	11,000	0.4	%
				10,890	11,000	0.4	%
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)(3)(4)	99,500	99,500	99,323	3.7	%
				99,500	99,323	3.7	%
Brookside Mill CLO Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	26,000	23,896	23,743	0.9	%
				23,896	23,743	0.9	%
Byrider Systems Acquisition Corp(22)	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)	10,914	10,914	10,417	0.4	%

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			10,914	10,417	0.4	%
Caleel + Hayden, LLC(14)(31)	Colorado / Personal & Nondurable Consumer Products	Membership Units (13,220 shares)	—	104	—	%
		Escrow Receivable	—	137	—	%
			—	241	—	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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)(3)	\$97,291	\$97,291	\$97,291	3.7	%
		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	3.8	%
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)	43,977	43,977	44,417	1.7	%
		Common Equity (1.6 units)		1,639	1,860	0.1	%
				45,616	46,277	1.8	%
Cent 17 CLO Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	24,870	24,615	25,454	1.0	%
				24,615	25,454	1.0	%
CI Holdings(4)	Texas / Software & Computer Services	Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 6/11/2019)	114,713	114,713	114,713	4.3	%
				114,713	114,713	4.3	%
CIFC Funding 2011-I, Ltd.(4)(22)	Cayman Islands / Diversified Financial Services	Secured Class D Notes (5.32% (LIBOR + 5.00%), due 1/19/2023)	19,000	15,029	15,844	0.6	%
		Unsecured Class E Notes (7.32% (LIBOR + 7.00%), due 1/19/2023)	15,400	12,638	12,745	0.5	%
				27,667	28,589	1.1	%
Cinedigm DC Holdings, LLC(4)	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)	70,595	70,595	70,595	2.7	%
				70,595	70,595	2.7	%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable	27,100	—	130	—	%
				—	130	—	%
				27,100	27,100	27,100	1.0

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Correctional Healthcare Holding Company, Inc.	Colorado / Healthcare	Second Lien Term Loan (11.25%, due 1/11/2020)(3)		27,100	27,100	1.0	%
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4)	39,303	39,303	39,303	1.5	%
				39,303	39,303	1.5	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
CP Well Testing, LLC	Oklahoma / Oil & Gas Products	Senior Secured Term Loan (13.50% (LIBOR + 11.00% with 2.50% LIBOR floor), due 10/03/2017)(4)	\$ 19,125	\$ 19,125	\$ 19,125	0.7	%
				19,125	19,125	0.7	%
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)	71,106	71,106	71,106	2.7	%
				71,106	71,106	2.7	%
Delttek, 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	11,833	12,000	0.5	%
				11,833	12,000	0.5	%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15.00% payable on Equity distributions)(7)					%
							%
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	48,218	50,000	1.9	%
				48,218	50,000	1.9	%
EIG Investors Corp	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 5/09/2020)(4)(16)	22,000	21,792	22,000	0.8	%
				21,792	22,000	0.8	%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)	15,700	15,332	14,650	0.6	%
				15,332	14,650	0.6	%
EXL Acquisition Corp	South Carolina / Biotechnology	Escrow Receivable			14		%
					14		%
Evanta Ventures, Inc.(11)	Oregon / Commercial Services	Subordinated Unsecured (12.00% plus 1.00% PIK, due 9/28/2018)	10,479	10,479	10,479	0.4	%
				10,479	10,479	0.4	%
Fairchild Industrial Products, Co.	North Carolina / Electronics	Escrow Receivable			149		%

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				—	149	—	%
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable		—	225	—	%
				—	225	—	%
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	17,731	18,000	0.7	%
				17,731	18,000	0.7	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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)	\$21,401	\$21,401	\$21,401	0.8	%
		Common Stock (5,638 shares)		27	19	—	%
				21,428	21,420	0.8	%
Galaxy XII CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	20,792	21,657	0.8	%
				20,792	21,657	0.8	%
Galaxy XV CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,025	32,119	30,227	1.1	%
				32,119	30,227	1.1	%
Grocery Outlet, Inc.	California / Retail	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)	14,457	14,127	14,457	0.5	%
				14,127	14,457	0.5	%
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)(3)(4)	41,213	41,213	31,972	1.2	%
				41,213	31,972	1.2	%
Halcyon Loan Advisors Funding 2012-I, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	23,188	22,279	22,724	0.9	%
				22,279	22,724	0.9	%
Halcyon Loan Advisors Funding 2013-I, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	40,400	41,085	38,291	1.4	%
				41,085	38,291	1.4	%
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	19,831	19,598	0.7	%
		Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)	1,000	991	955	—	%

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				20,822	20,553	0.7	%
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016)(3)	43,100	43,310	33,929	1.3	%
				43,310	33,929	1.3	%
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)	12,500	12,300	12,500	0.5	%
				12,300	12,500	0.5	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
ING IM CLO 2012-II, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	\$38,070	\$34,904	\$36,848	1.4	%
				34,904	36,848	1.4	%
ING IM CLO 2012-III, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	46,632	44,454	46,361	1.7	%
				44,454	46,361	1.7	%
ING IM CLO 2012-IV, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	40,613	39,255	41,153	1.5	%
				39,255	41,153	1.5	%
Injured Workers Pharmacy LLC	Massachusetts / Healthcare	Second Lien Debt (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3)(4)	22,430	22,430	22,430	0.8	%
				22,430	22,430	0.8	%
Interdent, Inc.(4)	California / Healthcare	Senior Secured Term Loan A (8.00% (LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017)	53,475	53,475	53,475	2.0	%
		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	2.1	%
			108,475	108,475	4.1	%	
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)	16,119	16,119	16,119	0.6	%
				16,119	16,119	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)	—	—	—	—	%
		Senior Secured Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due	37,031	37,031	37,031	1.4	%

		12/21/2017)(3)					
			37,031	37,031	1.4	%	
LCM XIV	Cayman Islands						
CLO Ltd.(22)	/ Diversified	Subordinated Notes (Residual	26,500	25,838	25,838	1.0	%
	Financial	Interest)					
	Services						
			25,838	25,838	1.0	%	

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets			
			Principal Value	Cost					
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit—\$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4)(25)(26)	\$—	\$—	\$—	—	%		
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	2,865	2,865	2,865	0.1	%		
		Membership Interest (125 units)		216	245	—	%		
				3,081	3,110	0.1	%		
Madison Park Funding IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	31,110	26,401	26,596	1.0	%		
					26,401	26,596	1.0	%	
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	27,199	1.0	%		
		Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017)	37,959	37,959	37,035	1.4	%		
Maverick Healthcare, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	780	—	%		
					Common Units (1,250,000 units)	—	—	—	%
					1,252	780	—	%	
Mountain View CLO 2013-I Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	43,650	44,235	43,192	1.6	%		
					44,235	43,192	1.6	%	
Medical Security Card Company, LLC(4)	Arizona / Healthcare	Revolving Line of Credit—\$1,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 2/1/2016)(25)	—	—	—	—	%		
		First Lien Term Loan (11.25% (LIBOR + 8.75% with 2.50% LIBOR floor), due 2/1/2016)(3)	13,427	13,427	13,427	0.5	%		
				13,427	13,427	0.5	%		
National Bankruptcy Services, LLC(3)(4)	Texas / Diversified Financial Services	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 1.50% PIK, due 7/17/2017)	18,683	18,683	16,883	0.6	%		

18,683 16,883 0.6 %

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
Naylor, LLC(4)	Florida / Media	Revolving Line of Credit—\$2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25)	\$—	\$—	\$—	—	%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(3)	46,170	46,170	46,170	1.7	%
				46,170	46,170	1.7	%
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)	45,120	45,120	44,166	1.7	%
				45,120	44,166	1.7	%
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)	50,274	50,274	50,274	1.9	%
				50,274	50,274	1.9	%
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	15,509	15,252	14,992	0.6	%
				15,252	14,992	0.6	%
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable			3,618	0.1	%
					3,618	0.1	%
Pegasus Business Intelligence, LP(4)	Texas / Diversified Financial Services	Revolving Line of Credit—\$2,500 Commitment (9.00% (LIBOR + 7.75% with 1.25% LIBOR floor), due 4/18/2014)(25)	—	—	—	—	%
		Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)	15,938	15,938	15,938	0.6	%
		Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018)	15,938	15,938	15,938	0.6	%
Octagon Investment Partners XV, Ltd.(22)	Cayman Islands / Diversified	Income Notes (Residual Interest)	26,901	31,876	25,515	1.2	%

	Financial Services			26,919	25,515	1.0	%
Pelican Products, Inc.(16)	California / Durable Consumer Products	Subordinated Secured (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019)(3)(4)	15,000	14,729	15,000	0.6	%
				14,729	15,000	0.6	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
Pinnacle (US) Acquisition Co Limited(16)	Texas / Software & Computer Services	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)	\$10,000	\$9,815	\$10,000	0.4	%
				9,815	10,000	0.4	%
Pre-Paid Legal Services, Inc.(16)	Oklahoma / Consumer Services	Senior Subordinated Term Loan (11.50% (PRIME + 8.25%), 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	9,888	10,000	0.4	%
				9,888	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)	241,033	241,033	241,033	9.1	%
				241,033	241,033	9.1	%
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	19,719	20,000	0.8	%
				19,719	20,000	0.8	%
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK, due 11/29/2016)	28,364	28,364	28,648	1.1	%
				28,364	28,648	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	2.6	%
				70,000	70,000	2.6	%
Sandow Media, LLC	Florida / Media	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 1.50% PIK, due 5/8/2018)(4)	24,900	24,900	24,900	0.9	%
				24,900	24,900	0.9	%
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	3,249	3,305	0.1	%

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		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	%
				13,254	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	5,914	6,000	0.2	%
				5,914	6,000	0.2	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
Skillsoft Public Limited Company(22)	Ireland / Software & Computer Services	Senior Unsecured (11.125%, due 6/1/2018)	\$ 15,000	\$ 14,927	\$ 15,000	0.6	%
				14,927	15,000	0.6	%
Snacks Holding Corporation	Minnesota / Food Products	Series A Preferred Stock (4,021.45 shares) Series B Preferred Stock (1,866.10 shares) Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)		56	56	—	%
				56	56	—	%
				479	484	—	%
Southern Management Corporation (22)(30)	South Carolina / Consumer Finance	Second Lien Term Loan (12.00% plus 5.00% PIK, due 5/31/2017)	17,565	17,565	18,267	0.7	%
				17,565	18,267	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)	29,625	29,625	29,625	1.1	%
				29,625	29,625	1.1	%
Speedy Group Holdings Corp.	Canada / Consumer Finance	Senior Unsecured (12.00%, due 11/15/2017)(22)	15,000	15,000	15,000	0.6	%
				15,000	15,000	0.6	%
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable		—	389	—	%
				—	389	—	%
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) Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)	16,594	16,594	16,594	0.6	%
				10,238	10,238	10,238	0.4
Stryker Energy, LLC				26,832	26,832	1.0	%
			34,738	32,711	—	—	%

Ohio / Oil & Gas Production	Subordinated Secured Revolving Credit Facility—\$50,300 Commitment (8.50% (LIBOR + 7.00% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4)(25) Overriding Royalty Interests(18)	— 32,711	— —	— —	% %
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
Symphony CLO, IX Ltd.(22)	Cayman Islands / Diversified Financial Services	LP Certificates (Residual Interest)	\$45,500	\$42,289	\$43,980	1.7	%
				42,289	43,980	1.7	%
System One Holdings, LLC(3)(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	1.2	%
				32,000	32,000	1.2	%
TB Corp.(3)	Texas / Consumer Service	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018)	23,361	23,361	23,361	0.9	%
				23,361	23,361	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)	23,520	23,209	23,520	0.9	%
				23,209	23,520	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	7,773	8,000	0.3	%
				7,773	8,000	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	21,690	22,000	0.8	%
				21,690	22,000	0.8	%
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	%
Traeger Pellet Grills LLC(4)	Oregon / Durable Consumer Products	Revolving Line of Credit—\$10,000 Commitment (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 6/18/2014)(25)	6,143	6,143	6,143	0.3	%
				30,000	30,000	1.1	%
		Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)	30,000	30,000	30,000	1.1	%

		Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)	30,000	30,000	30,000	1.1	%
				66,143	66,143	2.5	%
TransFirst Holdings, Inc.(4)	New York / Software & Computer Services	Second Lien Term Loan (11.00%, (LIBOR + 9.75% with 1.25% LIBOR floor), due 6/27/2018)	5,000	4,860	5,000	0.2	%
				4,860	5,000	0.2	%

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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	6.0	%
				160,000	160,000	6.0	%
Wind River Resources Corp. and Wind River II Corp.	Utah / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal, 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4) Net Profits Interest (5.00% payable on Equity distributions)(7)	15,000	14,750	—	—	%
					—	—	%
				14,750	—	—	%
		Total Non-control/Non-affiliate Investments (Level 3 Investments)		3,376,319	3,318,663	124.9	%
		Total Level 3 Portfolio Investments		4,255,659	4,172,740	157.1	%
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	—	—	%
				56	—	—	%
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)		63	112	—	%
				63	112	—	%
		Total Non-control/Non-affiliate Investments (Level 1 Investments)		119	112	—	%
		Total Portfolio Investments		4,255,778	4,172,852	157.1	%
SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)							
		Fidelity Institutional Money Market Funds—Government Portfolio (Class I)		83,456	83,456	3.1	%

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Fidelity Institutional Money Market Funds—Government Portfolio (Class I)(3)	49,804	49,804	1.9	%
Victory Government Money Market Funds	10,002	10,002	0.4	%
Total Money Market Funds	143,262	143,262	5.4	%
Total Investments	\$4,399,040	\$4,316,114	162.5	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
LEVEL 3 PORTFOLIO INVESTMENTS:							
Control Investments (greater than 25.00% 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)		—	—	—	%
				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	—	%
						41,259	52,410	3.4	%
AWCNC, LLC(19)	North Carolina / Machinery	Members Units—Class A (1,800,000 units)		—	—	—	%
		Members Units—Class B-1 (1 unit)		—	—	—	%
		Members Units—Class B-2 (7,999,999 units)		—	—	—	%
				—	—	—	%
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	—	%
		Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in	1,612	1,500	—	—	%

non-accrual status effective 03/02/2010, past due)(4)					
Senior Secured Term Loan C (12.00% plus 4.00% PIK plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)	9,352	707	—	—	%
Common Stock (100 shares)(21)	—	—	—	—	%
Warrants (33,750 warrants)(21)	—	—	—	—	%
		3,152	668	—	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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	—	—	%
		Escrow Receivable	—	—	9,825	0.6	%
		Common Stock (100 shares)	—	—	8,792	4.7	%
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)	—	—	—	—	%
			—	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	—	—	%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)(10)	1,170	1,170	—	—	%
		Senior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status)	300	—	—	—	%

		effective 10/9/2007, past due)						
		Junior Secured Note (7.00% plus						
		7.00% PIK plus 6.00% default	11,520	11,520	—	—	%	
		interest, in non-accrual status						
		effective 10/9/2007, past due)						
		Preferred Stock—Series A (10						
		shares)			—	—	%	
		Common Stock (49 shares)			679	—	%	
					15,949	—	%	
Manx Energy, Inc.	Kansas / Oil &	Senior Secured Note (13.00%, in						
("Manx")(12)	Gas Production	non-accrual status effective	3,550	3,550	—	—	%	
		1/19/2010, due 6/21/2013)						
		Preferred Stock (6,635 shares)			6,307	—	%	
		Common Stock (17,082 shares)			1,170	—	%	
					11,027	—	%	

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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	—	%
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	—	—	%
		Coalbed, LLC—Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)(6)	7,311	5,991	—	—	%
		Common Stock (100 Shares)		—	—	—	%
				7,991	—	—	%
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	—	%
				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	%
			2,277	2,277	2,277	0.2	%

		Senior Secured Term Loan C (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 9/16/2013)(3)(4)					
		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		%
		Common Stock (10,000 shares)					%
			15,123	17,161		1.1	%
Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest			35		%
					35		%
		Total Affiliate Investments	44,229	46,116		3.1	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012				
			Principal Value	Cost	Fair Value(2)	% of Net Assets	
Non-control/Non-affiliate Investments (less than 5.00% of voting control)							
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 240	—	%
				141	240	—	%
Aircraft Fasteners International, LLC	California / Machinery	Convertible Preferred Stock (32,500 units)		396	471	—	%
				396	471	—	%
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	%

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

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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	—	%
					—	315	—
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	%
			—	—	—	—	%

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Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15.00% payable on Equity distributions)(7)		—	—	—	%
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	—	%
				—	144	—	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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 Escrow		—	565	—	%
		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)		—	—	—	%
				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	%

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				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	%

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012				
			Principal Value	Cost	Fair Value(2)	% of Net Assets	
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)	—	—	—	— %	
			4,265	4,125	4,125	0.3 %	
				216	225	— %	
		Membership Interest (125 units)		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	— %
					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)	—	—	—	— %	
			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 %
	Canada / Media		15,000	14,866	15,000	1.0 %	

Mood Media
Corporation(3)(16)(22)

Senior Subordinated Term Loan
(10.25% (LIBOR + 8.75% with
1.50% LIBOR floor), due
11/6/2018)(4)

14,866 15,000 1.0 %

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
National Bankruptcy Services, LLC(3)(4)	Texas / Diversified Financial Services	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 1.50% PIK, due 7/16/2017)	\$18,402	\$18,402	\$18,402	1.2	%
				18,402	18,402	1.2	%
Naylor, LLC(4)	Florida / Media	Revolving Line of Credit—\$2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25)	—	—	—	—	%
New Meatco Provisions, LLC	California / Food Products	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	%
Nixon, Inc.	California / Durable Consumer 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	%
Nobel Learning Communities, Inc.	Pennsylvania / Consumer Services	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	%
Northwestern Management Services, LLC	Florida / Healthcare	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	%
NRG Manufacturing, Inc.	Texas / Manufacturing	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	—	%
NRG Manufacturing, Inc.	Texas / Manufacturing	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	%
NRG Manufacturing, Inc.	Texas / Manufacturing	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)	—	—	—	—	%
		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	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012				% of Net Assets
			Principal Value	Cost	Fair Value(2)		
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)	\$—	\$—	\$—	—	%
		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	%
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.			3,288	3,164	3,288	0.2	%

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)	3,164	3,288	0.2	%
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See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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	%
Shearer's Foods, Inc.	Ohio / Food Products			83,461	83,461	5.5	%
		Junior Secured Debt (12.00% plus 3.75% PIK (3.75% LIBOR floor), due 3/31/2016)(3)(4)	37,639	37,639	37,639	2.5	%
		Membership Interest in Mistral Chip Holdings, LLC—Common (2,000 units)(17)		2,000	2,161	0.1	%
		Membership Interest in Mistral Chip Holdings, LLC 2—Common (595 units)(17)		1,322	643	—	%
		Membership Interest in Mistral Chip Holdings, LLC 3—Preferred (67 units)(17)		673	883	0.1	%
Skillsoft Public Limited Company(22)	Ireland / Software & Computer Services			41,634	41,326	2.7	%
		Senior Unsecured (11.125%, due 6/1/2018)	15,000	14,918	15,000	1.0	%
Snacks Holding Corporation	Minnesota / Food Products			14,918	15,000	1.0	%
		Senior Subordinated Unsecured Term Loan (12.00% plus 1.00% PIK, due 11/12/2017)	15,250	14,754	5,250	1.0	%
		Series A Preferred Stock (4,021.45 shares)		56	42	—	%
		Series B Preferred Stock (1,866.10 shares)		56	42	—	%

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		Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)		479	357	—	%
				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	—	%
				—	406	—	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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	%
				10,500	10,500	10,500	0.7
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)		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	—	—	%
					1,623	0.1	%
		Overriding Royalty Interests(18)		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	%
Totes Isotoner Corporation	Ohio / Nondurable Consumer	Second Lien Term Loan (10.75%, (LIBOR + 9.25% with 1.50% LIBOR floor) due	39,000	39,000	38,531	2.5	%

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	Products	1/8/2018)(3)(4)		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	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012		Fair Value(2)	% of Net Assets	
			Principal Value	Cost			
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)		—	—	—	%
				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	—	—	%
				56	—	—	%
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)		63	129	—	%
				63	129	—	%
		Total Non-control/Non-affiliate Investments (Level 1 Investments)		119	129	—	%
		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	—	%
		Total Money Market Funds		118,369	118,369	7.8	%
		Total Investments		\$ 2,217,682	\$ 2,212,590	146.3	%

See notes to consolidated financial statements.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

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

- The securities in which Prospect Capital Corporation ("we", "us" or "our") has invested were acquired in
- (1) 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. Fair value is determined by or under the direction of our Board of Directors. As of June 30, 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 ("ASC") 820, Fair Value Measurements and Disclosures ("ASC 820"). As of June 30, 2013 and
 - (2) 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. 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
 - (3) our general creditors (See Note 4). The market values of these investments at June 30, 2013 and June 30, 2012 were \$883,114 and \$783,384, respectively; they represent 20.5% and 35.4% of total investments at fair value, respectively. Prospect Capital Funding LLC (See Note 1), our wholly-owned subsidiary, holds an aggregate market value of \$883,114 and \$783,384 of these investments as of June 30, 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 June 30, 2013 and June 30, 2012. Ellett Brothers, LLC., Evans Sports, Inc., Jerry's Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc.
 - (5) 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. 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
 - (6) ("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 June 30, 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. 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
- (8) 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. 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
- (9) 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 June 30, 2013 and continues to provide staffing solutions for health care facilities and security staffing.

(10) Loan is with THS, an affiliate of ICS.

(11) Evanta Ventures, Inc. and Sports Leadership Institute, Inc. are joint borrowers on our investment.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with (12) the formation of Manx Energy, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration.

The assets

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

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. During the quarter ended June 30, 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair market value. The Board of Directors set the fair value of our investment in Manx at \$346 as of June 30, 2013.

(13) On a fully diluted basis, represents 10.00% of voting common shares.

(14) A portion of the positions listed was issued by an affiliate of the portfolio company.

We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares

(15) (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.

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

(17) 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.

On December 31, 2009, we sold our investment in Aylward Enterprises, LLC. AWCNC, LLC is the remaining

(19) 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 June 30, 2013 and June 30, 2012.

(20) We own a warrant to purchase 3,755,000 shares of Series A Preferred Stock, 625,000 shares of Series B Preferred Stock, and 43,800 shares of Voting Common Stock in Boxercraft Incorporated.

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.

Certain investments that we have determined are not "qualifying" assets under Section 55(a) of the 1940 Act.

(22) 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.

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

(23) 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.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. common stock in connection with the exercise of the 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 June 30, 2013 and June 30, 2012. Our fully diluted ownership in NMMB Acquisition, Inc. is 83.5% as of June 30, 2013 and June 30, 2012.

Undrawn committed revolvers incur commitment and unused fees ranging from 0.50% to 2.00%. As of June 30, (25) 2013 and June 30, 2012, we had \$202,518 and \$180,646 of undrawn revolver commitments to our portfolio companies, respectively.

Stated interest rates are based on June 30, 2013 and June 30, 2012 one month Libor rates plus applicable spreads (26) 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.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

- 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 acquired 100% of the Convertible Preferred Stock and Common (27) 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.
- Progrexion Marketing, Inc., Progrexion Teleservices, Inc., Progrexion ASG, Inc. Progrexion IP, Inc. and (28) Efolks, LLC, are joint borrowers on our senior secured investment. Progrexion Holdings, Inc. and eFolks Holdings, Inc. are the guarantors of this debt investment.
- Our wholly-owned entity, First Tower Holdings of Delaware, LLC, owns 80.1% of First Tower Holdings LLC, (29) the operating company of First Tower, LLC.
- Southern Management Corporation, Thaxton Investment Corporation, Southern Finance of Tennessee, Inc., (30) 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.
- We own 2.8% (13,220 shares) of the Mineral Fusion Natural, LLC, a subsidiary of Caleel + Hayden, common and (31) preferred interest.
- Our wholly-owned entity, APH Property Holdings, LLC, owns 100% of the common equity of American (32) Property Holdings Corp., a REIT which holds investments in several real estate properties.
- Our wholly-owned entity, CCPI Holdings, Inc. owns 95.13% of CCPI Inc., the operating company. (33) Our wholly-owned entity, Credit Central Holdings of Delaware, LLC owns 74.8% of Credit Central
- Holdings, LLC, which owns 100% of each of Credit Central, LLC, Credit Central South, LLC and Credit Central (34) of Tennessee, LLC, the operating companies.
- Our wholly-owned entity, Valley Electric Holdings I, Inc. ("HoldCo"), owns 100% of Valley Electric Holdings, (35) 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.
- Our wholly-owned entity, Nationwide Acceptance Holdings, LLC owns 93.8% of Nationwide Acceptance LLC, (36) the operating company.
- On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan secured by the assets. The cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors, and was equal to the fair value of assets at the time of transfer resulting in a capital loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf sold (37) the assets located in Martin County for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us resulting in a realized capital gain of \$11,826. We received \$3,960 of structuring and advisory fees from Wolf during the year ended June 30, 2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

(38) As defined in the Investment Company Act, the Company is deemed to be both an "Affiliated Person" and "Control" this portfolio company because it owns more than 25% of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended June 30, 2013 in which the issuer was both an Affiliated company and a portfolio company that the Company is deemed to Control are as follows:

Company	Purchases	Redemptions	Sales	Interest income	Dividend income	Structuring fee	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AIRMALL USA, Inc.	\$—	\$ 600	\$—	\$5,822	\$—	\$—	\$—	\$—	\$7,266
Ajax Rolled Ring & Machine, Inc.	23,300	19,065	—	5,176	—	155	—	—	(17,208)
APH Property Holdings, LLC	151,648	—	—	2,898	—	4,511	140	—	—
AWCNC, LLC	—	—	—	—	—	—	—	—	—
Borga, Inc.	150	—	—	—	—	—	—	—	(232)
CCPI Holdings, Inc.	34,081	338	—	1,792	—	575	32	—	—
Credit Central Holdings of Delaware, LLC	47,663	—	—	3,893	—	1,440	240	—	2,799
Energy Solutions Holdings, Inc.	—	28,500	475	24,809	53,820	—	—	—	(71,198)
First Tower Holdings of Delaware, LLC	20,000	—	—	52,476	—	—	2,426	—	(9,869)
Manx Energy, Inc.	—	—	—	—	—	—	—	(9,397)	18,865
Nationwide Acceptance Holdings, LLC	25,151	—	—	1,787	—	753	131	—	—
NMMB Holdings, Inc.	—	—	5,700	3,026	—	—	—	—	(5,903)
R-V Industries, Inc.	32,750	—	—	781	24,462	143	—	—	1,463
The Healing Staff, Inc.	975	—	894	2	—	—	—	(12,117)	12,117
Valley Electric Holdings I, Inc.	52,098	—	100	3,511	—	1,227	98	—	—
Wolf Energy Holdings, Inc.	50	—	—	452	—	3,960	991	11,826	(3,092)

(39)

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As defined in the Investment Company Act, the Company is deemed to be an "Affiliated Person" of a portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended June 30, 2013 in which the issuer was an Affiliated company (but not a portfolio company that the Company ("Controls")) are as follows:

Company	Purchases	Redemptions	Sales	Interest income	Dividend income	Structuring fee	Other income	Net realized gains (losses)	Net unrealized gains (losses)
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	\$30,000	\$26,677	\$—	\$3,159	\$—	\$600	\$22	\$—	\$672
Boxercraft Incorporated	—	—	—	3,356	—	—	—	—	(9,413)
Smart, LLC	—	—	—	—	728	—	—	—	108

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

June 30, 2013 and June 30, 2012

(in thousands, except share data)

(40) As defined in the Investment Company Act, the Company is deemed to be both an "Affiliated Person" and "Control" this portfolio company because it owns more than 25% of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended June 30, 2012 in which the issuer was both an Affiliated company and a portfolio company that the Company is deemed to Control are as follows:

Company	Purchases	Redemptions	Sales	Interest income	Dividend income	Structuring fee	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AIRMALL USA, Inc.	\$—	\$ 650	\$—	\$5,900	\$—	\$—	\$—	\$—	\$(3,094)
Ajax Rolled Ring & Machine, Inc.	—	440	—	4,849	—	—	—	—	18,973
AWCNC, LLC	—	—	—	—	—	—	—	—	—
Borga, Inc.	—	—	—	—	—	—	—	—	(1,023)
C&J Cladding LLC	—	—	580	—	—	1,500	—	2,420	(4,119)
Change Clean Energy Holdings, Inc.	—	—	—	—	—	—	—	—	2,540
Energy Solutions Holdings, Inc.	5,951	—	—	7,174	47,850	5,220	4,983	—	(63,403)
First Tower Holdings of Delaware, LLC	287,953	—	—	2,312	—	8,075	—	—	—
Integrated Contract Services, Inc.	1,033	1,054	—	—	—	—	—	—	503
Iron Horse Coiled Tubing, Inc.	—	14,338	—	324	—	—	—	—	802
Manx Energy, Inc.	—	—	—	—	—	—	—	—	(1,312)
NMMB Holdings, Inc.	—	2,550	—	3,683	—	—	—	—	(4,148)
NRG Manufacturing, Inc.	37,218	50,299	2,317	28,579	15,011	372	3,800	36,940	(23,655)
Nupla Corporation	—	1,995	—	587	—	1,500	14	2,907	(4,194)
R-V Industries, Inc.	—	—	—	—	283	—	—	—	15,740
	—	—	—	—	—	—	—	—	1,035

Yatesville Coal
Holdings, Inc.

As defined in the Investment Company Act, the Company is deemed to be an "Affiliated Person" of a portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power (41) to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended June 30, 2012 in which the issuer was an Affiliated company (but not a portfolio company that the Company ("Controls")) are as follows:

Company	Purchases	Redemptions	Sales	Interest income	Dividend income	Structuring fee	Other income	Net realized gains (losses)	Net unrealized gains (losses)
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	\$—	\$—	\$—	\$3,333	\$—	\$—	\$—	\$—	\$(5,099)
Boxercraft Incorporated Smart, LLC	2,300	1,144	—	2,947	—	—	70	—	(662)
Sport Helmets Holdings, LLC	—	19,102	—	5,875	—	—	38	4,445	(7,483)

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 were organized on April 13, 2004 and were funded in an initial public offering ("IPO"), completed on July 27, 2004. 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 of 1986 (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. On May 15, 2007, we formed a wholly-owned subsidiary, Prospect Capital Funding LLC ("PCF"), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the credit facility at PCF.

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 consolidated financial statements and accompanying notes to conform to the presentation as of and for the twelve months ended June 30, 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 consolidated 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.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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

The Company's 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 that the Company would incur if the counterparties failed to perform pursuant to the terms of their agreements with the Company.

Liquidity Risk

Liquidity risk represents the possibility that the Company may not be able to rapidly adjust the size of its positions in times of high volatility and financial stress at a reasonable price.

Interest Rate Risk

Interest rate risk represents a change in interest rates, which could result in an adverse change in the fair value of an interest-bearing financial instrument.

Prepayment Risk

Many of the Company's 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

To value our assets, we follow the guidance of ASC 820 that defines fair value, establishes a framework for measuring fair value in conformity with accounting principles generally accepted in the United States or America, or GAAP, and requires disclosures about fair value measurements.

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 the Company 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.

ASC 820 applies to fair value measurements already required or permitted by other standards.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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.

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 an independent valuation firm engaged by our Board of Directors;
- 2) the independent valuation firms conduct independent appraisals and make their own independent assessment;
- 3) the Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of Prospect Capital Management LLC (the "Investment Adviser") and that of 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 the Investment Adviser, the respective independent valuation firm 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 approaches use prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted) calculated based on an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, the principal market and enterprise values, among other factors. Our investments in CLOs are classified as ASC 820 level 3 securities, and are valued using a 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 need be modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distributes the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates that incorporate all the risk factors. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

For a discussion of the risks inherent in determining the value of securities for which readily available market values do not exist, see "Risk Factors—Risks relating to our business—Most of our portfolio investments are recorded at fair value as determined in good faith under the direction of our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments."

Valuation of Other Financial Assets and Financial Liabilities

ASC Subtopic 820-10-05-1, The Fair Value Option for Financial Assets and Financial Liabilities ("ASC 820-10-05-1") permits an entity to elect fair value as the initial and subsequent measurement attribute for many of

assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. We have elected not to value some assets and liabilities at fair value as would be permitted by ASC 820-10-05-1.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

Senior Convertible Notes

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

Revenue Recognition

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis.

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

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

Dividend income is recorded on the ex-dividend date.

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

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will 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 of collectability. 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 gain to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (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.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the 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 June 30, 2013 and for the year then ended, we did not have a liability for any unrecognized tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

Dividends and Distributions

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

Financing Costs

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

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

Guarantees and Indemnification Agreements

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

Per Share Information

Net increase or decrease in net assets resulting from operations per common share are calculated using the weighted average number of common shares outstanding for the period presented. In 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 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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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 ASC 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 ASC. These amendments include technical corrections and improvements to the ASC 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.

In June 2013, the FASB issued Accounting Standards Update 2013-08, Financial Services—Investment Companies (Topic 946)—Amendments to the Scope, Measurement, and Disclosure Requirements ("ASU 2013-08"). ASU 2013-08 clarifies the approach to be used for determining whether an entity is an investment company and provides new measurement and disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. The adoption of ASU 2013-08 is not expected to materially effect on our financial statements.

Note 3. Portfolio Investments

At June 30, 2013, we had investments in 124 long-term portfolio investments, which had an amortized cost of \$4,255,778 and a fair value of \$4,172,852 and at June 30, 2012, we had investments 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 June 30, 2013, we own controlling interests in AIRMALL USA, Inc. ("Airmall"), Ajax Rolled Ring & Machine, Inc., APH Property Holdings, LLC ("APH"), AWCNC, LLC, Borga, Inc. ("Borga"), CCPI Holdings, Inc., Credit Central Holdings of Delaware, LLC, Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Holdings of Delaware, LLC ("First Tower Delaware"), Manx Energy, Inc. ("Manx"), Nationwide Acceptance Holdings, LLC, NMMB Holdings, Inc., R-V Industries, Inc., The Healing Staff, Inc. ("THS"), Valley Electric Holdings I, 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 June 30, 2013 and June 30, 2012 at cost and fair value was as follows:

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

	June 30, 2013		June 30, 2012	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$9,238	\$8,729	\$1,145	\$868
Senior Secured Debt	2,262,327	2,207,091	1,138,991	1,080,053
Subordinated Secured Debt	1,062,386	1,024,901	544,363	488,113
Subordinated Unsecured Debt	88,470	88,827	72,617	73,195
CLO Debt	27,667	28,589	27,258	27,717
CLO Residual Interest	660,619	658,086	214,559	218,009
Equity	145,071	156,629	100,380	206,266
Total Investments	4,255,778	4,172,852	2,099,313	2,094,221
Money Market Funds	143,262	143,262	118,369	118,369
Total Investments and Money Market Funds	\$4,399,040	\$4,316,114	\$2,217,682	\$2,212,590

The fair values of our investments and money market funds as of June 30, 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	\$—	\$—	\$8,729	\$8,729
Senior Secured Debt	—	—	2,207,091	2,207,091
Subordinated Secured Debt	—	—	1,024,901	1,024,901
Subordinated Unsecured Debt	—	—	88,827	88,827
CLO Debt	—	—	28,589	28,589
CLO Residual Interest	—	—	658,086	658,086
Equity	112	—	156,517	156,629
Total Investments	112	—	4,172,740	4,172,852
Money Market Funds	—	143,262	—	143,262
Total Investments and Money Market Funds	\$112	\$143,262	\$4,172,740	\$4,316,114

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Investments at fair value				
Control investments	\$—	\$—	\$811,634	\$811,634
Affiliate investments	—	—	42,443	42,443
Non-control/non-affiliate investments	112	—	3,318,663	3,318,775
	112	—	4,172,740	4,172,852
Investments in money market funds	—	143,262	—	143,262
Total assets reported at fair value	\$112	\$143,262	\$4,172,740	\$4,316,114

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

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

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Revolving Line of Credit	\$—	\$—	\$ 868	\$ 868
Senior Secured Debt	—	—	1,080,053	1,080,053
Subordinated Secured Debt	—	—	488,113	488,113
Subordinated Unsecured Debt	—	—	73,195	73,195
CLO Debt	—	—	27,717	27,717
CLO Residual Interest	—	—	218,009	218,009
Equity	129	—	206,137	206,266
Total Investments	129	—	2,094,092	2,094,221
Money Market Funds	—	118,369	—	118,369
Total Investments and Money Market Funds	\$ 129	\$ 118,369	\$ 2,094,092	\$ 2,212,590

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

The aggregate values of Level 3 portfolio investments changed during the year ended June 30, 2013 as follows:

	Fair Value Measurements Using Unobservable Inputs (Level 3)			Total
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	
Fair value as of June 30, 2012	\$564,489	\$46,116	\$ 1,483,487	\$2,094,092
Total realized loss, net	(9,688)	—	(16,672)	(26,360)
Change in unrealized depreciation	(64,991)	(8,634)	(4,192)	(77,817)
Net realized and unrealized loss	(74,679)	(8,634)	(20,864)	(104,177)
Purchases of portfolio investments	387,866	30,000	2,674,404	3,092,270
Payment-in-kind interest	2,668	715	7,564	10,947
Accretion of purchase discount	—	922	10,095	11,017
Repayments and sales of portfolio investments	(68,710)	(26,676)	(836,023)	(931,409)
Transfers within Level 3	—	—	—	—
Transfers in (out) of Level 3	—	—	—	—
Fair value as of June 30, 2013	\$811,634	\$42,443	\$ 3,318,663	\$4,172,740

	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	\$1,080,053	\$488,113	\$73,195	\$27,717	\$218,009	\$206,137	\$2,094,092
Total realized loss (gain), net	—	(21,545)	(22,001)	—	—	—	17,186	(26,360)
Change in unrealized (depreciation) appreciation	(232)	3,197	19,265	(222)	464	(5,981)	(94,308)	(77,817)
Net realized and unrealized (loss) gain	(232)	(18,348)	(2,736)	(222)	464	(5,981)	(77,122)	(104,177)
Purchases of portfolio investments	21,143	1,626,172	812,025	133,700	—	440,050	59,180	3,092,270
Payment-in-kind interest	—	4,401	3,687	2,859	—	—	—	10,947
Amortization of discounts and premiums	—	1,747	2,346	508	408	6,008	—	11,017
Repayments and sales of portfolio investments	(13,050)	(499,900)	(265,568)	(121,213)	—	—	(31,678)	(931,409)

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Transfers within Level 3	—	12,966	(12,966) —	—	—	—	—
Transfers in (out) of Level 3	—	—	—	—	—	—	—	—
Fair value as of June 30, 2013	\$8,729	\$2,207,091	\$1,024,901	\$88,827	\$28,589	\$658,086	\$156,517	\$4,172,740

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

The aggregate values of Level 3 portfolio investments changed during the year ended June 30, 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	42,267	4,445	(10,115)	36,597
Change in unrealized appreciation (depreciation)	6,776	(13,617)	(25,476)	(32,317)
Net realized and unrealized gain (loss)	49,043	(9,172)	(35,591)	4,280
Purchases of portfolio investments	332,156	2,300	780,556	1,115,012
Payment-in-kind interest	219	467	4,961	5,647
Accretion of purchase discount	81	4,874	2,329	7,284
Repayments and sales of portfolio investments	(118,740)	(24,690)	(357,531)	(500,961)
Transfers within Level 3	(8,342)	—	8,342	—
Transfers in (out) of Level 3	—	—	—	—
Fair value as of June 30, 2012	\$ 564,489	\$ 46,116	\$ 1,483,487	\$ 2,094,092

	Fair Value Measurements Using Unobservable Inputs (Level 3)							Total
	Revolver	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	CLO Debt	CLO Residual Interest	Equity	
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	—	2,686	(14,606)	—	—	—	48,517	36,597
Change in unrealized appreciation (depreciation)	(412)	(26,340)	(13,737)	(67)	459	3,450	4,330	(32,317)
Net realized and unrealized gain (loss)	(412)	(23,654)	(28,343)	(67)	459	3,450	52,847	4,280
Purchases of portfolio investments	1,500	582,566	227,733	17,000	27,072	214,559	44,582	1,115,012
Payment-in-kind interest	—	304	4,485	858	—	—	—	5,647
Accretion of purchase discount	80	3,449	3,501	68	186	—	—	7,284
Repayments and sales of portfolio investments	(7,578)	(272,593)	(167,938)	—	—	—	(52,852)	(500,961)
Transfers within Level 3	—	—	—	—	—	—	—	—

Transfers in (out) of Level 3	—	—	—	—	—	—	—	—
Fair value as of June 30, 2012	\$868	\$1,080,053	\$488,113	\$73,195	\$27,717	\$218,009	\$206,137	\$2,094,092

For the year ended June 30, 2013 and 2012, the net change in unrealized appreciation on the investments that use Level 3 inputs was \$77,488 and \$18,866 for assets still held as of June 30, 2013 and 2012, respectively.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2013 were as follows:

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior	\$2,215,820	Yield Analysis	Market Yield	5.7% - 20.8%	10.7 %
Subordinated Secured	1,024,901	Yield Analysis	Market Yield	7.7% - 19.8%	11.6 %
Subordinated Unsecured	88,827	Yield Analysis	Market Yield	6.1% - 14.6%	10.7 %
CLO Debt	28,589	Discounted Cash Flow	Discount Rate	12.10% - 20.1%	15.7 %
CLO Residual Interest	658,086	Discounted Cash Flow	Discount Rate	11.3% - 19.8%	15.3 %
Equity	151,855	EV Market Multiple Analysis	EV Market Multiple Analysis	3.3x - 8.8x	6.2x
Escrow	4,662	Discounted Cash Flow	Discount Rate	6.5% - 7.5%	7.0 %
Total	\$4,172,740				

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2012 were as follows:

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior	\$1,080,921	Yield Analysis	Market Yield	6.7% - 30.0%	11.1 %
Subordinated Secured	488,113	Yield Analysis	Market Yield	7.0% - 30.0%	12.6 %
Subordinated Unsecured	73,195	Yield Analysis	Market Yield	8.7% - 13.5%	11.8 %
CLO Debt	27,717	Discounted Cash Flow	Discount Rate	13.0%	13.0 %
CLO Residual Interest	218,009	Discounted Cash Flow	Discount Rate	8.0% - 14.0%	10.2 %
Equity	188,451	EV Market Multiple Analysis	EV Market Multiple Analysis	3.3x - 9.0x	6.6x
Escrow	17,686	Discounted Cash Flow	Discount Rate	6.5% - 8.5%	7.7 %
Total	\$2,094,092				

The significant unobservable inputs 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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

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 year ended June 30, 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 improved company performance, we increased the fair value of our investment in Airmall to \$54,648 as of June 30, 2013, a premium of \$3,478 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

During the year ended June 30, 2013, the valuation methodology for First Tower Delaware 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 Delaware to \$298,084 as of June 30, 2013, a discount of \$13,869 to its amortized cost, compared to \$287,953 as of June 30, 2012, equal to its amortized cost at that time.

During the year ended June 30, 2013, the valuation methodology for ICON Health & Fitness, Inc. ("ICON") changed to incorporate an enterprise value waterfall analysis in place of a trading analysis in addition to the income method (discounted cash flow analysis) used in previous quarters. Management adopted the enterprise value waterfall analysis due to the impairment of the senior term loan, and removed the trading analysis due to lack of trading activity during the quarter. 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 ICON to \$33,929 as of June 30, 2013, a discount of \$9,381 to its amortized cost, compared to the \$261 unrealized depreciation recorded at June 30, 2012.

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 that operate 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"), were 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 loan to Energy Solutions remains outstanding and is 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 year ended June 30, 2013, Energy Solutions repaid \$28,500 of senior and subordinated secured debt. We received \$19,543 of make-whole fees for early

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

repayment of the outstanding loan receivables, which was recorded as interest income during the year ended June 30, 2013. During the year ended June 30, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. Energy Solutions continues to hold \$23,979 of cash for future investment and repayment of the remaining debt.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various industrial and multi-family residential real estate properties in Florida and Georgia. APH is a holding company that owns 100% of the common equity of American Property Holdings Corp. ("APHC"). APHC is a Maryland corporation and qualified REIT for federal income tax purposes. During the year ended June 30, 2013, we received \$4,511 of structuring fees related to our investments in APH which were recorded as other income. As of June 30, 2013, APHC's real estate portfolio was comprised of seven investments. The following table shows the mortgages outstanding due to other parties for each of the seven properties:

No.	Property Name	City	Date of Acquisition	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway	Forest Park, GA	10/24/2012	\$ 7,400	\$—
2	Abbingtion Pointe	Marietta, GA	12/28/2012	23,500	15,275
3	Amberly Place	Tampa, FL	1/17/2013	63,400	39,600
4	Lofton Place	Tampa, FL	4/30/2013	26,000	16,965
5	Vista at Palma Sola	Bradenton, FL	4/30/2013	27,000	17,550
6	Arlington Park	Marietta, GA	5/8/2013	14,850	9,650
7	Arium Resort	Pembroke Pines, GA	6/24/2013	225,000	157,500

At June 30, 2013, eight loan investments were on non-accrual status: Borga, Freedom Marine, THS, formerly a subsidiary of Integrated Contract Services, Inc. ("ICS"), Manx, Stryker Energy, LLC ("Stryker"), Wind River Resources Corp. and Wind River II Corp. ("Wind River"), Wolf and Yatesville. At June 30, 2012, nine loan investments were on non-accrual status: Borga, Freedom Marine, H&M Oil and Gas, LLC ("H&M"), THS, formerly a subsidiary of ICS, Manx, Stryker, Wind River, Wolf and Yatesville. Principal balances of these loans amounted to \$106,395 and \$171,149 as of June 30, 2013 and June 30, 2012, respectively. The fair value of these loans amounted to \$13,810 and \$43,641 as of June 30, 2013 and June 30, 2012, respectively. The fair values of these investments represent approximately 0.5% and 2.9% of our net assets as of June 30, 2013 and June 30, 2012, respectively. For the years ended June 30, 2013, June 30, 2012 and June 30, 2011, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$25,965, \$25,460 and \$18,535, respectively.

On December 3, 2010, we exercised our warrants in Miller Petroleum, Inc ("Miller") and received 2,013,814 shares of Miller common stock. On December 27, 2010, we sold 1,397,510 of these shares receiving \$3.95 of net proceeds per share, realizing a gain of \$5,415. On January 10, 2011, we sold the remaining 616,304 shares of Miller common stock receiving \$4.23 of net proceeds per share, realizing an additional gain of \$2,561. The total gain was \$7,976 on the sale of the Miller common stock.

On May 2, 2011, we sold our membership interests in Fischbein, LLC ("Fischbein") for \$12,396 of gross proceeds, \$1,479 of which is deferred revenue held in escrow, realizing a gain of \$9,893, and received a repayment on the loan that was outstanding. We subsequently made a \$3,334 senior secured second lien term loan and invested \$875 in the common equity of Fischbein with the new ownership group.

During the year ended June 30, 2012, Deb Shops, Inc. ("Deb Shops") filed for bankruptcy and a plan for reorganization was proposed. The plan was approved by the bankruptcy court and our debt position was eliminated with no payment to us. We determined that the impairment of Deb Shops was other-than-temporary on September 30,

2011 and recorded a realized loss of \$14,607 for the full amount of the amortized cost. The asset was completely written off when the plan of reorganization was approved.

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

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.

On February 2, 2012, NRG was sold to an outside buyer for \$123,258. In conjunction with the sale, the \$37,218 loan that was outstanding was repaid. We also received a \$26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the year ended June 30, 2012. Further, we received a \$3,800 advisory fee for the transaction, which was recorded as other income in the quarter ending March 31, 2012. After expenses, including the make whole and advisory fees discussed above, \$40,886 was available to be distributed to stockholders. While our 408 shares of NRG common stock represented 67.1% of the ownership, we received net proceeds of \$25,991 as our contribution to the escrow amount was proportionately higher than the other shareholders. In connection with the sales, we recognized a realized gain of \$24,810 during the year ended June 30, 2012. In total, we received proceeds of \$93,977 at closing. In addition, there was \$11,125 being held in escrow of which 80% is due to us upon release of the escrowed amounts. During the year ended June 30, 2013, we received \$3,251 upon release of escrowed amounts for which we recognized a gain in the same amount. As of June 30, 2013, the fair value of the remaining escrow amounts was \$3,618. This will be recognized as a gain if and when received.

On February 5, 2013, we received a distribution of \$3,250 related to our investment in NRG, for which we realized a gain of the same amount. This was a partial release of the amount held in escrow.

On June 15, 2012, we acquired 80.1% of the businesses of First Tower LLC ("First Tower") for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Holdings of Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. We received \$8,075 in structuring fee income as part of the acquisition.

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 June 30, 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.

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

On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan secured by the assets. Our cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors, and is equal to the fair value of assets at the time of transfer and we recorded a realized loss of \$19,647 in connection with the foreclosure on the assets. On May 17 2013, Wolf sold certain of the assets that had been previously held by H&M that were located in Martin County to Hibernia for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us and we recognized as a realized gain of \$11,826 partially offsetting the previously recorded loss. We received \$3,960 of structuring and advisory fees from Wolf during the year ended June 30, 2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

In June 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair market value.

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled \$3,103,217, \$1,120,659 and \$953,337 during the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively. Debt repayments and proceeds from sales of equity securities of \$931,534, \$500,952 and \$285,862 were received during the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

During the year ended June 30, 2013, we recognized \$1,481 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$1,481 recorded during the year ended June 30, 2013 is \$1,111 of normal accretion and \$370 of accelerated accretion resulting from the repayment of Hudson Products Holdings, Inc. During the year ended June 30, 2012, we recognized \$6,613 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$6,613 is \$3,083 of normal accretion and \$3,530 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC, Nupla Corporation, ROM Acquisition Corp and Sport Helmets Holdings, LLC.

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

As of June 30, 2013, \$540 of purchase discount from the assets acquired from Patriot remains to be accreted as interest income, of which \$240 is expected to be amortized during the three months ending September 30, 2013.

As of June 30, 2013, \$3,005,298 of our loans bear interest at floating rates, \$2,976,709 of which have Libor floors ranging from 1.00% to 5.89%.

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of June 30, 2013 and June 30, 2012, we had \$202,518 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 was 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 June 30, 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 June 30, 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 June 30, 2013 and June 30, 2012, we had \$473,508 and \$418,980, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was \$124,000 and \$96,000, respectively. As

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Note 4. Revolving Credit Agreement (Continued)

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 June 30, 2013, the investments used as collateral for the 2012 Facility had an aggregate market value of \$833,310, which represents 31.37% 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 June 30, 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 \$11,150 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 \$6,722 remains to be amortized. During the years ended June 30, 2013, June 30, 2012 and June 30, 2011, we recorded \$9,082, \$14,883 and \$8,507 of interest costs, unused fees and amortization of financing costs on our credit 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 following underwriting expenses of approximately \$145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 88.0902 and 88.1429 shares of common stock, respectively, per \$1 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately \$11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (December 21, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes is increased if monthly cash dividends paid to common shares exceed the rate of \$0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012. Interest on the remaining \$167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 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 \$12.73 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 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 June 30, 2013 of 85.8442 and 86.1162 shares of common stock, respectively, per \$1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately \$11.61 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (April 16, 2012)

and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate 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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 5. Senior Convertible Notes (Continued)

initial conversion rate and conversion rate at June 30, 2013 of 82.3451 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.07 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (August 14, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101600 per share.

On December 21, 2012, we issued \$200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds following underwriting and other expenses of approximately \$193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 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 2015 Notes and 2016 Notes (collectively, "Senior Convertible Notes").

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

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Notes upon a fundamental change at a price equal to 100% of the principal amount of the Notes being repurchased plus any accrued and unpaid interest up to, but excluding, the fundamental change 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 \$27,032 of fees which are being amortized over the terms of the notes in accordance with ASC 470-50, Debt Modifications and Extinguishments, of which \$20,254

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 5. Senior Convertible Notes (Continued)

remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities as of June 30, 2013.

During the years ended June 30, 2013, June 30, 2012 and June 30, 2011, we recorded \$45,878, \$22,197 and \$9,090 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 mature 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 \$7,480 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, Debt Modifications and Extinguishments, of which \$7,114 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the years ended June 30, 2013 and June 30, 2012, we recorded \$11,672 and \$1,178 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"), which was subsequently increased to \$1,000,000. 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 year ended June 30, 2013, we issued \$343,139 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$334,243. These notes were issued with stated interest rates ranging from 3.28% to 6.63% with a weighted average rate of 5.59%. These notes mature between July 15, 2019 and June 15, 2043.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 7. Prospect Capital InterNotes® (Continued)

The bonds outstanding as of June 30, 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, 2031
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% - 4.50%	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	1,225	L+3.00%	3.27	% March 15, 2023
April 4, 2013 - April 25, 2013	29,528	4.50% - 5.00%	4.96	% April 15, 2020
April 4, 2013 - April 25, 2013	264	L+3.50%	3.78	% April 15, 2023
April 4, 2013 - April 25, 2013	5,164	4.63% - 5.50%	5.34	% April 15, 2031
April 4, 2013 - April 25, 2013	12,280	6.00	% 6.00	% April 15, 2043
May 2, 2013 - May 31, 2013	42,482	5.00	% 5.00	% May 15, 2020
May 2, 2013 - May 31, 2013	10,000	5.00	% 5.00	% May 15, 2028
May 2, 2013 - May 31, 2013	7,548	5.75	% 5.75	% May 15, 2031
May 2, 2013 - May 31, 2013	33,641	6.25	% 6.25	% May 15, 2043
June 6, 2013 - June 27, 2013	9,905	5.00% - 5.25%	5.04	% June 15, 2020
June 6, 2013 - June 27, 2013	5,000	5.00	% 5.00	% June 15, 2028
June 6, 2013 - June 27, 2013	1,707	5.75% - 6.00%	5.85	% June 15, 2031
June 6, 2013 - June 27, 2013	6,857	6.25% - 6.50%	6.31	% June 15, 2043
	\$ 363,777			

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 7. Prospect Capital InterNotes® (Continued)

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$10,598 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, Debt Modifications and Extinguishments, of which \$10,248 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the years ended June 30, 2013 and June 30, 2012, we recorded \$9,707 and \$276 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 June 30, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Credit facility payable(1)	\$—	\$ 124,000	\$—	\$ 124,000
Senior convertible notes(2)	—	886,210	—	886,210
Senior unsecured notes(2)	101,800	242,013	—	343,813
Prospect Capital InterNotes®(3)	—	336,055	—	336,055
Total	\$ 101,800	\$ 1,588,278	\$—	\$ 1,690,078

(1) The carrying value of our credit facility payable approximates the fair value.

(2) We use available market quotes to estimate the fair value of the Senior Convertible Notes and Senior Unsecured Notes.

(3) The fair value of our Prospect Capital InterNotes® is estimated by discounting remaining payments using estimated current market rates.

The fair values of our financial liabilities disclosed, but not carried, at fair value as of June 30, 2012 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Credit facility payable(1)	\$—	\$ 96,000	\$—	\$ 96,000
Senior convertible notes(2)	—	456,671	—	456,671
Senior unsecured notes(2)	99,560	—	—	99,560
Prospect Capital InterNotes ®(3)	—	20,280	—	20,280
Total	\$ 99,560	\$ 572,951	\$—	\$ 672,511

(1) The carrying value of our credit facility payable approximates the fair value.

(2) We use available market quotes to estimate the fair value of the Senior Convertible Notes and Senior Unsecured Notes.

(3) The fair value of our Prospect Capital InterNotes® is estimated by discounting remaining payments using estimated current market rates.

Note 9. Equity Offerings, Offering Expenses, and Distributions

We issued 106,752,517 and 30,970,696 shares of our common stock during the years ended June 30, 2013 and June 30, 2012, respectively. The proceeds raised, the related underwriting fees, the offering expenses and the prices at which these shares were issued are as follows:

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)

Issuances of Common Stock	Number of Shares Issued	Gross Proceeds Raised	Underwriting Fees	Offering Expenses	Average Offering Price
During the year ended June 30, 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 - May 3, 2013(5)	17,230,253	\$ 191,897	\$ 1,788	\$—	\$ 11.14
May 14, 2013 - May 31, 2013(6)	4,359,200	\$ 47,532	\$ 399	\$ 245	\$ 10.90
During the year ended June 30, 2012:					
June 12, 2012 - June 29, 2012(1)	2,952,489	\$ 33,130	\$ 331	\$ 184	\$ 11.220
June 15, 2012(7)	14,518,207	\$ 160,571	\$—	\$—	\$ 11.060
February 28, 2012	12,000,000	\$ 131,400	\$ 1,560	\$ 360	\$ 10.950
July 18, 2011	1,500,000	\$ 15,225	\$ 165	\$ 165	\$ 10.150

(1) On June 1, 2012, we established an 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 an 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, 2012, we established an 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.

(5) On February 11, 2013, we established an 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 17,230,253 shares of our common stock at an average price of \$11.14 per share, raising \$191,897 of gross proceeds.

(6) On May 8, 2013, we established an 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 4,359,200 shares of our common stock at an average price of \$10.90 per share, raising \$47,532 of gross proceeds.

(7) On June 15, 2012, we completed the acquisition of the businesses of First Tower. We acquired 80.1% of First Tower's businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock.

Our shareholders' equity accounts at June 30, 2013 and June 30, 2012 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise

of over-allotment options on the part of the underwriters and 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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)

during the period from August 24, 2011 to June 30, 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 October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, as of June 30, 2013 we can issue up to \$1,743,217 of additional debt and equity securities in the public market.

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

\$0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;
 \$0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013;
 \$0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and
 \$0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

On June 17, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110225 per share for September 2013 to holders of record on September 30, 2013 with a payment date of October 24, 2013;
 \$0.110250 per share for October 2013 to holders of record on October 31, 2013 with a payment date of November 21, 2013;
 \$0.110275 per share for November 2013 to holders of record on November 29, 2013 with a payment date of December 19, 2013; and
 \$0.110300 per share for December 2013 to holders of record on December 31, 2013 with a payment date of January 23, 2014.

During the years ended June 30, 2013 and June 30, 2012, we issued 1,450,578 and 1,056,484 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

At June 30 2013, we have reserved 70,246,258 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, revenue receipts related to net profit interests, deal deposits, administrative agent fee, and other miscellaneous and sundry cash receipts. Income from such sources was \$58,176, \$36,493 and \$19,930 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively.

Income Source	For The Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Structuring, advisory and amendment fees (Note 3)	\$53,708	\$35,976	\$19,589
Overriding royalty interests	4,122	224	154
Administrative agent fee	346	293	187
Other Investment Income	\$58,176	\$36,493	\$19,930

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 11. Net Increase in Net Assets per Common Share

The following information sets forth the computation of net increase in net assets resulting from operations per common share for the years ended June 30, 2013, 2012 and 2011, respectively.

	For The Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Net increase in net assets resulting from operations	\$ 220,856	\$ 190,904	\$ 118,238
Weighted average common shares outstanding	207,069,971	114,394,554	85,978,757
Net increase in net assets resulting from operations per common share	\$ 1.07	\$ 1.67	\$ 1.38

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, the 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 it 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 earned by and paid to Prospect Capital Management for the years ended June 30, 2013, June 30, 2012 and June 30, 2011 were \$69,800, \$35,836 and \$22,496, 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:

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 12. Related Party Agreements and Transactions (Continued)

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.

Income incentive fees totaling \$81,231, \$46,671 and \$23,555 were earned for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively. No capital gains incentive fees were earned for years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively.

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 financial officer and chief compliance officer and his staff. For the years ended June 30, 2013, 2012 and 2011, the reimbursement was approximately \$8,737, \$6,848 and \$4,979, 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 managerial assistance to those portfolio companies to which we are required to provide such assistance. 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 the 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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share data)

Note 12. Related Party Agreements and Transactions (Continued)

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 June 30, 2013 and June 30, 2012, \$1,291 and \$165 of managerial assistance fees remain on the consolidated statements of assets and liabilities as a payable to the Administrator for reimbursement of its cost in providing such assistance.

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 the date of this report.

Note 14. Financial Highlights

	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2009
Per Share Data(1):					
Net asset value at beginning of period	\$10.83	\$10.36	\$10.30	\$12.40	\$14.55
Net investment income	1.57	1.63	1.10	1.13	1.87
Realized (loss) gain	(0.13)	) 0.32	0.19	(0.87)	) (1.24)
Net unrealized (depreciation) appreciation	(0.37)	) (0.28)	0.09	0.07	0.48
Net increase (decrease) in net assets as a result of public offering	0.13	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	(1.31)	) (1.24)	) (1.24)	) (1.70)	) (1.15)
Net asset value at end of period	\$10.72	\$10.83	\$10.36	\$10.30	\$12.40
Per share market value at end of period	\$10.80	\$11.39	\$10.11	\$9.65	\$9.20
Total return based on market value(2)	6.24	% 27.21	% 17.22	% 17.66	% (18.60)
Total return based on net asset value(2)	10.91	% 18.03	% 12.54	% (6.82)	)% (0.61)
Shares outstanding at end of period	247,836,965	139,633,870	107,606,690	69,086,862	42,943,084
Average weighted shares outstanding for period	207,069,971	114,394,554	85,978,757	59,429,222	31,559,905

Ratio / Supplemental Data:

Net assets at end of period (in thousands)	\$2,656,494	\$1,511,974	\$1,114,357	\$711,424	\$532,596	
Portfolio turnover rate	29.24	% 29.06	% 27.63	% 21.61	% 4.99	%
Annualized ratio of operating expenses to average net assets	11.50	% 10.73	% 8.47	% 7.54	% 9.03	%
Annualized ratio of net investment income to average net assets	14.86	% 14.92	% 10.60	% 10.69	% 13.14	%

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(1) Financial highlights are based on weighted average shares.

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

(2) 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)

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized Gains (Losses)		Net Increase (Decrease) in Net Assets from Operations	
	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)
September 30, 2010	35,212	0.47	20,995	0.28	4,585	0.06	25,580	0.34
December 31, 2010	33,300	0.40	19,080	0.23	12,861	0.16	31,940	0.38
March 31, 2011	44,573	0.51	23,956	0.27	9,803	0.11	33,759	0.38
June 30, 2011	56,391	0.58	30,190	0.31	(3,232)	(0.03)	26,959	0.28
September 30, 2011	55,342	0.51	27,877	0.26	12,023	0.11	39,900	0.37
December 31, 2011	67,263	0.61	36,508	0.33	27,984	0.26	64,492	0.59
March 31, 2012	95,623	0.84	58,072	0.51	(7,863)	(0.07)	50,209	0.44
June 30, 2012	102,682	0.82	64,227	0.52	(27,924)	(0.22)	36,303	0.29
September 30, 2012	123,636	0.76	74,027	0.46	(26,778)	(0.17)	47,249	0.29
December 31, 2012	166,035	0.85	99,216	0.51	(52,727)	(0.27)	46,489	0.24
March 31, 2013	120,195	0.53	59,585	0.26	(15,156)	(0.07)	44,429	0.20
June 30, 2013	166,470	0.68	92,096	0.38	(9,407)	(0.04)	82,689	0.34

(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 July 1, 2013 to October 11, 2013, we issued \$115,110 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$112,713.

During the period from July 1, 2013 to August 21, 2013, we sold 9,818,907 shares of our common stock at an average price of \$10.97 per share, and raised \$107,725 of gross proceeds, under the ATM Program. Net proceeds were \$106,822 after commissions to the broker-dealer on shares sold and offering costs.

On August 23, 2013, we entered into an ATM Program with BMO Capital Markets, Goldman, Sachs & Co., RBC Capital Markets and KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 45,000,000 shares of our common stock. During the period from August 26, 2013 to October 11, 2013 (with settlements August 29, 2013 through October 16, 2013), we sold 17,444,710 shares of our common stock at an average price of \$11.26 per share, and raised \$196,513 of gross proceeds, under the ATM Program. Net Proceeds were \$194,579 after commissions to BMO Capital Markets, Goldman, Sachs & Co., RBC Capital Markets and KeyBanc on shares sold.

On July 1, 2013, Pre-Paid Legal Services, Inc. repaid the \$5,000 loan receivable to us.

On July 9, 2013, Southern Management Corporation repaid the \$17,565 loan receivable to us.

On July 12, 2013, we provided \$11,000 of secured second lien financing to Water PIK, Inc., a leader in developing innovative personal and oral healthcare products.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 16. Subsequent Events (Continued)

On July 23, 2013, we made a \$2,000 investment in Carolina Beverage Group, LLC ("Carolina Beverage"), a contract beverage manufacturer.

On July 24, 2013, we sold our \$2,000 investment in Carolina Beverage and realized a gain of \$45 on this investment.

On July 26, 2013, we made a \$2,000 follow-on senior secured debt investment in Spartan Energy Services, LLC, a leading provider of thru tubing and flow control services to oil and gas companies.

On July 26, 2013, we made a \$20,000 follow-on secured second lien investment in Royal Adhesives & Sealants, LLC ("Royal"), a leading producer of proprietary, high-performance adhesives and sealants.

On July 31, 2013, we made a \$5,100 follow-on investment in Coverall North America, Inc., a leading franchiser of commercial cleaning businesses.

On July 31, 2013, Royal repaid the \$28,364 subordinated unsecured loan receivable to us.

On July 31, 2013, Cargo Airport Services USA, LLC repaid the \$43,399 loan receivable to us.

On August 1, 2013, Medical Security Card Company, LLC repaid the \$13,214 loan receivable to us.

On August 2, 2013, we made an investment of \$44,100 to purchase 90% of the subordinated notes in CIFC Funding 2013-III, Ltd.

On August 2, 2013, we funded a recapitalization of CP Energy Services, Inc. ("CP Energy") with \$81,273 of debt and \$12,741 of equity financing. Through the recapitalization, we acquired a controlling interest in CP Energy for \$73,009 in cash and 1,918,342 unregistered shares of our common stock. After the financing, we received repayment of the \$18,991 loan previously outstanding.

On August 12, 2013, we provided \$80,000 in senior secured loans and a senior secured revolving loan facility, of which \$70,000 was funded at closing, for the recapitalization of Matrixx Initiatives, Inc., owner of Zicam, a leading developer and marketer of OTC cold remedy products under the Zicam brand.

On August 14, 2013, we announced the revised conversion rate on the 2018 Notes of 82.8631 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.07.

On August 15, 2013, we announced an increase of \$15,000 to our commitments to our credit facility. The commitments to the credit facility now stand at \$567,500.

On August 15, 2013, we made a \$14,000 follow-on investment in Totes Isotoner Corporation, a leading designer, distributor and retailer of high quality, branded functional accessories.

On August 21, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110325 per share for January 2014 to holders of record on January 31, 2014 with a payment date of February 20, 2014;

\$0.110350 per share for February 2014 to holders of record on February 28, 2014 with a payment date of March 20, 2014; and

\$0.110375 per share for March 2014 to holders of record on March 31, 2014 with a payment date of April 17, 2014.

On August 30, 2013, we made a \$16,000 follow-on investment in System One Holdings, LLC, a leading provider of professional staffing services.

On September 5, 2013, we provided \$50,000 of floating rate senior secured financing to a leading payments processor.

On September 10, 2013, we made a \$12,500 first lien secured investment in Photonis SAS, a world leader in the development, manufacture and sale of electro-optic components for the detection and intensification of very faint light sources.

On September 11, 2013, Seaton Corp. repaid the \$13,310 loan receivable to us.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share data)

Note 16. Subsequent Events (Continued)

On September 12, 2013, we provided a \$75,000 floating-rate senior secured term loan to support the recapitalization of American Broadband Communications, LLC, a leading provider of voice, video, and high-speed internet services. On September 13, 2013, we made an investment of \$36,515 to purchase 83.56% of the subordinated notes in Apidos CLO XV, Ltd.

On September 19, 2013, we provided \$47,985 of combined senior secured floating rate debt and equity to support the recapitalization of Mity Enterprises, Inc., a leading designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products.

On September 25, 2013, we made a \$12,000 senior secured investment in NCP Finance, a lender to short term loan providers in the alternative financial services industry.

On September 25, 2013, we received payment of \$5,000 in settlement of a lawsuit related to the loan to Integrated Contract Services, Inc., which was previously written off.

On September 30, 2013, we made an investment of \$22,575 to purchase 51.02% of the subordinated notes in Galaxy XVI CLO, Ltd.

On September 30, 2013, we sold our investment in ADAPCO, Inc. for net proceeds of \$553, recognizing a realized gain of \$413 on the sale.

On September 30, 2013, we made an \$18,818 follow-on investment in JHH Holdings, Inc., a leading provider of home healthcare services in Texas.

On October 1, 2013, we made a \$2,600 follow-on investment in AIRMALL USA, Inc., a leading developer and manager of airport retail operations.

On October 7, 2013, Evanta Ventures, Inc. repaid the \$10,506 loan receivable to us.

On October 11, 2013, we made a \$5,846 follow-on senior debt and equity investment in CP Energy Services, Inc., an energy services company based in western Oklahoma.

On October 11, 2013, we provided \$25,000 in preferred equity for the recapitalization of Ajax Rolled Ring & Machine, Inc. After the financing, we received repayment of the \$20,009 loan previously outstanding.

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PROSPECTUS SUPPLEMENT

February 3, 2014

Incapital LLC
BofA Merrill Lynch
Citigroup
RBC Capital Markets