

PROSPECT CAPITAL CORP
Form 497
June 22, 2011

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**Filed Pursuant to Rule 497(e)
Registration No. 333-170724**

PROSPECTUS SUPPLEMENT
(To Prospectus dated March 16, 2011)

10,000,000 Shares

Prospect Capital Corporation

Common Stock

This is an offering of 10,000,000 shares of the common stock of Prospect Capital Corporation. Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

Our common stock trades on the NASDAQ Global Select Market under the symbol "PSEC." The last reported closing sale price of our common stock on June 20, 2011 was \$10.68 per share and our most recently determined net asset value per share was \$10.33 as of March 31, 2011 (\$10.23 on an as adjusted basis solely to give effect to our distributions with record dates of April 29, 2011 and May 31, 2011, our issuance of common stock on April 29, 2011 and May 31, 2011 in connection with our dividend reinvestment plan and our public stock offering of 9,000,000 shares on April 7, 2011).

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-8 of this prospectus supplement and page 9 of the accompanying prospectus.

| | Per Share | Total |
|--|-----------|----------------|
| Price to the public | \$ 10.15 | \$ 101,500,000 |
| Underwriting discounts and commissions | \$ 0.11 | \$ 1,100,000 |
| Proceeds to Prospect Capital Corporation (before expenses) | \$ 10.04 | \$ 100,400,000 |

The underwriter has an option for a period of 30 days from the date of this prospectus supplement to purchase up to an aggregate of 1,500,000 additional shares of our common stock at \$10.04 per share.

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

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

Barclays Capital expects to deliver the shares on or about, June 24, 2011.

Barclays Capital

Prospectus Supplement dated June 21, 2011

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FORWARD-LOOKING STATEMENTS

Our annual report on Form 10-K for the year ended June 30, 2010, any of our quarterly reports on Form 10-Q or current reports on Form 8-K, or any other oral or written statements made in press releases or otherwise by or on behalf of Prospect Capital Corporation, including this prospectus supplement and the accompanying prospectus, may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act", which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as "intends", "intend", "intended", "goal", "estimate", "estimates", "expects", "expect", "expected", "project", "projected", "projections", "plans", "seeks", "anticipates", "anticipated", "should", "could", "may", "will", "designed to", "foreseeable future", "believe", "believes" and "scheduled" and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

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

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authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, Internal Revenue Service, the NASDAQ Global Select Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and

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

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

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates. Our business, financial condition and results of operations may have changed since those dates. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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PROSPECTUS SUMMARY

This summary highlights some information from this prospectus supplement and the accompanying prospectus, and it may not contain all of the information that is important to you. To understand the terms of the common stock offered hereby, you should read this prospectus supplement and the accompanying prospectus carefully. Together, these documents describe the specific terms of the shares of common stock we are offering. You should carefully read the sections titled "Risk Factors" in this prospectus supplement and in the accompanying prospectus and the documents identified in the section "Available Information".

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

The Company

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

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

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

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. Motivated sellers, including commercial finance companies, hedge funds, other business development companies, total return swap counterparties, banks, collateralized loan obligation funds, and other entities, are suffering from excess leverage, and we believe we are well positioned to capitalize as potential buyers of such assets at attractive prices. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of March 31, 2011, we held investments in 64 portfolio companies. The aggregate fair value as of March 31, 2011 of investments in these portfolio companies held on that date is approximately \$1.214 billion. Our portfolio across all our long-term debt and certain equity investments had an annualized current yield of 12.9% as of March 31, 2011. The yield includes interest as well as dividends.

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Recent Developments

Equity Offering

On April 7, 2011, we completed a public stock offering for 9,000,000 shares of our common stock at \$11.40 per share, raising \$102.6 million of gross proceeds.

Stock Issuance in Connection with Dividend Reinvestment Plan

On April 29, 2011, we issued 76,377 shares of our common stock in connection with the dividend reinvestment plan.

On May 31, 2011, we issued 78,689 shares of our common stock in connection with the dividend reinvestment plan.

Dividends

On May 9, 2011, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101225 per share for May 2011 to holders of record on May 31, 2011 with a payment date of June 24, 2011;

\$0.101250 per share for June 2011 to holders of record on June 30, 2011 with a payment date of July 22, 2011;

\$0.101275 per share for July 2011 to holders of record on July 29, 2011 with a payment date of August 26, 2011; and

\$0.101300 per share for August 2011 to holders of record on August 31, 2011 with a payment date of September 23, 2011.

Credit Facility

On April 21, 2011, we announced an increase in commitments to our credit facility of \$40.0 million. The commitments to the credit facility now stand at \$325.0 million.

Recent Investment Activity

On April 18, 2011, Unitek repaid the \$11.5 million loan receivable to us.

On April 18, 2011, we made a \$13.0 million secured debt investment to support the acquisition of a leading food distributor by Annex Capital Management.

On April 26, 2011, we made a senior secured follow-on investment of \$11.0 million in ICON Health & Fitness, Inc. ("ICON").

On May 2, 2011, we sold our membership interests in Fischbein, LLC ("Fischbein") for \$13.3 million of gross proceeds, \$1.5 million of which is deferred revenue held in escrow, realizing a gain of \$9.9 million, and received a repayment on the loan that was outstanding. We subsequently made a \$3.3 million senior secured second-lien term loan and invested \$0.875 million in the common equity of Fischbein with the new ownership.

On May 3, 2011, we made a debt investment of \$25.0 million to support the acquisition of J.D. Byrider, Inc., a leading used car sales and finance business, by Altamont Capital Partners.

On May 6, 2011, we made a \$31.75 million investment in an advertising media buying business. \$24.25 million is structured as senior secured debt, \$2.8 million as subordinated debt and \$4.4 million as controlling equity. In addition, \$0.3 million was funded on a \$3.0 million committed revolver.

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On May 6, 2011, we provided \$15.0 million in secured second-lien acquisition financing for a top company in the in-store media industry.

On May 6, 2011, we provided \$15.0 million in secured second-lien financing for the recapitalization of a leading company in the engineered glass materials industry.

On May 25, 2011, we provided \$24 million in secured first-lien financing to Targus Group International, Inc., the leading global supplier of notebook carrying cases and accessories.

On May 31, 2011, we provided \$35 million in secured second-lien financing to Spring Window Fashions, LLC, a leading designer and manufacturer of high-quality window treatments.

On May 31, 2011, Label Corp Holdings Inc. repaid the \$5.7 million loan receivable to us.

On June 3, 2011, Prince Mineral Company, Inc. repaid the \$23.5 million loan receivable to us and we recognized \$10.5 million of accelerated purchase discount accretion.

On June 17, 2011, we provided \$26.5 million in senior secured financing to support the acquisition of ST Products, LLC by Quilvest Private Equity and Malakand Capital.

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The Offering

| | |
|--|---|
| Common stock offered by us, excluding the underwriter's option to purchase additional shares | 10,000,000 shares. |
| Common stock outstanding prior to this offering | 97,513,877 shares. |
| Common stock outstanding after this offering, excluding the underwriter's option to purchase additional shares | 107,513,877 shares. |
| Use of proceeds | We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See "Use of Proceeds" in this prospectus supplement. |
| The NASDAQ Global Select Market symbol | PSEC |
| Risk factors | See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock. |
| Current distribution rate | <p>On May 9, 2011, we announced that our Board of Directors declared monthly distributions in the following amounts and with the following dates:</p> <p style="padding-left: 40px;">\$0.101225 per share for May 2011 to holders of record on May 31, 2011 with a payment date of June 24, 2011;</p> <p style="padding-left: 40px;">\$0.101250 per share for June 2011 to holders of record on June 30, 2011 with a payment date of July 22, 2011;</p> <p style="padding-left: 40px;">\$0.101275 per share for July 2011 to holders of record on July 29, 2011 with a payment date of August 26, 2011; and</p> <p style="padding-left: 40px;">\$0.101300 per share for August 2011 to holders of record on August 31, 2011 with a payment date of September 23, 2011,</p> <p>representing an annualized distribution yield (based on the June 2011 distribution) of approximately 11.38% based on our June 20, 2011 closing stock price of \$10.68 per share. Such distributions are expected to be payable out of earnings. Our distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.</p> |

Table of Contents**Fees and Expenses**

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$325 million under our credit facility, which is the maximum amount available under the credit facility. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:

| | |
|---|-------|
| Sales load (as a percentage of offering price) ¹ | 1.08% |
| Offering expenses borne by us (as a percentage of offering price) ² | 0.20% |
| Dividend reinvestment plan expenses ³ | None |
| Total stockholder transaction expenses (as a percentage of offering price) ⁴ | 1.28% |

Annual expenses (as a percentage of net assets attributable to common stock)⁴:

| | |
|--|--------|
| Management Fees ⁵ | 3.54% |
| Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) ⁶ | 2.34% |
| Interest payments on the credit facility | 1.51% |
| Interest payments on the 2010 Notes ⁷ | 1.03% |
| Interest payments on the 2011 Notes ⁸ | 1.04% |
| Acquired Fund Fees and Expenses ⁹ | 0.01% |
| Other expenses ¹⁰ | 1.65% |
| Total annual expenses ^{6,10} | 11.12% |

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed all \$325 million available under our line of credit, that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|----------|-----------|-----------|-----------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return | \$ 89.21 | \$ 235.79 | \$ 374.46 | \$ 689.21 |

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The income incentive fee under our Investment Advisory Agreement with Prospect Capital Management is unlikely to be material assuming a 5% annual return and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our distributions to our common stockholders and our expenses would likely be higher. In addition, while the example assumes reinvestment of all dividends and other distributions at net asset value, or NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

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

-
- 1 The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one time fee, is the only sales load paid in connection with this offering.
- 2 The offering expenses of this offering are estimated to be approximately \$200,000.
- 3 The expenses of the dividend reinvestment plan are included in "other expenses".
- 4 The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.
- 5 Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed \$325 million, the 2% management fee of gross assets equals approximately 3.54% of net assets. See "Business Management Services Investment Advisory Agreement" in the accompanying prospectus and footnote 6 below.
- 6 Based on an annualized level of incentive fee paid during our third fiscal quarter ended March 31, 2011, all of which consisted of an income incentive fee. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services Investment Advisory Agreement" in the accompanying prospectus.
- 7 On December 21, 2010, the Company issued \$150 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the 2010 Notes. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2010 Notes.
- 8 On February 18, 2011, the Company issued \$172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the 2011 Notes. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2011 Notes. The 2011 Notes and the 2010 Notes are referred to collectively as the Senior Convertible Notes.
- 9 The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of March 31, 2011. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately \$913 million as of March 31, 2011.
- 10 "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended March 31, 2011 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement" in the accompanying prospectus.

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You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2010, 2009, 2008, 2007 and 2006 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months and nine months ended March 31, 2011 and 2010 has been derived from unaudited financial data. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-10 for more information.

| | For the Three Months Ended March 31, | | For the Nine Months Ended March 31, | | For the Year Ended June 30, | | | | | |
|--|---|------------------|--|-----------------|-----------------------------|------------------|------------------|------------------|------------------|--|
| | 2011 | 2010 | 2011 | 2010 | 2010 | 2009 | 2008 | 2007 | 2006 | |
| (In thousands except data relating to shares, per share and number of portfolio companies) | | | | | | | | | | |
| Performance Data: | | | | | | | | | | |
| Interest income | \$ 34,504 | \$ 27,947 | \$ 90,787 | \$ 61,321 | \$ 86,518 | \$ 62,926 | \$ 59,033 | \$ 30,084 | \$ 13,268 | |
| Dividend income | 2,763 | 2,301 | 8,328 | 12,689 | 15,366 | 22,793 | 12,033 | 6,153 | 3,601 | |
| Other income | 7,306 | 1,757 | 13,970 | 11,313 | 12,675 | 14,762 | 8,336 | 4,444 | | |
| Total investment income | 44,573 | 32,005 | 113,085 | 85,323 | 114,559 | 100,481 | 79,402 | 40,681 | 16,869 | |
| Interest and debt expenses | 5,660 | 2,111 | 10,182 | 5,480 | (8,382) | (6,161) | (6,318) | (1,903) | (642) | |
| Investment advisory expense | 12,034 | 8,320 | 31,231 | 22,601 | (30,727) | (26,705) | (20,199) | (11,226) | (3,868) | |
| Other expenses | 2,923 | 2,600 | 7,641 | 6,692 | (8,260) | (8,452) | (7,772) | (4,421) | (3,801) | |
| Total operating expenses | 20,617 | 13,031 | 49,054 | 34,773 | (47,369) | (41,318) | (34,289) | (17,550) | (8,311) | |
| Net investment income | 23,956 | 18,974 | 64,031 | 50,550 | 67,190 | 59,163 | 45,113 | 23,131 | 8,558 | |
| Realized and unrealized gains (losses) | 9,803 | 6,966 | 27,248 | (45,508) | (47,565) | (24,059) | (17,522) | (6,403) | 4,338 | |
| Net increase (decrease) in net assets from operations | \$ 33,759 | \$ 25,940 | \$ 91,279 | \$ 5,042 | \$ 19,625 | \$ 35,104 | \$ 27,591 | \$ 16,728 | \$ 12,896 | |
| Per Share Data: | | | | | | | | | | |
| Net increase (decrease) in net assets from operations ¹ | \$ 0.38 | \$ 0.41 | \$ 1.11 | \$ 0.09 | \$ 0.33 | \$ 1.11 | \$ 1.17 | \$ 1.06 | \$ 1.83 | |
| Distributions declared per share | \$ 0.30 | \$ 0.41 | \$ 0.91 | \$ 1.23 | \$ (1.33) | \$ (1.62) | \$ (1.59) | \$ (1.54) | \$ (1.12) | |
| Average weighted shares outstanding for the period | 88,200,916 | 63,569,663 | 82,112,300 | 56,948,036 | 59,429,222 | 31,559,905 | 23,626,642 | 15,724,095 | 7,056,846 | |
| Assets and Liabilities Data: | | | | | | | | | | |
| Investments | \$ 1,213,517 | \$ 697,001 | \$ 1,213,517 | \$ 697,001 | \$ 748,483 | \$ 547,168 | \$ 497,530 | \$ 328,222 | \$ 133,969 | |
| Other assets | 125,345 | 53,526 | 125,345 | 53,526 | 84,212 | 119,857 | 44,248 | 48,280 | 4,511 | |
| Total assets | 1,338,862 | 750,527 | 1,338,862 | 750,527 | 832,695 | 667,025 | 541,778 | 376,502 | 138,480 | |
| | 47,500 | 54,200 | 47,500 | 54,200 | 100,300 | 124,800 | 91,167 | | 28,500 | |

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| | | | | | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Amount drawn on credit facility | | | | | | | | | |
| 2010 Notes | 150,000 | | 150,000 | | | | | | |
| 2011 Notes | 172,500 | | 172,500 | | | | | | |
| Amount owed to related parties | | | | | | | | | |
| | 7,809 | 10,074 | 7,809 | 10,074 | 9,300 | 6,713 | 6,641 | 4,838 | 745 |
| Other liabilities | 48,132 | 34,434 | 48,132 | 34,434 | 11,671 | 2,916 | 14,347 | 71,616 | 965 |
| Total liabilities | 425,941 | 98,708 | 425,941 | 98,708 | 121,271 | 134,429 | 112,155 | 76,454 | 30,210 |
| Net assets | \$ 912,921 | \$ 651,819 | \$ 912,921 | \$ 651,819 | \$ 711,424 | \$ 532,596 | \$ 429,623 | \$ 300,048 | \$ 108,270 |

Investment Activity

Data:

| | | | | | | | | | |
|--|------------|-----------|------------|------------|-------------------------|-----------|-----------------|-----------------|-----------|
| No. of portfolio companies at period end | | | | | | | | | |
| | 64 | 55 | 64 | 55 | 58 | 30 | 29 ₂ | 24 ₂ | 15 |
| Acquisitions | \$ 359,152 | \$ 59,311 | \$ 641,036 | \$ 275,815 | \$ 364,788 ₄ | \$ 98,305 | \$ 311,947 | \$ 167,255 | \$ 83,625 |
| Sales, repayments, and other disposals | \$ 76,494 | \$ 26,603 | \$ 207,557 | \$ 96,338 | \$ 136,221 | \$ 27,007 | \$ 127,212 | \$ 38,407 | \$ 9,954 |
| Weighted-Average Yield at end of period ³ | | | | | | | | | |
| | 12.9% | 14.6% | 12.9% | 14.6% | 14.2% | 13.7% | 15.5% | 17.1% | 17.0% |

¹ Per share data is based on average weighted shares for the period.

² Includes a net profits interest in Charlevoix Energy Trading LLC, or Charlevoix, remaining after loan was paid.

³ Includes dividends from certain equity investments.

⁴ Includes \$207.1 million of acquired portfolio investments from Patriot Acquisition.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and in the accompanying prospectus, together with all of the other information included in this prospectus supplement and in the accompanying prospectus, before you decide whether to make an investment in our common stock. The risks set forth below and in the accompanying prospectus are not the only risks we face. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV and the trading price of our common stock could decline, we could reduce or eliminate our dividend and you could lose all or part of your investment.

Recent developments may increase the risks associated with our business and an investment in us.

The U.S. financial markets have been experiencing a high level of volatility, disruption and distress, which was exacerbated by the failure of several major financial institutions in the last few months of 2008. Despite actions of the United States federal government, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. Similar conditions have occurred in the financial markets and economies of numerous other countries. While these conditions appear to be improving, they could continue for a prolonged period of time or worsen in the future both in the U.S. and globally. These conditions have raised the level of many of the risks described in this prospectus supplement and in the accompanying prospectus and could have an adverse effect on our portfolio companies as well as on our business, financial condition, results of operations, dividend payments, credit facility, access to capital, valuation of our assets, including our NAV, and our stock price.

Our most recent NAV was calculated on March 31, 2011 and our NAV when calculated effective June 30, 2011 may be higher or lower.

Our most recently estimated NAV per share is \$10.23 on an as adjusted basis solely to give effect to our distributions with record dates of April 29, 2011 and May 31, 2011, our issuance of common stock on April 29, 2011 and May 31, 2011 in connection with our dividend reinvestment plan and our public stock offering of 9,000,000 shares on April 7, 2011 versus \$10.33 determined by us as of March 31, 2011. NAV per share as of June 30, 2011, may be higher or lower than \$10.23 based on potential changes in valuations and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to March 31, 2011. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from an independent valuation firm, our Investment Advisor and the audit committee of our Board of Directors.

If we sell common stock at a discount to our NAV per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending on December 11, 2011, as described in this prospectus supplement and in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the

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aggregate NAV of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information about recent sales below NAV per share, see "Recent Sales of Common Stock Below Net Asset Value" in this prospectus supplement and for additional information and hypothetical examples of these risks, see "Sales of Common Stock Below Net Asset Value" in this prospectus supplement and in the accompanying prospectus.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
(All figures in this section are in thousands except share, per share and other data)

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

Overview

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

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

The aggregate value of our portfolio investments was \$1,213,517 and \$748,483 as of March 31, 2011 and June 30, 2010, respectively. During the nine months ended March 31, 2011, our net cost of investments increased by \$444,880, or 61.0%, primarily as a result of our investment in nineteen new and ten follow-on investments of \$632,526, while we received full repayment on eleven investments, sold three investments and received several partial repayments and revolver paydowns of \$214,125.

Compared to the end of last fiscal year (ended June 30, 2010), net assets increased by \$201,497 or 28.0% during the nine months ended March 31, 2011, from \$711,424 to \$912,921. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$177,593, dividend reinvestments of \$8,166, and another \$91,279 from operations. These increases, in turn, were offset by \$75,541 in dividend distributions to our stockholders. The \$91,279 increase in net assets resulting from operations is net of the following: net investment income of \$64,031, net realized gain on investments of \$7,094, and an increase in net assets due to changes in net unrealized appreciation of investments of \$20,154.

Market Conditions

The economy continues to show signs of recovery from the deteriorating credit markets of 2008 and 2009. The growth and improvement in the capital markets that began during the second half of 2009 has continued. While encouraged by the signs of improvement, we operate in a challenging environment that is still recovering from a recession and financial services industry negatively affected by the deterioration of credit quality in subprime residential mortgages that spread rapidly to other credit markets. Market liquidity and credit quality conditions continue to remain weaker today than three years ago.

We believe that Prospect is well positioned to navigate through these adverse market conditions. As a business development company, we are limited to a maximum 1 to 1 debt to equity ratio. On December 21, 2010 and February 18, 2011, we issued \$150,000 of 6.25% Senior Convertible Notes due 2015 ("2010 Notes") and \$172,500 of 5.50% Senior Convertible Notes due 2016 ("2011 Notes"), respectively (collectively, "Senior Convertible Notes"), to further enhance our liquidity position and to

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demonstrate our access to the unsecured term debt market (as described in Note 6 to our consolidated financial statements). The Senior Convertible Notes are general unsecured obligations, rank equally in right of payment with our existing and future senior unsecured debt, and will rank senior in right of payment to any potential subordinated debt, should any be issued in the future. The Senior Convertible Notes have no restrictions related to the type and security of assets in which Prospect might invest.

As of March 31, 2011, we had \$47,500 outstanding borrowings on the credit facility and \$322,500 outstanding on our Senior Convertible Notes. We also had \$159,967 available under our credit facility for additional borrowing. Further, as we pledge additional investments to the credit facility, we will generate additional credit facility availability. The revolving period for our credit facility continues until June 13, 2012, with an amortization running to June 13, 2013. During the amortization period only principal payments received on the pledged assets are required to be used for amortization.

We also continue to generate liquidity through public and private stock offerings. On July 7, 2009, we completed a public stock offering for 5,175,000 shares of our common stock at \$9.00 per share, raising \$46,575 of gross proceeds. On August 20, 2009 and September 24, 2009, we issued 3,449,686 shares and 2,807,111 shares, respectively, of our common stock at \$8.50 and \$9.00 per share, respectively, in private stock offerings, raising \$29,322, and \$25,264 of gross proceeds, respectively. Concurrent with the sale of these shares, we entered into a registration rights agreement in which we granted the purchasers certain registration rights with respect to the shares. Under the terms and conditions of the registration rights agreement, we filed with the SEC a post-effective amendment to the registration statement on Form N-2 on November 6, 2009. Such amendment was declared effective by the SEC on November 9, 2009.

On March 17, 2010, we established an at-the-market program through which we sold shares of our common stock. An at-the-market offering is a registered offering by a publicly traded issuer of its listed equity securities selling shares directly into the market at market prices. We engaged two broker-dealers to act as agents and sell our common stock directly into the market over a period of time. We paid a 2% commission to the broker-dealer on shares sold. Through this program we issued 8,000,000 shares of our common stock at an average price of \$10.90 per share, raising \$87,177 of gross proceeds, from March 23, 2010 through July 21, 2010.

On July 19, 2010, we established a second at-the-market program, as we had sold all the shares authorized in the original at-the-market program. We engaged three broker-dealers to act as potential agents and sell our common stock directly into the market over a period of time. We paid a 2% commission to the broker-dealer on shares sold. Through this program we issued 6,000,000 shares of our common stock at an average price of \$9.73 per share, raising \$58,403 of gross proceeds, from July 22, 2010 through September 28, 2010.

On September 24, 2010, we established a third at-the-market program, as we had sold all the shares authorized in the preceding at-the-market programs, through which we may sell, from time to time and at our discretion, 6,000,000 shares of our common stock. We engaged three broker-dealers to act as potential agents and sell our common stock directly into the market over a period of time. We paid a 2% commission to the broker-dealer on shares sold. Through this program we issued 302,400 shares of our common stock at an average price of \$9.87 per share, raising \$2,986 of gross proceeds, from September 29, 2010 through September 30, 2010. During the period from October 1, 2010 to November 3, 2010, we continued this program and issued an additional 4,929,556 shares of our common stock at an average price of \$9.86 per share, raising \$48,611 of gross proceeds.

On November 10, 2010, we established a fourth at-the-market program, through which we may sell, from time to time and at our discretion, 9,750,000 shares of our common stock. We engaged four broker-dealers to act as potential agents and sell our common stock directly into the market over a period of time. We paid a 2% commission to the broker-dealer on shares sold. Through this program

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we issued 4,513,920 shares of our common stock at an average price of \$10.00 per share, raising \$45,147 of gross proceeds, from November 16, 2010 through December 15, 2010.

On March 16, 2011, our new Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$750,000 of additional equity securities as of March 31, 2011.

On April 7, 2011, we completed a public stock offering for 9,000,000 shares of our common stock at \$11.40 per share, raising \$102,600 of gross proceeds.

Our Board of Directors, pursuant to the Maryland General Corporation Law, executed Articles of Amendment to increase the number of shares authorized for issuance from 100,000,000 to 200,000,000 in the aggregate. The amendment became effective August 31, 2010.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

Third Quarter Highlights

Investment Transactions

On January 6, 2011, we made a senior secured term loan investment of \$30,000 to support the acquisition of Progressive Logistics Services, LLC ("Progressive") by a middle market private equity firm.

On January 10, 2011, we made a senior secured debt investment of \$19,000 to support the acquisition of Endeavor House by Pinnacle Treatment Centers, Inc. ("Pinnacle").

On January 10, 2011, we sold our remaining 616,304 shares of Miller Petroleum, Inc. ("Miller") common stock realizing \$4.23 of net proceeds per share, realizing a gain of \$2,561 on the sale.

On January 21, 2011, we provided senior secured credit facilities of \$28,200 to support the acquisition of Stauber Performance Ingredients ("Stauber") by ICV Partners. Through March 31, 2011, we have funded \$25,700 of the commitment.

On January 24, 2011, Maverick Healthcare, LLC ("Maverick") repaid the \$13,122 loan receivable to us.

On January 31, 2011, we made a senior secured term investment of \$7,500 to support the recapitalization of Empire Today, LLC ("Empire"), which is the second largest independent provider of carpet and hard surface flooring to consumers in the residential replacement flooring industry.

On February 3, 2011, we made a senior secured debt investment of \$22,000 to support the recapitalization of Medical Security Card Company, LLC ("Medical Security"), a pharmacy services company. Through March 31, 2011, we funded \$20,500 of the commitment.

On February 4, 2011, we made a secured second-lien debt investment of \$45,000 to support the refinancing of Clearwater Seafoods Limited Partnership ("Clearwater"), a leading premium seafood company based in Nova Scotia, Canada.

On February 9, 2011, we made a net follow-on investment of \$2,967 in The Copernicus Group, Inc. ("Copernicus") that increased our total investment to \$22,500.

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On March 2, 2011, we made a senior secured first-lien debt investment of \$12,500 to support the acquisition of Out Rage, LLC ("Out Rage"), a market leader in the bowhunting equipment industry.

On March 4, 2011, we made a \$27,000 secured second-lien term loan to Arrowhead General Insurance Agency, Inc. ("Arrowhead"). After the financing we received a repayment of the loan that was previously outstanding.

On March 11, 2011, EXL Acquisition Corporation ("EXL") repaid the \$22,988 loan receivable to us and we sold our 2,500 shares of EXL common stock.

On March 18, 2011, we closed a \$60,000 first-lien senior secured facility for Safe-Guard Products International, LLC ("Safe-Guard"), the leading third-party administrator of ancillary finance and insurance products and services for new, used, and leased motor vehicles.

On March 31, 2011, we funded a \$53,000 first-lien senior secured credit facility, funded \$1,435 of a \$5,000 commitment on a revolving line of credit and invested \$1,500 in common equity to support the acquisition of Cargo Airport Services by ICV Partners.

On March 31, 2011, we provided a net \$32,770 in first-lien senior secured financing for the recapitalization of Progrexion Holdings, LLC ("Progrexion") focused on the consumer credit information sector.

On March 31, 2011, KTPS Holdings, LLC ("KTPS") repaid the \$8,414 loan receivable to us. A portion of the loan receivable was repaid at a discount, for which we realized a loss of \$549.

Equity Issuance

On January 31, 2011, February 28, 2011 and March 31, 2011, we issued shares of our common stock in connection with the dividend reinvestment plan of 84,155, 83,021 and 76,253, respectively.

Dividend

On February 8, 2011, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101150 per share for February 2011 to holders of record on February 28, 2011 with a payment date of March 31, 2011;

\$0.101175 per share for March 2011 to holders of record on March 31, 2011 with a payment date of April 29, 2011;

\$0.101200 per share for April 2011 to holders of record on April 29, 2011 with a payment date of May 31, 2011.

Credit Facility

On January 13, 2011, we amended our revolving credit facility. The amendment increases the accordion feature limit from \$300,000 to \$400,000 of commitments, of which \$285,000 of commitments were in place as of March 31, 2011. Other changes in the amendment increase our borrowing base with the investments currently pledged to the facility by reducing some concentration limits and allow us to pledge new assets to the facility on an expedited basis.

Senior Convertible Notes

On February 18, 2011, we issued \$172,500 in aggregate principal amount of 5.50% senior convertible notes due 2016. The 2011 Notes mature on August 15, 2016, unless previously converted in

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accordance with their terms. The 2011 Notes are general unsecured obligations, rank equally in right of payment with our existing, including the 2010 Notes and future senior unsecured debt, and rank senior in right of payment to any potential subordinated debt, should any be issued in the future. The 2011 Notes are convertible into shares of our common stock at an initial conversion rate and conversion rate at March 31, 2011 of 78.3699 and 78.3701 shares, respectively, of Common Stock per \$1,000 principal amount of 2011 Notes, which is equivalent to a conversion price of approximately \$12.76 per share of Common Stock, subject to adjustment in certain circumstances. The holders of the 2011 Notes may also put back the 2011 Notes to the Company under certain circumstances. The net proceeds from the offering of the 2011 Notes were approximately \$166,925, which have used to maintain balance sheet liquidity, including repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and will thereafter be used to make long-term investments in accordance with our investment objective. We have analyzed the features of the 2011 Notes to determine if bifurcation was necessary and have determined that it is not material.

Recent Developments

On April 7, 2011, we completed a public stock offering for 9,000,000 shares of our common stock at \$11.40 per share, raising \$102,600 of gross proceeds.

On April 18, 2011, Unitek repaid the \$11,500 loan receivable to us.

On April 18, 2011, we made a \$13,000 secured debt investment to support the acquisition of a leading food distributor by Annex Capital Management.

On April 21, 2011, we announced an increase in commitments to our credit facility of \$40,000. The commitments to the credit facility now stand at \$325,000.

On April 26, 2011, we made a senior secured follow-on investment of \$11,000 in ICON Health & Fitness, Inc. ("ICON").

On April 29, 2011, we issued 76,377 shares of our common stock in connection with the dividend reinvestment plan.

On May 2, 2011, we sold our membership interests in Fischbein, LLC ("Fischbein") for \$13,270 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.

On May 3, 2011, we made a debt investment of \$25,000 to support the acquisition of J.D. Byrider, Inc., a leading used car sales and finance business, by Altamont Capital Partners.

On May 6, 2011, we made a \$31,750 investment in an advertising media buying business. \$24,250 is structured as senior secured debt, \$2,800 as subordinated debt and \$4,400 as controlling equity. In addition, \$300 was funded on a \$3,000 committed revolver.

On May 6, 2011, we provided \$15,000 in secured second-lien acquisition financing for a top company in the in-store media industry.

On May 6, 2011, we provided \$15,000 in secured second-lien financing for the recapitalization of a leading company in the engineered glass materials industry.

On May 9, 2011, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101225 per share for May 2011 to holders of record on May 31, 2011 with a payment date of June 24, 2011;

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\$0.101250 per share for June 2011 to holders of record on June 30, 2011 with a payment date of July 22, 2011;

\$0.101275 per share for July 2011 to holders of record on July 29, 2011 with a payment date of August 26, 2011;

\$0.101300 per share for August 2011 to holders of record on August 31, 2011 with a payment date of September 23, 2011.

On May 25, 2011, we provided \$24,000 in secured first-lien financing to Targus Group International, Inc., the leading global supplier of notebook carrying cases and accessories.

On May 31, 2011, we issued 78,689 shares of our common stock in connection with the dividend reinvestment plan.

On May 31, 2011, we provided \$35,000 in secured second-lien financing to Spring Window Fashions, LLC, a leading designer and manufacturer of high-quality window treatments.

On May 31, 2011, Label Corp Holdings Inc. repaid the \$5,749 loan receivable to us.

On June 3, 2011, Prince Mineral Company, Inc. repaid the \$23,540 loan receivable to us and we recognized \$10,463 of accelerated purchase discount accretion.

On June 17, 2011, we provided \$26,500 in senior secured financing to support the acquisition of ST Products, LLC by Quilvest Private Equity and Malakand Capital.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ materially. In addition to the discussion below, our critical accounting policies are further described in the notes to the financial statements.

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X, and the American Institute of Certified Public Accountants' Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our March 31, 2011 and June 30, 2010 financial statements include our accounts and the accounts of Prospect Capital Funding, LLC, our only wholly-owned, closely-managed subsidiary, which 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

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

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

Investment Valuation

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

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

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

- 1) Each portfolio company or investment is reviewed by our investment professionals with the independent valuation firm engaged by our Board of Directors;
- 2) the independent valuation firm conducts independent appraisals and makes their own independent assessment;
- 3) the audit committee of our Board of Directors reviews and discusses the preliminary valuation by our Investment Adviser within the valuation range presented by the independent valuation firm; and
- 4) the Board of Directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the independent valuation firm and the audit committee.

In September 2006, the Financial Accounting Standards Board ("FASB") issued ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. We adopted ASC 820 on a prospective basis beginning in the quarter ended September 30, 2008.

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

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measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

The changes to generally accepted accounting principles from the application of ASC 820 relate to the definition of fair value, framework for measuring fair value, and the expanded disclosures about fair value measurements. ASC 820 applies to fair value measurements already required or permitted by other standards.

In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

In April 2009, the FASB issued ASC 820-10-65, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("ASC 820-10-65"). This update provides further clarification for ASC 820 in markets that are not active and provides additional guidance for determining when the volume of trading level of activity for an asset or liability has significantly decreased and for identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 820-10-65 for the three and nine months ended March 31, 2011 and 2010, did not have any effect on our net asset value, financial position or results of operations as there was no change to the fair value measurement principles set forth in ASC 820.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). ASU 2010-06 amends ASC 820-10 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. Our management does not believe that the adoption of the amended guidance in ASC 820-10 will have a significant effect on our financial statements.

Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual taxable income 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 taxable income exceeds the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

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

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distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate for taxable years beginning before 2013 (but not for taxable years beginning thereafter, unless the relevant provisions are extended by legislation) to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

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. Adoption of ASC 740 was applied to all open tax years as of July 1, 2007. The adoption of ASC 740 did not have an effect on our net asset value, financial condition or results of operations as there was no liability for unrecognized tax benefits and no change to our beginning net asset value. As of March 31, 2011 and for the three and nine months 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.

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. 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.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will not be collected in accordance with the terms of the investment. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of March 31, 2011, approximately 2.4% of our net assets are in non-accrual status.

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.

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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 the Senior Convertible Notes as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our revolving credit facility and the effective interest method for our Senior Convertible Notes, over the respective stated life.

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of 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.

Senior Convertible Notes

We have recorded the Senior Convertible Notes (See Note 6 to our consolidated financial statements) at their contractual amounts. The Senior Convertible Notes were analyzed for any features that would require its accounting to be bifurcated and they were determined to be immaterial.

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 June 2009, the FASB issued ASC 860, *Accounting for Transfers of Financial Assets - an amendment to FAS 140* ("ASC 860"). ASC 860 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets: the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. ASC 860 was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009 (our June 30, 2011 fiscal year), for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this standard had no effect on our results of operation or our financial position.

In June 2009, the FASB issued ASC 810, *Consolidation* ("ASC 810"). ASC 810 is intended to (1) address the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003),

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Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in ASC 860, and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provided timely and useful information about an enterprise's involvement in a variable interest entity. ASC 810 was effective as of the beginning of our first annual reporting period that begins after November 15, 2009 (our June 30, 2011 fiscal year). The adoption of this standard had no effect on our results of operation or our financial position.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASC 2010-06"). ASU 2010-06 amends ASC 820-10 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective December 15, 2009, except for the disclosure about purchase, sales, issuances and settlements in the roll forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 (or July 1, 2011 for us) and for interim periods within those fiscal years. We do not believe that the adoption of the amended guidance in ASC 820-10 will have a significant effect on our financial statements.

In February 2010, the FASB issued Accounting Standards Update 2010-10, *Consolidation (Topic 810) Amendments for Certain Investments Funds* ("ASU 2010-10"), which defers the application of the consolidation guidance in ASC 810 for certain investments funds. The disclosure requirements continue to apply to all entities. ASU 2010-10 was effective as of the beginning of the first annual period that began after November 15, 2009 and for interim periods within that first annual period or July 1, 2010 for us. The adoption of this standard had no effect on our results of operation or our financial position.

In August 2010, the FASB issued Accounting Standards Update 2010-21, *Accounting for Technical Amendments to Various SEC Rules and Schedules* ("ASU 2010-21"). This Accounting Standards Update various SEC paragraphs pursuant to the issuance of Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies. The adoption of this standard had no effect on our results of operation or our financial position.

In August 2010, the FASB issued Accounting Standards Update 2010-22, *Accounting for Various Topics Technical Corrections to SEC Paragraphs* ("ASU 2010-22"). ASU 2010-22 amends various SEC paragraphs based on external comments received and the issuance of Staff Accounting Bulletin ("SAB") 112, which amends or rescinds portions of certain SAB topics. The adoption of this standard had no effect on our results of operation or our financial position.

In December 2010, the FASB issued Accounting Standards Update 2010-29, *Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASM Emerging Issues Task Force* ("ASU 2010-29"). ASU 2010-29 addresses diversity in practice about the interpretation of pro forma revenue and earnings disclosure requirements for business combinations. The amended guidance in ASU 2010-29 specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior reporting period only. This standard also expands the supplemental pro forma disclosures under ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in ASU 2010-29 are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted or effective

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July 1, 2011 for us. Our management does not believe that the adoption of the amended guidance in ASU 2010-29 will have a significant effect on our financial statements

In February 2011, the FASB issued Accounting Standards Update 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* ("ASU 2011-02"). ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 provides guidance to clarify whether the creditor has granted a concession and whether a debtor is experiencing financial difficulties. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption or July 1, 2011 for us. We do not believe that the adoption of the amended guidance in ASU 2011-02 will have a significant effect on our financial statements.

Patriot Acquisition

On December 2, 2009, we acquired the outstanding shares of Patriot Capital Funding, Inc. ("Patriot") common stock for \$201,083. Under the terms of the merger agreement, Patriot common shareholders received 0.363992 shares of our common stock for each share of Patriot common stock, resulting in 8,444,068 shares of common stock being issued by us. In connection with the transaction, we repaid all the outstanding borrowings of Patriot, in compliance with the merger agreement.

On December 2, 2009, Patriot made a final dividend equal to its undistributed net ordinary income and capital gains of \$0.38 per share. In accordance with a recent IRS revenue procedure, the dividend was paid 10% in cash and 90% in newly issued shares of Patriot's common stock. The exchange ratio was adjusted to give effect to the final income distribution.

The merger has been accounted for as an acquisition of Patriot by Prospect in accordance with acquisition method of accounting as detailed in Accounting Standards Codification ("ASC" or "Codification") 805, *Business Combinations* ("ASC 805"). The fair value of the consideration paid was allocated to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. As described in more detail in ASC 805, goodwill, if any, would have been recognized as of the acquisition date, if the consideration transferred exceeded the fair value of identifiable net assets acquired. As of the acquisition date, the fair value of the identifiable net assets acquired exceeded the fair value of the consideration transferred, and we recognized the excess as a gain. A preliminary gain of \$5,714 was recorded by Prospect in the quarter ended December 31, 2009 related to the acquisition of Patriot, which was revised in the fourth quarter of Fiscal 2010, to \$7,708, when we settled severance accruals related to certain members of Patriot's top management, and finalized during the first quarter of Fiscal 2011, to \$8,632, when we settled the remaining severance accruals related to the last two members of Patriot's top management. Under ASC 805, the adjustments to our preliminary estimates were reflected in the three months ended December 31, 2009 (See Note 14 to our consolidated financial statements.). The acquisition of Patriot was negotiated in July 2009 with the purchase agreement being signed on August 3, 2009. Between July 2009 and December 2, 2009, our valuation of certain of the investments acquired from Patriot increased due to market improvement, which resulted in the recognition of the gain at closing.

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The purchase price has been allocated to the assets acquired and the liabilities assumed based on their estimated fair values as summarized in the following table:

| | |
|---|--------------|
| Cash (to repay Patriot debt) | \$ 107,313 |
| Cash (to fund purchase of restricted stock from former Patriot employees) | 970 |
| Common stock issued ¹ | 92,800 |
| Total purchase price | 201,083 |
| Assets acquired: | |
| Investments ² | 207,126 |
| Cash and cash equivalents | 1,697 |
| Other assets | 3,859 |
| Assets acquired | 212,682 |
| Other liabilities assumed | (2,967) |
| Net assets acquired | 209,715 |
| Gain on Patriot acquisition ³ | \$ 8,632 |

¹ The value of the shares of common stock exchanged with the Patriot common shareholders was based upon the closing price of our common stock on December 2, 2009, the price immediately prior to the closing of the transaction.

² The fair value of Patriot's investments was determined by the Board of Directors in conjunction with an independent valuation agent. This valuation resulted in a purchase price which was \$98,150 below the amortized cost of such investments. For those assets which are performing, Prospect will record the accretion to par value in interest income over the remaining term of the investment.

³ The gain has been determined after the final payments of certain liabilities have been settled.

During the three and nine months ended March 31, 2011, we recognized \$4,739 and \$10,092, respectively, of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$4,739 for the three months ended March 31, 2011, is \$1,302 of normal accretion and \$3,268 of accelerated accretion resulting from the recapitalization of our loans to Arrowhead and Copernicus. Included in the \$10,092 for the nine months ended March 31, 2011, is \$3,979 of normal accretion, \$1,285 of accelerated accretion resulting from the repayment of Impact Products, LLC ("Impact Products") and \$4,828 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead, Copernicus and Northwestern Management Services, LLC ("Northwestern"). The restructured loans for Arrowhead, Copernicus 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.

During the three and nine months ended March 31, 2010, we recognized \$9,133 and \$14,454, respectively, of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$9,133 for the three months ended March 31, 2010, is \$2,231 of normal accretion and \$6,902 of accelerated accretion resulting from the restructuring of our loans to Aircraft Fasteners International, LLC ("AFI"), Prince Mineral Company, Inc. ("Prince") and R-O-M Corporation ("ROM"). The revised terms were more favorable than the original terms and increased the present value of the future cash flows. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income. Included in the \$14,454 for the nine

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months ended March 31, 2010, is \$2,992 of normal accretion and \$11,462 of accelerated accretion resulting from the early repayments of three loans, three revolving lines of credit, the sale of one investment position and the restructuring of our loans to AFI, Prince and ROM.

Investment Holdings

As of March 31, 2011, we continue to pursue our investment strategy. Despite our name change to "Prospect Capital Corporation" and the termination of our policy to invest at least 80% of our net assets in energy companies in May 2007, we currently have a concentration of investments in companies in the energy and energy related industries. Some of the companies in which we invest have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their investment objective or the value of our investment in them may decline substantially or fall to zero.

At March 31, 2011, approximately \$1,213,517 or 132.9% of our net assets was invested in 64 long-term portfolio investments and 10.4% of our net assets invested in money market funds.

During the nine months ended March 31, 2011, we originated \$641,036 of new investments. Our origination efforts recently have focused primarily on secured lending and reducing the risk in the portfolio, including a higher percentage of first-lien loans than in prior periods, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our portfolio's annualized current yield decreased from 14.6% as of March 31, 2010 to 12.9% as of March 31, 2011 across all long-term debt and certain equity investments. We expect Prospect's current asset yield may decline modestly over the next few quarters as we increase the size of the portfolio while reducing credit risk. Monetization of other equity positions that we hold is not included in this yield calculation. In many of our portfolio companies, we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of March 31, 2011, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., C&J Cladding, LLC ("C&J"), Change Clean Energy Holdings, Inc. ("CCEHI"), Fischbein, Freedom Marine Services LLC ("Freedom Marine"), Gas Solutions Holdings, Inc. ("GSHI"), Integrated Contract Services, Inc. ("ICS"), Iron Horse Coiled Tubing, Inc. ("Iron Horse"), Manx Energy, Inc. ("Manx"), NRG Manufacturing, Inc. ("NRG"), Nupla Corporation ("Nupla"), R-V Industries ("R-V"), Inc. and Yatesville Coal Holdings, Inc. ("Yatesville"). We also own an affiliated interest in Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft"), Smart, LLC, and Sport Helmets Holdings, LLC ("Sport Helmets").

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The following is a summary of our investment portfolio by level of control:

| Level of Control | Cost | March 31, 2011 | | Percent of Portfolio | Cost | June 30, 2010 | | Percent of Portfolio |
|---------------------------|---------------------|----------------------|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | | Percent of Portfolio | Fair Value | | | Percent of Portfolio | Fair Value | |
| Control | \$ 235,879 | 18.6% | \$ 275,349 | 21.0% | \$ 185,720 | 23.3% | \$ 195,958 | 24.0% |
| Affiliate | 56,594 | 4.4% | 70,754 | 5.4% | 65,082 | 8.2% | 73,740 | 9.0% |
| Non-control/Non-affiliate | 881,166 | 69.5% | 867,414 | 66.3% | 477,957 | 59.9% | 478,785 | 58.6% |
| Money Market Funds | 94,919 | 7.5% | 94,919 | 7.3% | 68,871 | 8.6% | 68,871 | 8.4% |
| Total Portfolio | \$ 1,268,558 | 100.0% | \$ 1,308,436 | 100.0% | \$ 797,630 | 100.0% | \$ 817,354 | 100.0% |

The following is our investment portfolio presented by type of investment at March 31, 2011 and June 30, 2010, respectively:

| Type of Investment | Cost | March 31, 2011 | | Percent of Portfolio | Cost | June 30, 2010 | | Percent of Portfolio |
|------------------------------|---------------------|----------------------|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | | Percent of Portfolio | Fair Value | | | Percent of Portfolio | Fair Value | |
| Money Market Funds | \$ 94,919 | 7.5% | \$ 94,919 | 7.3% | \$ 68,871 | 8.6% | \$ 68,871 | 8.4% |
| Revolving Line of Credit | 3,379 | 0.3% | 3,378 | 0.3% | 4,754 | 0.6% | 5,017 | 0.6% |
| Senior Secured Debt | 677,450 | 53.3% | 650,356 | 49.8% | 313,755 | 39.4% | 287,470 | 35.2% |
| Subordinated Secured Debt | 382,220 | 30.1% | 357,600 | 27.3% | 333,453 | 41.8% | 313,511 | 38.4% |
| Subordinated Unsecured Debt | 54,488 | 4.3% | 55,375 | 4.2% | 30,209 | 3.8% | 30,895 | 3.8% |
| Preferred Stock | 27,468 | 2.2% | 20,257 | 1.5% | 16,969 | 2.1% | 5,872 | 0.7% |
| Common Stock | 19,864 | 1.6% | 93,546 | 7.1% | 20,243 | 2.5% | 77,131 | 9.4% |
| Membership Interests | 5,917 | 0.5% | 22,725 | 1.7% | 6,964 | 0.9% | 17,730 | 2.2% |
| Overriding Royalty Interests | | % | 2,230 | 0.2% | | % | 2,768 | 0.3% |
| Net Profit Interests | | % | | % | | % | 1,020 | 0.1% |
| Warrants | 2,853 | 0.2% | 8,050 | 0.6% | 2,412 | 0.3% | 7,069 | 0.9% |
| Total Portfolio | \$ 1,268,558 | 100.0% | \$ 1,308,436 | 100.0% | \$ 797,630 | 100.0% | \$ 817,354 | 100.0% |

The following is our investment portfolio presented by geographic location of the investment at March 31, 2011 and June 30, 2010, respectively:

| Geographic Location | Cost | March 31, 2011 | | Percent of Portfolio | Cost | June 30, 2010 | | Percent of Portfolio |
|---------------------|-----------|----------------------|------------|----------------------|-----------|----------------------|------------|----------------------|
| | | Percent of Portfolio | Fair Value | | | Percent of Portfolio | Fair Value | |
| Canada | \$ 61,387 | 4.8% | \$ 61,963 | 4.7% | \$ 21,002 | 2.6% | \$ 12,054 | 1.5% |
| Ireland | 14,908 | 1.2% | 15,000 | 1.1% | 14,903 | 1.9% | 15,000 | 1.8% |
| Netherlands | | % | | % | 1,397 | 0.2% | 1,233 | 0.2% |
| Midwest US | 233,012 | 18.4% | 227,702 | 17.4% | 170,869 | 21.5% | 167,571 | 20.5% |

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| | | | | | | | | |
|-----------------------|--------------|--------|--------------|--------|------------|--------|------------|--------|
| Northeast US | 190,268 | 15.0% | 191,865 | 14.7% | 61,813 | 7.7% | 62,727 | 7.7% |
| Southeast US | 234,631 | 18.5% | 215,768 | 16.5% | 193,420 | 24.2% | 171,144 | 20.9% |
| Southwest US | 186,435 | 14.7% | 248,215 | 19.0% | 179,641 | 22.6% | 235,945 | 28.9% |
| Western US | 252,998 | 19.9% | 253,004 | 19.3% | 85,714 | 10.7% | 82,809 | 10.1% |
| Money Market Funds | 94,919 | 7.5% | 94,919 | 7.3% | 68,871 | 8.6% | 68,871 | 8.4% |
| Total Portfolio | \$ 1,268,558 | 100.0% | \$ 1,308,436 | 100.0% | \$ 797,630 | 100.0% | \$ 817,354 | 100.0% |

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The following is our investment portfolio presented by industry sector of the investment at March 31, 2011 and June 30, 2010, respectively:

| Industry | March 31, 2011 | | | June 30, 2010 | | | | |
|---|----------------|----------------------|------------|----------------------|---------|----------------------|------------|----------------------|
| | Cost | Percent of Portfolio | Fair Value | Percent of Portfolio | Cost | Percent of Portfolio | Fair Value | Percent of Portfolio |
| Aerospace and Defense | \$ 56 | | \$ 35 | | \$ 56 | | \$ 38 | |
| Automobile | 17,114 | 1.3% | 17,711 | 1.4% | 19,017 | 2.4% | 18,615 | 2.3% |
| Biomass | | | | | | | | |
| Power | 2,540 | 0.2% | | | 2,383 | 0.3% | | |
| Business Services | 12,223 | 1.0% | 12,607 | 1.0% | 12,060 | 1.5% | 12,132 | 1.5% |
| Chemicals | 25,150 | 2.0% | 25,150 | 1.9% | 1,397 | 0.2% | 1,233 | 0.2% |
| Commercial Services | 30,000 | 2.4% | 30,000 | 2.3% | | | | |
| Consumer Services | 68,500 | 5.4% | 68,500 | 5.2% | | | | |
| Contracting | 17,873 | 1.4% | 1,680 | 0.1% | 16,652 | 2.1% | 4,542 | 0.6% |
| Durable Consumer Products | 72,259 | 5.7% | 72,900 | 5.6% | 20,000 | 2.5% | 20,000 | 2.4% |
| Ecological | 141 | | 245 | | 141 | | 340 | |
| Electronics | 588 | | 1,171 | 0.1% | 25,777 | 3.2% | 25,629 | 3.1% |
| Financial Services | | | | | 25,814 | 3.2% | 25,592 | 3.1% |
| Food Products | 133,123 | 10.5% | 137,682 | 10.5% | 53,681 | 6.7% | 60,882 | 7.4% |
| Gas Gathering and Processing | 42,003 | 3.3% | 97,596 | 7.5% | 37,503 | 4.7% | 93,096 | 11.4% |
| Healthcare | 132,216 | 10.4% | 138,928 | 10.6% | 89,026 | 11.2% | 93,593 | 11.5% |
| Home and Office Furnishings, Housewares and Durable | 2,021 | 0.2% | 6,085 | 0.5% | 14,112 | 1.8% | 17,232 | 2.1% |
| Insurance | 87,000 | 6.9% | 87,000 | 6.6% | 5,811 | 0.7% | 5,952 | 0.7% |
| Machinery | 12,911 | 1.0% | 22,829 | 1.7% | 15,625 | 2.0% | 17,776 | 2.2% |
| Manufacturing | 72,935 | 5.7% | 78,859 | 6.0% | 74,961 | 9.4% | 64,784 | 7.9% |
| Metal Services and Minerals | 13,498 | 1.1% | 28,932 | 2.2% | 19,252 | 2.4% | 33,620 | 4.1% |
| Mining, Steel, Iron and Non-Precious Metals and Coal Production | 1,435 | 0.1% | | | 1,130 | 0.1% | 808 | 0.1% |
| Oil and Gas Production | 124,536 | 9.8% | 86,039 | 6.6% | 122,034 | 15.3% | 96,988 | 11.9% |
| Oilfield Fabrication | 24,700 | 1.9% | 25,194 | 1.9% | 30,429 | 3.8% | 30,429 | 3.7% |
| Personal and Nondurable Consumer Products | 14,960 | 1.2% | 22,413 | 1.7% | 14,387 | 1.8% | 20,049 | 2.5% |
| Pharmaceuticals | | | | | 11,955 | 1.5% | 12,000 | 1.5% |
| Printing and Publishing | 5,272 | 0.4% | 5,651 | 0.4% | 5,222 | 0.7% | 5,284 | 0.6% |

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| | | | | | | | | |
|------------------------------|---------------------|---------------|---------------------|---------------|-------------------|---------------|-------------------|---------------|
| Production Services | 16,387 | 1.3% | 16,963 | 1.3% | 21,002 | 2.6% | 12,054 | 1.5% |
| Property Management | 52,420 | 4.1% | 51,726 | 4.0% | | % | | % |
| Retail | 14,669 | 1.2% | 1,504 | 0.1% | 14,669 | 1.8% | 2,148 | 0.3% |
| Shipping Vessels | 10,838 | 0.9% | 3,783 | 0.3% | 10,040 | 1.3% | 3,583 | 0.4% |
| Software & Computer Services | 37,889 | 3.0% | 38,000 | 2.9% | 14,903 | 1.9% | 15,000 | 1.8% |
| Specialty Minerals | 30,169 | 2.4% | 33,858 | 2.6% | 15,814 | 2.1% | 18,463 | 2.3% |
| Technical Services | 11,409 | 0.9% | 11,500 | 0.9% | 11,387 | 1.4% | 11,615 | 1.4% |
| Textiles and Leather | 12,879 | 1.0% | 15,449 | 1.2% | 22,519 | 2.8% | 25,006 | 3.1% |
| Transportation | 73,925 | 5.8% | 73,527 | 5.6% | | % | | % |
| Money Market Funds | 94,919 | 7.5% | 94,919 | 7.3% | 68,871 | 8.6% | 68,871 | 8.4% |
| Total Portfolio | \$ 1,268,558 | 100.0% | \$ 1,308,436 | 100.0% | \$ 797,630 | 100.0% | \$ 817,354 | 100.0% |

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Portfolio Investment Activity

During the nine months ended March 31, 2011, we acquired \$570,480 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$59,111, funded \$2,935 of revolver advances, and recorded PIK interest of \$8,510, resulting in gross investment originations of \$641,036. The more significant of these investments are described briefly in the following:

On July 14, 2010, we closed a \$37,400 first-lien senior secured credit facility to Progrexion, a leading consumer credit enhancement services company.

On July 23, 2010, we made a secured debt investment of \$21,000 in SonicWALL, Inc. ("SonicWALL"), a global leader in network security and data protection for small, mid-sized, and large enterprise organizations. On September 30, 2010, we made a follow-on secured debt investment of \$2,000 in SonicWALL.

On July 30, 2010, we invested \$52,420 of combined debt and equity in AIRMALL, a leading developer and manager of airport retail operations.

On July 30, 2010, we invested \$20,000 in Northwestern, a leading dental practice management company in the Southeast Florida market.

On September 30, 2010, we made a follow-on secured debt investment of \$4,500 in GSHI to support the acquisition of a gathering pipeline system in Texas.

On October 12, 2010, we made a senior secured debt investment of \$32,500 in ICON, a leading manufacturer and marketer of branded health and fitness equipment.

On November 12, 2010, we made a senior subordinated debt investment of \$15,000 in American Importing Company, Inc. and Ann's House of Nuts Inc., collectively Snacks Holding Corporation, a leading manufacturer and marketer of dried fruits and trail mixes.

On November 29, 2010, we made a senior subordinated debt investment of \$14,000 in Royal Adhesives & Sealants LLC ("Royal"), a leading producer of proprietary, high-performance adhesives and sealants. On December 13, 2010, we made a follow-on senior subordinated debt investment of \$11,000 in Royal, an Arsenal Capital Partners portfolio company, in connection with Arsenal's acquisition of Para-Chem Southern and the creation of a leading adhesives, sealants, and coatings platform.

On December 10, 2010, we made a \$30,000 secured second-lien financing to American Gilsonite Company ("American Gilsonite") for a dividend recapitalization. After the financing, we received a \$2,098 dividend as a result of our equity holdings in American Gilsonite and repayment of the loan that was outstanding.

On December 23, 2010, we made a second-lien secured debt investment of \$15,300 in Jordan Healthcare Holdings, Inc., a leading provider of home healthcare services in Texas.

On December 23, 2010, we made a senior secured investment of \$18,333 in VPSI, Inc., a leading market share transportation services company.

On January 6, 2011, we made a senior secured term loan investment of \$30,000 to support the acquisition of Progressive by a middle market private equity firm.

On January 10, 2011, we made a senior secured debt investment of \$19,000 to support the acquisition of Endeavor House by Pinnacle.

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On January 21, 2011, we provided senior secured credit facilities of \$28,200 to support the acquisition of Stauber, by ICV Partners. Through March 31, 2011, we have funded \$25,700 of the commitment.

On January 31, 2011, we made a senior secured term investment of \$7,500 to support the recapitalization of Empire, which is the second largest independent provider of carpet and hard surface flooring to consumers in the residential replacement flooring industry.

On February 3, 2011, we made a senior secured debt investment of \$22,000 to support the recapitalization of Medical Security, a pharmacy services company. Through March 31, 2011, we have funded \$20,500 of the commitment.

On February 4, 2011, we made a secured second-lien debt investment of \$45,000 to support the refinancing of Clearwater, a leading premium seafood company based in Nova Scotia, Canada.

On February 9, 2011, we made a senior secured debt investment of \$22,500 to support the recapitalization of Copernicus. After the financing we received a repayment of the loan that was previously outstanding.

On March 2, 2011, we made a senior secured first-lien debt investment of \$12,500 to support the acquisition of Out Rage, a market leader in the bowhunting equipment industry.

On March 4, 2011, we made a \$27,000 secured second-lien term loan to Arrowhead. After the financing we received a repayment of the loan that was previously outstanding.

On March 18, 2011, we closed a \$60,000 first-lien senior secured facility for Safe-Guard Products International, LLC, the leading third-party administrator of ancillary finance and insurance products and services for new, used, and leased motor vehicles.

On March 31, 2011, we funded a \$53,000 first-lien senior secured credit facility, funded \$1,435 of a \$5,000 commitment on a revolving line of credit and invested \$1,500 in common equity to support the acquisition of CAS by ICV Partners.

On March 31, 2011, we provided a net \$32,770 in first-lien senior secured financing for the recapitalization of Progrexion focused on the consumer credit information sector.

During the nine months ended March 31, 2011, we closed-out fourteen positions which are briefly described below.

On July 30, 2010, Northwestern repaid the \$8,500 loan receivable to us.

On August 26, 2010, Regional Management Corporation repaid the \$25,814 loan receivable to us.

On September 1, 2010, Impact Products repaid the \$12,848 loan receivable to us.

On September 23, 2010, Roll Coater Acquisition Corp. repaid the \$6,268 loan receivable to us.

On September 29, 2010, we sold our common stock in LyondellBasell Industries N.V. for \$1,803, realizing a gain of \$527.

On October 29, 2010, Castro Cheese Company, Inc. repaid the \$7,732 loan receivable to us.

On November 3, 2010, TriZetto Group repaid the \$15,492 loan receivable to us.

On December 1, 2010, Qualitest Pharmaceuticals, Inc. repaid the \$12,000 loan receivable to us.

On December 10, 2010, American Gilsonite repaid the \$14,783 loan receivable to us.

On December 15, 2010, we sold Sidump'r Trailer Company, Inc. and received \$430 net proceeds.

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In December 2010, we exercised our warrants in Miller and received 2,013,814 shares of Miller common stock and sold 1,397,510 of these shares at \$3.95 net proceeds per share, realizing a gain of \$5,415. We sold the remaining 616,304 shares of Miller common stock on January 10, 2011, realizing \$4.23 of net proceeds per share and an additional gain of \$2,561 on this sale and a total gain of \$7,976 on settlement of the investment.

On January 24, 2011, Maverick repaid the \$13,122 loan receivable to us.

On March 11, 2011, EXL repaid the \$22,988 loan receivable to us and we sold our 2,500 shares of EXL common stock.

On March 31, 2011, KTPS repaid the \$8,414 loan receivable to us. A portion of the loan receivable was repaid at a discount, for which we realized a loss of \$549.

During the nine months ended March 31, 2011, we also received principal amortization payments of \$12,584 on several loans, and \$12,640 of partial prepayments related to AIRMALL, AFI, Ajax, EXL Acquisition Corporation, Fischbein, Iron Horse, LHC Holdings Corp., Nupla and Progrexion.

During the three and nine months ended March 31, 2011, we recognized \$4,739 and \$10,092, respectively, of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$4,739 for the three months ended March 31, 2011, is \$1,302 of normal accretion and \$3,268 of accelerated accretion resulting from the recapitalization of our loans to Arrowhead Copernicus. Included in the \$10,092 for the nine months ended March 31, 2011, is \$3,979 of normal accretion, \$1,116 of accelerated accretion resulting from the repayment of Impact Products, and \$4,828 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead, Copernicus and Northwestern. The restructured loans for Arrowhead, Copernicus 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. We expect to recognize \$1,059 of normal accretion during the three months ended June 30, 2011.

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

| Quarter-End | Acquisitions ¹ | Dispositions ² |
|--------------------------------|---------------------------|---------------------------|
| March 31, 2011 | \$ 359,152 | \$ 76,494 |
| December 31, 2010 | 140,933 | 62,915 |
| September 30, 2010 | 140,951 | 68,148 |
| June 30, 2010 | 88,973 | 39,883 |
| March 31, 2010 | 59,311 | 26,603 |
| December 31, 2009 ³ | 210,438 | 45,494 |
| September 30, 2009 | 6,066 | 24,241 |
| June 30, 2009 | 7,929 | 3,148 |
| March 31, 2009 | 6,356 | 10,782 |
| December 31, 2008 | 13,564 | 2,128 |
| September 30, 2008 | 70,456 | 10,949 |
| June 30, 2008 | 118,913 | 61,148 |
| March 31, 2008 | 31,794 | 28,891 |
| December 31, 2007 | 120,846 | 19,223 |
| September 30, 2007 | 40,394 | 17,949 |
| June 30, 2007 | 130,345 | 9,857 |
| March 31, 2007 | 19,701 | 7,731 |
| December 31, 2006 | 62,679 | 17,796 |
| September 30, 2006 | 24,677 | 2,781 |
| June 30, 2006 | 42,783 | 5,752 |
| March 31, 2006 | 15,732 | 901 |
| December 31, 2005 | | 3,523 |
| September 30, 2005 | 25,342 | |
| June 30, 2005 | 17,544 | |
| March 31, 2005 | 7,332 | |
| December 31, 2004 | 23,771 | 32,083 |
| September 30, 2004 | 30,371 | |
| Since inception | \$ 1,816,353 | \$ 578,420 |

¹ Includes new deals, additional fundings, refinancings and PIK interest.

² Includes scheduled principal payments, prepayments and refinancings.

³ The \$210,438 of acquisitions for the quarter ended December 31, 2009 includes \$207,126 of portfolio investments acquired from Patriot.

Investment Valuation

In determining the fair value of our portfolio investments at March 31, 2011, the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of \$1,195,867 to \$1,280,930 excluding money market investments.

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

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The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of \$1,213,517, excluding money market investments.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$50,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

During the nine months ended March 31, 2011, there has been a general improvement in the markets in which we operate, and market rates of interest negotiated for middle market loans have decreased.

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

Ajax Rolled Ring & Machine, Inc.

We acquired a controlling equity interest in Ajax in a recapitalization of the company that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. As of March 31, 2011, we control 77.68% of the fully-diluted common and preferred equity.

Ajax forges seamless steel rings sold to various customers. The rings are used in a range of industrial applications, including in construction equipment and wind power turbines. Ajax's business is cyclical, and the business experienced a significant decline in 2009 in light of the global macroeconomic crisis. Ajax has seen significant improvement in operating results in 2010 with EBITDA increasing over 100% from that generated in 2009.

The Board of Directors increased the fair value of our investment in Ajax to \$31,500 as of March 31, 2011, a reduction of \$10,309 from its amortized cost, compared to the \$13,006 unrealized depreciation recorded at June 30, 2010.

Change Clean Energy Holdings Inc. and Change Clean Energy, Inc., f/k/a Worcester Energy Partners, Inc.

Change Clean Energy, Inc. ("CCEI") is an investment that we originated in September 2005, which owns and operated a biomass energy plant. In March 2009, CCEI ceased operations, as the business became uneconomic based on the cost of materials and the price being received for the electricity generated. During that quarter, we instituted foreclosure proceedings against the co-borrowers of our debt. In anticipation of such proceedings, CCEHI was established. On March 11, 2009, the foreclosure was completed and the assets were assigned to a wholly owned subsidiary of CCEHI. During the year ended June 30, 2010, we provided additional funding of \$296 to CCEHI to fund ongoing operations. CCEI currently has no material operations. At June 30, 2009 we determined that the impairment at both CCEI and CCEHI was other than

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temporarily and recognized a realized loss of \$41,134, which was the amount by which the amortized cost exceeded the fair value. During the quarter ended December 31, 2010, we made a follow-on investment of \$156 in CCEHI for professional services related to ongoing litigations and plant security. At March 31, 2011, our Board of Directors, under recommendation from senior management, has set the value of the CCEHI investment with no value, a reduction of \$2,540 from its amortized cost after the recognized depreciation.

Freedom Marine Services, LLC

Freedom Marine is an investment that we initially funded in October 2006. We acquired a controlling interest in the company on October 1, 2009 as part of a broader restructuring of the company and subsequently provided additional funding to support ongoing operations. On February 14, 2011, we provided an additional \$479 to Freedom Marine in order to provide needed liquidity and pay current dry docking expenses. As of March 31, 2011, we control 86.78% of the fully-diluted equity.

Freedom Marine is an owner-operator of three offshore supply vessels operating out of Houma, Louisiana. The three vessels are leased out to various oil and gas industry participants operating in the Gulf of Mexico. Freedom Marine's business has been significantly impacted by the 2010 Gulf of Mexico oil spill. Offshore activity levels remain depressed and the company has been EBITDA negative since October 2010.

Based upon an analysis of the liquidation value of the vessels and the enterprise value of Freedom Marine, our Board of Directors determined the fair value of our investment in Freedom Marine to be \$3,783 at March 31, 2011, a reduction of \$7,055 from its amortized cost, compared to the \$6,457 unrealized loss recorded at June 30, 2010.

Gas Solutions Holdings, Inc.

GSHI is an investment that we completed in September 2004 in which we own 100% of the equity. GSHI is a midstream gathering and processing business located in east Texas. GSHI has improved its operations and experienced an increase in revenue, gross margin, and EBITDA over the past year given the increase in plant volumes and natural gas liquids prices.

In February 2010, we hired Robert Bourne as President and CEO of Gas Solutions. Mr. Bourne continues to focus on our upside plant projects and seeking new opportunities to help Gas Solutions grow beyond its existing footprint. On September 30, 2010, we made a follow-on secured debt investment of \$4,500 in Gas Solutions to support the acquisition of an additional gathering pipeline system in Texas.

In April 2010, Gas Solutions purchased a series of propane puts with strike prices of \$1.00 per gallon and \$0.95 per gallon covering the periods May 1, 2010, through April 30, 2011, and May 1, 2011, through April 30, 2012, respectively. Gas Solutions hedged approximately 85% of its current exposure to natural gas liquids based on current plant volumes. These hedges will reduce the volatility on earnings associated with lower prices of natural gas liquids without limiting the upside from higher prices, helping GSHI to continue to generate sufficient cash flow to make interest and dividend payments. GSHI has experienced a growth of approximately 34% in revenue and 44% in EBITDA when comparing 2010 results to 2009 results. As GSHI continues to fill the excess capacity at the plant, operating results will continue to improve.

In determining the value of GSHI, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be \$97,596 for our debt and equity positions at March 31, 2011 based upon a combination of a discounted cash flow

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analysis and a public comparables analysis. At March 31, 2011 and June 30, 2010, GSHI was valued \$55,593 above its amortized cost.

Integrated Contract Services, Inc.

ICS is an investment that we completed in April 2007. Prior to January 2009, ICS owned the assets of ESA Environmental Specialists, Inc. ("ESA") and 100% of the stock of The Healing Staff ("THS"). ESA originally defaulted under our contract governing our investment in ESA, prompting us to commence foreclosure actions with respect to certain ESA assets in respect of which we have a priority lien. In response to our actions, ESA filed voluntarily for reorganization under the bankruptcy code on August 1, 2007. On September 20, 2007, the U.S. Bankruptcy Court approved a Section 363 Asset Sale from ESA to us. To complete this transaction, we contributed our ESA debt to a newly-formed entity, ICS, and provided funds for working capital on October 9, 2007. In return for the ESA debt, we received senior secured debt in ICS of equal amount to our ESA debt, preferred stock of ICS, and 49% of the ICS common stock. ICS subsequently ceased operations and assigned the collateral back to us. ICS is in default of both payment and financial covenants. During September and October 2007, we provided \$1,170 to THS for working capital.

In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS and certain ESA assets. During the nine months ended March 31, 2011, we made follow-on secured debt investments of \$1,163 in THS to support ongoing operations. THS provides outsourced medical staffing and security staffing services to governmental and commercial enterprises. In 2009, THS was informed that the U.S. Air Force would not exercise its option to renew its contract. THS continues to solicit new contracts to replace the revenue lost when the Air Force contract ended.

Based upon an analysis of the liquidation value of the ESA assets and the enterprise value of THS, our Board of Directors determined the fair value of our investment in ICS to be \$1,680 at March 31, 2011, a reduction of \$16,193 from its amortized cost, compared to the \$12,110 unrealized loss recorded at June 30, 2010.

Iron Horse Coiled Tubing, Inc.

Iron Horse is an investment that we completed in April 2006. Iron Horse had been a provider of coiled tubing subcontractor services prior to making a strategic decision in late 2007 to directly service natural gas and oil producers in the Western Canadian Sedimentary Basin ("WCSB") as a fracturing services provider. As a result of the business transition, the Company's 2008 financial performance declined significantly from 2007 levels. Iron Horse completed its transition from a subcontractor to a direct service provider in 2009, but natural gas prices declined to trough levels due to the recession and heightened natural gas inventory levels. Since November 2009, Iron Horse has experienced increased activity in the WCSB and is now completing wells for a diversified base of large and small producers in the WCSB.

Prior to December 31, 2007, we owned 8.5% of the common stock in Iron Horse. On December 31, 2007, we received an additional 50.3% of the common stock in Iron Horse, which increased our total ownership to 58.8%. Through a series of subsequent loans that were used to construct equipment and facilitate the transition from a subcontractor to a direct service provider, we secured an additional 21.0% of the common stock in Iron Horse in September 2008, which increased our total ownership to 79.8% of the common stock in Iron Horse.

Effective January 1, 2010, we restructured our senior secured and bridge loans to Iron Horse and we reorganized Iron Horse's management structure. Our loans were replaced with three new tranches of senior secured debt and our total ownership of Iron Horse decreased to 70.4% on a fully-diluted basis. Our fully-diluted equity ownership will incrementally decrease as debt tranches

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are repaid. There was no change to fair value at the time of restructuring. In 2010, Iron Horse returned to profitability reporting EBITDA of over \$12,000 for the year ended December 31, 2010. Revenues were up almost 500% from 2009 to 2010 and Iron Horse repaid \$2,615 and \$2,000 of this senior secured debt during the quarters ended December 31, 2010 and March 31, 2011, respectively. As Iron Horse has shown an ability to continue to service the interest and principal payments as they come due, we returned Iron Horse to accrual status in December 2010.

The Board of Directors increased the fair value of our investment in Iron Horse to \$16,963 as of March 31, 2011, a premium of \$576 above its amortized cost, compared to the \$8,948 unrealized depreciation recorded at June 30, 2010.

Manx Energy, Inc.

On January 19, 2010, we modified the terms of our senior secured debt in Appalachian Energy Holdings LLC ("AEH") and Coalbed LLC ("Coalbed") in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were combined under new common management. We funded \$2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the quarter ended December 31, 2010, we made a follow-on secured debt investment of \$500 in Manx to support ongoing operations.

The Board of Directors wrote-down the fair value of our investment in Manx to \$4,679 as of March 31, 2011, a reduction of \$14,090 from its amortized cost, compared to the \$13,584 unrealized loss recorded at June 30, 2010.

Yatesville Coal Holdings, Inc.

All of our coal holdings have been consolidated under the Yatesville entity. Yatesville delivered improved operating results after the consolidation of the coal holdings, but the company mined through all of its permitted reserves by December 2008 and has not produced meaningful revenues since then. We continue to evaluate strategies for Yatesville, such as soliciting indications of interest regarding a transaction involving part or all of recoverable reserves. During the quarter ended December 31, 2009, we discontinued operations at Yatesville. At December 31, 2009, our Board of Directors determined that, consistent with the decision to discontinue operations, the impairment of Yatesville was other than temporary, and we recorded a realized loss of \$51,228, which was the amount that the amortized cost exceeded the fair value at December 31, 2009. During the quarter ended December 31, 2010, we made a follow-on investment of \$457 in Yatesville for professional services related to ongoing litigations. At March 31, 2011, our Board of Directors, under recommendation from senior management, has set the value of the Yatesville investment with no value, a reduction of \$1,435 from its amortized cost after the recognized depreciation.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Five of our portfolio companies have experienced such volatility C&J, Fischbein, Iron Horse and NRG, with improved operating results and AIRMALL with declining operating results. NRG experienced a meaningful increase in valuation during the three months ended March 31, 2011, due to overall industry stabilization and increased backlog resulting from a new product line. The value of our equity position in NRG has increased to \$19,826 as of March 31, 2011, a premium of \$17,509 to its amortized cost, compared to the \$4,714 unrealized gain recorded at June 30, 2010. Seven of the other controlled investments have continuing challenges and have been valued at discounts to the original investment. Seven of the

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control investments are valued at premiums to the original investment amounts, including Iron Horse for which our unrealized gain increased by \$9,524 during the nine months ended March 31, 2011 due to improved operating results. Overall, at March 31, 2011, the control investments are valued at \$39,470 above their amortized cost.

We hold four affiliate investments at March 31, 2011. The affiliate investments reported strong operating results with valuations increasing for three investments Biotronic, Boxercraft and Sport Helmets. Biotronic experienced the most meaningful increase in valuation. Biotronic completed a significant acquisition in November 2010, which is driving the operating results and the increase in the value of the investment. All affiliate investments are valued at amortized cost or higher. Overall, at March 31, 2011, affiliate investments are valued \$14,160 above their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. The exception to this categorization relates to investments which were acquired in the Patriot Acquisition, many of which were acquired at significant discounts to par value, and any changes in operating results or interest rates can have a significant effect on the value of such investments. H&M Oil & Gas, LLC ("H&M"), Shearer's Food's, Inc. ("Shearer's") and Stryker Energy, LLC ("Stryker"), experienced decreases in valuations due to declines in their operating results. The remaining investments did not experience significant changes in operations or valuation.

During the three and nine months ended March 31, 2011, we recognized \$4,739 and \$10,092, respectively, of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$4,739 for the three months ended March 31, 2011, is \$1,302 of normal accretion and \$3,268 of accelerated accretion resulting from the recapitalization of our loans to Arrowhead Copernicus. Included in the \$10,092 for the nine months ended March 31, 2011, is \$3,979 of normal accretion, \$1,116 of accelerated accretion resulting from the repayment of Impact Products, and \$4,828 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead, Copernicus and Northwestern. The restructured loans for Arrowhead, Copernicus 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.

Capitalization

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

| | As of March 31, 2011 | | As of June 30, 2010 | |
|---------------------------|----------------------|--------------------|---------------------|--------------------|
| | Facility Amount | Amount Outstanding | Facility Amount | Amount Outstanding |
| Revolving Credit Facility | \$ 285,000 | \$ 47,500 | \$ 210,000 | \$ 100,300 |
| Senior Convertible Notes | \$ 322,500 | \$ 322,500 | \$ | \$ |

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The following table shows the contractual maturity of our Revolving Credit Facility and Senior Convertible Notes at December 31, 2010:

| | Payments Due By Period | | |
|---------------------------|------------------------|-----------|----------------------|
| | Less Than 1 Year | 1-3 Years | More Than 3 Years |
| Revolving Credit Facility | \$ | \$ 47,500 | \$ |
| Senior Convertible Notes | \$ | \$ | \$ 322,500 |

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities and preferred stock, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock and warrants to purchase such securities in an amount up to \$750,000 less issuances to date. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

Revolving Credit Facility

On June 25, 2009, we completed a first closing on an expanded \$250,000 syndicated revolving credit facility (the "Facility"). The Facility included an accordion feature which allowed the Facility to accept up to an aggregate total of \$250,000 of commitments for which we had \$210,000 of commitments from six lenders when the Facility was renegotiated. The revolving period of the Facility extended through June 2010, with an additional one year amortization period after the completion of the revolving period.

On June 11, 2010, we closed an extension and expansion of our revolving credit facility with a syndicate of lenders (the "Syndicated Facility"). The lenders have extended current commitments of \$325,000 under the Syndicated Facility as detailed in the *Recent Developments*. The Syndicated Facility includes an accordion feature which allows the facility to be increased to up to \$400,000 of commitments in the aggregate to the extent additional or existing lenders commit to increase the commitments. We will seek to add additional lenders in order to reach the maximum size, although no assurance can be given we will be able to do so. As we make additional investments which are eligible to be pledged under the Syndicated Facility, we will generate additional availability to the extent such investments are eligible to be placed into the borrowing base. The revolving period of the Syndicated Facility extends through June 2012, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due if required by the lenders.

As of March 31, 2011 and June 30, 2010, we had the ability to borrow up to \$207,467 and \$180,678, respectively under our Syndicated Facility based on the assets pledged as collateral at that time, of which \$47,500 and \$100,300 was drawn, respectively. The Syndicated Facility requires us to pledge assets as collateral in order to borrow under the credit facility. At March 31, 2011, the investments used as collateral for the Syndicated Facility had an aggregate market value of \$603,759, which represents 66.1% of net assets. Prospect Capital Funding, LLC, our wholly-owned subsidiary, holds \$543,159 of these investments at market value as of March 31, 2011. The release of any assets from Prospect Capital Funding, LLC requires the approval of Rabobank as facility agent.

The borrowings under the Syndicated Facility bore interest at a rate of one-month Libor plus 250 basis points prior to June 25, 2009, which increased to one-month Libor plus 400 basis points, subject

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to a minimum Libor floor of 200 basis points for the period from June 26, 2009 to June 10, 2010. Beginning June 11, 2010, interest on borrowings decreased under the Syndicated Facility is one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. The maintenance of this facility requires us to pay a fee for the amount not drawn upon. Prior to June 25, 2009, this fee was assessed at the rate of 37.5 basis points per annum of the amount of that unused portion. For the period from June 26, 2010 to June 10, 2010, this rate increased to 100 basis points per annum. After June 11, 2010, the lenders charge a fee on the unused portion of the credit facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

Concurrent with the extension of our Syndicated Facility, in June 2010, we wrote off \$759 of the unamortized debt issue costs associated with the original credit facility, in accordance with ASC 470-50, *Debt Modifications and Extinguishments*.

Senior Convertible Notes

On December 21, 2010, we issued \$150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2010 Notes") for net proceeds following underwriting expenses of approximately \$145,200. Interest on the 2010 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 2010 Notes mature on December 15, 2015 unless converted earlier. The 2010 Notes are convertible into shares of Common Stock at an initial conversion rate and conversion rate at March 31, 2011 of 88.0902 shares of Common Stock per \$1,000 principal amount of 2010 Notes, which is equivalent to a conversion price of approximately \$11.352 per share of Common Stock, subject to adjustment in certain circumstances. The conversion rate for the 2010 Notes will be 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 ("2011 Notes") for net proceeds following underwriting expenses of approximately \$167,325. Interest on the 2011 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 2011 Notes mature on August 15, 2016 unless converted earlier. The 2011 Notes are convertible into shares of Common Stock at an initial conversion rate and conversion rate at March 31, 2011 of 78.3699 shares of Common Stock per \$1,000 principal amount of 2011 Notes, which is equivalent to a conversion price of approximately \$12.76 per share of Common Stock, subject to adjustment in certain circumstances. The conversion rate for the 2011 Notes will be increased when monthly cash dividends paid to common shares exceed the rate of \$0.101150 per share.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 and 78.3699 per \$1,000 principal amount of the 2010 Notes and 2011 Notes, respectively, (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 2010 Notes and 2011 Notes (collectively, "Senior Convertible 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.

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

No holder of Senior Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Exchange Act 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 \$10,536 of fees which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$10,226 remains to be amortized.

During the three months ended March 31, 2011, we recorded \$3,688 of interest costs and amortization of financing costs as interest expense.

During the nine months ended March 31, 2011, we raised \$177,593 of additional equity, net of offering costs, by issuing 18,494,476 shares of our common stock below net asset value diluting shareholder value by \$0.15 per share. The following table shows the calculation of net asset value per share as of December 31, 2010 and June 30, 2010:

| | As of March 31, 2011 | As of June 30, 2010 |
|------------------------------------|-------------------------|------------------------|
| Net Assets | \$ 912,921 | \$ 711,424 |
| Shares of common stock outstanding | 88,358,811 | 69,086,862 |
| Net asset value per share | \$ 10.33 | \$ 10.30 |

At March 31, 2011, we had 88,358,811 of our common stock issued and outstanding.

Results of Operations

Net increase in net assets resulting from operations for the three months ended March 31, 2011 and 2010 was \$33,759 and \$25,940, respectively, representing \$0.38 and \$0.41 per weighted average share, respectively. During the three months ended March 31, 2011, we experienced net unrealized and realized gains of \$9,803 or approximately \$0.11 per weighted average share primarily from significant write-ups of our investments in Biotronic, NRG and Sport Helmets, and our sale of Miller common stock for which we realized a gain of \$2,561. These instances of appreciation were partially offset by unrealized depreciation in AIRMALL, Copernicus and Shearer's. During the three months ended March 31, 2010, we experienced net unrealized and realized losses of \$6,966 or approximately \$0.11 per

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weighted average share due primarily to write-ups of our investments in GSHI, Prince and Miller, partially offset by unrealized depreciation of our investments in NRG and Freedom Marine.

Net increase in net assets resulting from operations for the nine months ended March 31, 2011 and 2010 was \$91,279 and \$5,042, respectively, representing \$1.11 and \$0.09 per weighted average share, respectively. During the nine months ended March 31, 2011, we experienced net unrealized and realized gains of \$27,248 or approximately \$0.34 per weighted average share primarily from significant write-ups of our investments in Ajax, Biotronic, Fischbein, Iron Horse, NRG, Nupla and Sport Helmets, and our sale of Miller common stock for which we realized a gain of \$7,976. These instances of unrealized appreciation were partially offset by unrealized depreciation in H&M, ICS, Shearer's and Stryker. During the nine months ended March 31, 2010, we experienced net unrealized and realized losses of \$45,508 or approximately \$0.80 per weighted average share due primarily due to the impairment of Yatesville (See Investment Valuations for further discussion.). The \$51,228 realized loss for Yatesville was partially offset by write-ups of our investments in Ajax, Freedom Marine, H&M, Manx, NRG, and R-V.

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

Investment Income

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$44,573 and \$32,005 for the three months ended March 31, 2011 and March 31, 2010, respectively. Investment income was \$113,085 and \$85,323 for the nine months ended, March 31, 2011 and March 31, 2010, respectively. During the three and nine months ended March 31, 2011, the primary driver of the increase in investment income is the deployment of additional capital in revenue-producing assets through increased origination, for which we recognized an increase of \$5,721 and \$11,383, respectively, in structuring fee income, and \$9,896 and \$34,135, respectively, in cash and payment-in-kind interest income. This \$9,896 and \$34,135 of interest income excludes purchase discount accretion from the assets acquired from Patriot and is the result of a larger income producing investment portfolio. For the respective three-month period ended March 31, 2011, these increases were partially offset by a \$4,394 decrease in purchase discount accretion from the assets acquired from Patriot recognized as interest income. For the respective nine-month period ended March 31, 2011, these increases were partially offset by a \$5,950 decline in dividend income from GSHI and a decline in income from the Patriot acquisition, for which we

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recognized a gain of \$8,632. The following table describes the various components of investment income and the related levels of debt investments:

| | For The Three Months Ended March 31, | | For The Nine Months Ended March 31, | |
|--|--|----------------|---|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income | \$ 34,504 | \$ 27,947 | \$ 90,787 | \$ 61,321 |
| Dividend income | 2,763 | 2,301 | 8,328 | 12,689 |
| Other income | 7,306 | 1,757 | 13,970 | 11,313 |
| Total investment income | \$ 44,573 | \$ 32,005 | \$ 113,085 | \$ 85,323 |
| Average debt principal of investments | \$ 1,059,124 | \$ 676,780 | \$ 936,302 | \$ 579,835 |
| Weighted-average interest rate earned | 13.03% | 16.75% | 12.93% | 14.09% |

Average interest income producing assets have increased from \$676,780 for the three months ended March 31, 2010 to \$1,059,124 for the three months ended March 31, 2011. The average yield on interest bearing assets decreased from 16.75% for the three months ended March 31, 2010 to 13.03% for the three months ended March 31, 2011. Average interest income producing assets have increased from \$579,835 for the nine months ended March 31, 2010 to \$936,302 for the three months ended March 31, 2011. The average yield on interest bearing assets decreased from 14.09% for the nine months ended March 31, 2010 to 12.93% for the nine months ended March 31, 2011. These decreases are primarily due to our origination efforts being focused on secured lending, including a higher percentage of first-lien loans than in prior periods, which generally earn interest at lower interest rates than second-lien loans with more risk. The fair market value of senior secured loans as a percentage of our total portfolio has increased to 49.8% from 39.6% as of March 31, 2011 and March 31, 2010, respectively. The decrease in annualized returns is also attributed to changes in the accelerated accretion on the assets acquired in the Patriot acquisition, for which we recognized \$5,350 and \$3,465 less accelerated purchase discount accretion during the three and nine months ended March 31, 2011, respectively, primarily due to incremental repayments and restructurings in 2010 when compared to those in 2011, the most significant of which were AFI, Prince and ROM.

Investment income is also generated from dividends and other income. Dividend income has increased from \$2,301 for the three months ended March 31, 2011 to \$2,763 for the three months ended March 31, 2010. This \$462 increase is primarily due to the increased dividends received from our investments in GSHI and NRG. We received dividends from GSHI of \$2,500 and \$2,300 during the three months ended March 31, 2011 and March 31, 2010, respectively. We received a dividend from NRG of \$200 during the three months ended March 31, 2011. No dividend was received from NRG during the three months ended March 31, 2010. Dividend income decreased from \$12,689 for the nine months ended March 31, 2010 to \$8,328 for the nine months ended March 31, 2011. The decrease in dividend income is primarily attributable to a decrease in the level of dividends received from our investment in GSHI. We received dividends from GSHI of \$6,350 and \$12,300 during the nine months ended March 31, 2011 and March 31, 2010, respectively. The decrease in dividends from GSHI is primarily the a consequence of GSHI distributing dividends in excess of their current earnings in 2009, as GSHI had accumulated excess earnings and profits available for distribution. GSHI remains profitable and has increased its EBITDA in 2010 in comparison with 2009. We anticipate that GSHI may be able to increase its dividends in the future as the result of organic growth and add-on acquisitions. This decrease was partially offset by \$1,507 of dividends received from American Gilsonite and Northwestern during the nine months ended March 31, 2011. No dividend was received from American Gilsonite or Northwestern during the nine months ended March 31, 2010.

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Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Income from other sources increased from \$1,757 for the three months ended March 31, 2010 to \$7,306 for the three months ended March 31, 2011. This \$5,549 increase is primarily due to \$7,190 of structuring fees recognized during the three months ended March 31, 2011 primarily from the Arrowhead, CAS, Clearwater, Progressive, Progrexion, Safe-Guard and Stauberoriginations. During the three months ended March 31, 2010 we recognized \$1,440 of structuring fees, of which \$1,235 was recognized as a result of our follow-on debt investments in H&M and Shearer's. Comparing the nine months ended March 31, 2010 to the nine months ended March 31, 2011, other income, excluding the \$8,632 gain on the Patriot acquisition, increased from \$2,681 to \$13,970. This \$11,289 increase is due to \$12,865 of structuring fees recognized during the nine months ended March 31, 2011 primarily related to AIRMALL, Arrowhead, CAS, Progrexion, Progressive, Royal and Safe-Guard.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate our Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions in accordance with our Administration Agreement with Prospect Administration. Operating expenses were \$20,617 and \$13,031 for the three months ended March 31, 2011 and March 31, 2010, respectively. Operating expenses were \$49,054 and \$34,773 for the nine months ended March 31, 2011 and March 31, 2010, respectively.

The base investment advisory expenses were \$6,037 and \$3,576 for the three months ended March 31, 2011 and March 31, 2010, respectively. The base investment advisory expenses were \$15,216 and \$9,961 for the nine months ended March 31, 2011 and March 31, 2010, respectively. This increase is directly related to our growth in total assets. For the three months ended March 31, 2011 and March 31, 2010, we incurred \$5,997 and \$4,744, respectively, of income incentive fees. For the nine months ended March 31, 2011 and March 31, 2010, we incurred \$16,015 and \$12,640, respectively, of income incentive fees. The \$3,375 increase in the income incentive fee for the respective nine-month period is driven by an increase in pre-incentive fee net investment income from \$63,190 for the nine months ended March 31, 2010 to \$80,046 for the nine months ended March 31, 2011, primarily due to an increase in interest income from a larger asset base. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three and nine months ended March 31, 2011, we incurred \$5,660 and \$10,182, respectively, of expenses related to our Syndicated Facility and Senior Convertible Notes. This compares with expenses of \$2,111 and \$5,480 incurred during the three and nine months ended March 31, 2010, respectively. These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken during those quarters. The table below describes the various expenses of our Syndicated Facility and Senior

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Convertible Notes and the related indicators of leveraging capacity and indebtedness during these periods.

| | For The Three Months Ended March 31, | | For The Nine Months Ended March 31, | |
|--|--|------------|---|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest on borrowings | \$ 3,470 | \$ 327 | \$ 4,930 | \$ 720 |
| Amortization of deferred financing costs | 1,494 | 1,322 | 3,628 | 3,428 |
| Commitment and other fees | 696 | 462 | 1,624 | 1,332 |
| Total | \$ 5,660 | \$ 2,111 | \$ 10,182 | \$ 5,480 |
| Weighted-average debt outstanding | \$ 237,280 | \$ 22,040 | \$ 121,084 | \$ 15,972 |
| Weighted-average interest rate on borrowings | 5.85% | 6.00% | 5.43% | 6.00% |
| Facility amount at beginning of period | \$ 285,000 | \$ 195,000 | \$ 210,000 | \$ 175,000 |

The decrease in our interest rate from 2009 to 2010 is primarily the result of the closing of our current facility on June 11, 2010. At that time, the borrowing rate and Libor floor decreased by 75 basis points and 100 basis points, respectively. The higher interest rate during the three months ended March 31, 2011 versus the nine months then ended reflects the issuance of Senior Convertible Notes on December 21, 2010 and February 28, 2011.

As our asset base has grown and we have added complexity to our capital raising activities, due, in part, to our assumption of the sub-administration role from Vastardis, we have commensurately increased the size of our administrative and financial staff, accounting for a significant increase in the overhead allocation from Prospect Administration. Over the last year, Prospect Administration has increased staffing levels along with the costs passed through. The allocation of overhead expense from Prospect Administration increased from \$840 and \$2,520 for the three and nine months ended March 31, 2010, to \$1,669 and \$3,309 for the three and nine months ended March 31, 2011, respectively. As our portfolio continues to grow, we expect to further increase the size of our administrative and financial staff on a basis that provides increasing returns to scale. However, initial investments in administrative and financial staff may not provide returns to scale immediately, perhaps not until the portfolio increases to a greater size.

Other allocated expenses from Prospect Administration will continue to increase along with the increase in staffing and asset base.

Total operating expenses, net of investment advisory fees, interest costs and allocation of overhead from Prospect Administration ("Other Operating Expenses"), were \$1,254 and \$1,760 for the three months ended March 31, 2011 and 2010, respectively. This \$506 decrease is primarily the result of costs incurred in connection with merger discussions with Allied Capital Corporation expensed in the 2010 period offset by higher costs for legal and administrative expenses incurred in the 2011 period due to the increased size of our portfolio. Other Operating Expenses were \$4,332 and \$4,172 for the nine months ended March 31, 2011 and 2010, respectively.

Net Investment Income, Net Realized Gains, Increase in Net Assets from Net Change in Unrealized Appreciation (Depreciation) and Net Increase in Net Assets Resulting from Operations

Net investment income represents the difference between investment income and operating expenses. Our net investment income ("NII") was \$23,956 and \$18,974 for the three months ended March 31, 2011 and March 31, 2010, respectively, or \$0.27 per share and \$0.30 per share, respectively. Our NII was \$64,031 and \$50,550 for the nine months ended March 31, 2011 and March 31, 2010, respectively, or \$0.78 per share and \$0.89 per share, respectively. The primary source of the higher NII

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per share in 2010 for the respective nine-month period is our recognition of a gain on the Patriot acquisition of \$8,632 in December 2009. Net realized gains (losses) were \$2,078 and (\$2) for the three months ended March 31, 2011 and March 31, 2010, respectively. Net realized gains (losses) were \$7,094 and (\$51,231) for the nine months ended March 31, 2011 and March 31, 2010, respectively. The net realized gain for the three and nine months ended March 31, 2011 was due primarily to the sale of our common stock in Miller. The net realized loss of \$51,231 for the nine months ended March 31, 2010 was due primarily to the impairment of Yatesville. See Investment Valuations for further discussion.

Net increase in net assets from changes in unrealized appreciation (depreciation) was \$7,725 and \$6,968 for the three months ended March 31, 2011 and March 31, 2010, respectively. For the three months ended March 31, 2011, the \$7,725 increase in net assets from the net change in unrealized appreciation (depreciation) was driven by significant write-ups of approximately \$17,982 related to our investments in Biotronic, NRG and Sport Helmets. These instances of unrealized appreciation were partially offset by unrealized depreciation of approximately \$10,536 related to our investments in AIRMALL, Copernicus and Shearer's. For the three months ended March 31, 2010, the \$6,968 increase in net assets from the net change in unrealized appreciation (depreciation) was driven primarily by write-ups of approximately \$16,162 related to our investments in GSHI, Prince and Miller, partially offset by unrealized depreciation of approximately \$9,578 related to our investments in NRG and Freedom Marine.

Net increase in net assets from changes in unrealized appreciation (depreciation) was \$20,154 and \$5,723 for the nine months ended March 31, 2011 and March 31, 2010, respectively. For the nine months ended March 31, 2011, the \$20,154 increase in net assets from the net change in unrealized appreciation (depreciation) was driven by significant write-ups of approximately \$39,561 related to our investments in Ajax, Biotronic, Fischbein, Iron Horse, NRG, Nupla and Sport Helmets. These instances of unrealized appreciation were partially offset by unrealized depreciation of approximately \$18,292 related to our investments in H&M, ICS, Shearer's and Stryker. The \$5,723 increase occurring during the nine months ended March 31, 2010 was primarily attributable to unrealized depreciation of approximately \$52,085 related to our investments in Ajax, Freedom Marine, H&M, Manx, NRG, and R-V partially offset by the impairment of our investment in Yatesville of \$51,228.

Financial Condition, Liquidity and Capital Resources

For the nine months ended March 31, 2011 and March 31, 2010, our operating activities (used) provided (\$368,400) and \$142,132 of cash, respectively. Investing activities used \$106,586 of cash during the nine months ended March 31, 2010. Financing activities provided (used) \$369,714 and (\$24,239) of cash during the nine months ended March 31, 2011 and 2010, respectively, which included the payments of dividends of \$65,345 and \$59,467, during the nine months ended March 31, 2011 and March 31, 2010, respectively.

Our primary uses of funds have been to continue to invest in our investments in portfolio companies, to add new companies to our investment portfolio, to acquire Patriot, to repay outstanding borrowings and to make cash distributions to holders of our common stock.

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the nine months ended March 31, 2011, we borrowed \$259,100 and made repayments totaling \$311,900 under our revolving credit facility. As of March 31, 2011, we had \$47,500 outstanding borrowings on our revolving credit facility and \$322,500 outstanding on our Senior Convertible notes (See Note 6 to our consolidated financial statements.)

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On March 16, 2011, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$750,000 of additional equity securities as of March 31, 2011.

We also continue to generate liquidity through public and private stock offerings. On July 7, 2009 we completed a public stock offering for 5,175,000 shares of our common stock at \$9.00 per share, raising \$46,575 of gross proceeds. On August 20, 2009 and September 24, 2009, we issued 3,449,686 shares and 2,807,111 shares, respectively, of our common stock at \$8.50 and \$9.00 per share, respectively, in private stock offerings, raising \$29,322, and \$25,264 of gross proceeds, respectively. Concurrent with the sale of these shares, we entered into a registration rights agreement in which we granted the purchasers certain registration rights with respect to the shares. Under the terms and conditions of the registration rights agreement, we filed with the SEC a post-effective amendment to the registration statement on Form N-2 on November 6, 2009. Such amendment was declared effective by the SEC on November 9, 2009.

On March 17, 2010, we established an at-the-market program through which we sold shares of our common stock. An at-the-market offering is a registered offering by a publicly traded issuer of its listed equity securities selling shares directly into the market at market prices. We engaged two broker-dealers to act as agents and sell our common stock directly into the market over a period of time. We paid a 2% commission to the broker-dealer on shares sold. Through this program we issued 8,000,000 shares of our common stock at an average price of \$10.90 per share, raising \$87,177 of gross proceeds, from March 23, 2010 through July 21, 2010.

On July 19, 2010, we established a second at-the-market program, as we had sold all the shares authorized in the original at-the-market program. We engaged three broker-dealers to act as potential agents and sell our common stock directly into the market over a period of time. We paid a 2% commission to the broker-dealer on shares sold. Through this program we issued 6,000,000 shares of our common stock at an average price of \$9.73 per share, raising \$58,403 of gross proceeds, from July 22, 2010 through September 28, 2010.

On September 24, 2010, we established a third at-the-market program, as we had sold all the shares authorized in the preceding programs, through which we may sell, from time to time and at our discretion, 6,000,000 shares of our common stock. We engaged three broker-dealers to act as potential agents and sell our common stock directly into the market over a period of time. We paid a 2% commission to the broker-dealer on shares sold. Through this program we issued 5,231,956 shares of our common stock at an average price of \$9.86 per share, raising \$51,597 of gross proceeds, from September 29, 2010 through November 3, 2010.

On November 10, 2010, we established a fourth at-the-market program, as we had sold all the shares authorized in the preceding programs, through which we may sell, from time to time and at our discretion, 9,750,000 shares of our common stock. We engaged three broker-dealers to act as potential agents and sell our common stock directly into the market over a period of time. We paid a 2% commission to the broker-dealer on shares sold. Through this program we issued 4,513,920 shares of our common stock at an average price of \$10.00 per share, raising \$45,147 of gross proceeds, from November 16, 2010 through December 15, 2010.

Our Board of Directors, pursuant to the Maryland General Corporation Law, executed Articles of Amendment to increase the number of shares authorized for issuance from 100,000,000 to 200,000,000 in the aggregate. The amendment became effective August 31, 2010.

Off-Balance Sheet Arrangements

At March 31, 2011, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. At March 31, 2011, most of the loans in our portfolio bore interest at fixed interest rates. Several of our floating rate loans have floors which have effectively converted the loans to fixed rate loans in the current interest rate environment. As of March 31, 2011, \$776,521 of our loans bear interest at floating rates, \$766,855 of which have Libor floors ranging from 1.00% to 6.00%.

If we continue to invest in fixed rate loans, we may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. During the three months ended March 31, 2011, we did not engage in interest rate hedging activities.

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SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAXATION CONSIDERATIONS

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

For our taxable years beginning before January 1, 2012, properly designated 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). Depending on the circumstances, however, we may designate all, some or none of our potentially eligible distributions as such qualified net interest income or as qualified short-term capital gains, and/or treat such distributions, 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 will need to comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN or substitute Form). In the case of our shares held through an intermediary, the intermediary may withhold even if we designate 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.

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USE OF PROCEEDS

The net proceeds from the sale of 10,000,000 shares of our common stock in this offering will be \$100,200,000 (or \$115,260,000 if the option to purchase additional shares is exercised in full) after deducting offering expenses of approximately \$200,000 payable by us.

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

As of June 20, 2011, we had \$68.1 million outstanding under our credit facility and, based on the assets currently pledged as collateral on the facility, an additional approximately \$113.7 million was available to us for borrowing under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

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Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of March 31, 2011:

on an actual basis;

on an as adjusted basis giving effect to our distributions with record dates of April 29, 2011 and May 31, 2011 and our issuance of 76,377 and 78,689 shares of our common stock in connection with our dividend reinvestment plan on April 29, 2011 and May 31, 2011, respectively, and our public stock offering of 9,000,000 shares on April 7, 2011 and borrowings on our credit facility; and

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of 10,000,000 shares of our common stock at a price of \$10.15 per share less commissions and expenses.

This table should be read in conjunction with "Use of Proceeds" and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus. The adjusted information is illustrative only; our capitalization following the completion of this offering is subject to adjustment based on the actual public offering price of our common stock and the actual number of shares of common stock we sell in this offering, both of which will be determined at pricing.

| | As of March 31, 2011 | | |
|--|---|-----------------------|----------------------------|
| | As Adjusted for | | |
| | Stock Issuances and | | |
| | Borrowings After | | |
| | Actual | March 31, 2011 | As Further Adjusted |
| | (In thousands, except shares and per share data) | | |
| | (Unaudited) | | |
| Long-term debt, including current maturities: | | | |
| Borrowings under senior credit facility ¹ | \$ 47,500 | \$ 68,100 | \$ 68,100 |
| 2010 Notes | 150,000 | 150,000 | 150,000 |
| 2011 Notes | 172,500 | 172,500 | 172,500 |
| Amount owed to affiliates | 7,809 | 7,809 | 7,809 |
| Total long-term debt | 377,809 | 398,409 | 398,409 |
| Stockholders' equity: | | | |
| Common stock, par value \$0.001 per share (200,000,000 common shares authorized; 88,358,811 shares outstanding actual, 97,513,877 shares outstanding as adjusted for our issuance of 9,000,000 shares on April 7, 2011 and stock issuances in connection with our dividend reinvestment plan and 107,513,877 shares outstanding as further adjusted for this offering) | 88 | 98 | 108 |
| Paid-in capital in excess of par value | 991,658 | 1,076,143 | 1,176,333 |
| Distributions in excess of net investment income | (21,202) | (21,202) | (21,202) |
| Accumulated realized losses on investments | (97,501) | (97,501) | (97,501) |
| Net unrealized appreciation on investments | 39,878 | 39,878 | 39,878 |
| Total stockholders' equity | 912,921 | 997,416 | 1,097,616 |
| Total capitalization | \$ 1,290,730 | \$ 1,395,825 | \$ 1,496,025 |

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As of March 31, 2010, we had \$47.5 million of borrowings under our recently completed extended credit facility. As of June 20, 2011, we had \$68.1 million of borrowings under our credit facility, representing a \$20.6 million increase in borrowing subsequent to March 31, 2011.

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The As Further Adjusted for this Offering calculations exclude any exercise of the underwriter's option to purchase additional shares.

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Table of Contents**RECENT SALES OF COMMON STOCK BELOW NET ASSET VALUE**

At our 2008, 2009 and 2010 annual meeting of stockholders, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount to NAV per share during the twelve-month period following such approval. Accordingly, we may make offerings of our common stock without any limitation on the total amount of dilution to stockholders. See "Sales of Common Stock Below Net Asset Value" in this prospectus supplement and in the accompanying prospectus. Pursuant to this authority and the approval of our Board of Directors, we have made the following offerings:

| Date of Offering | Price Per Share to Investors | Shares Issued | Estimated Net Asset Value per Share¹ | Percentage Dilution |
|---|-------------------------------------|----------------------|--|----------------------------|
| March 18, 2009 | \$8.20 | 1,500,000 | \$14.43 | 2.20% |
| April 22, 2009 | \$7.75 | 3,680,000 | \$14.15 | 5.05% |
| May 19, 2009 | \$8.25 | 7,762,500 | \$13.44 | 7.59% |
| July 7, 2009 | \$9.00 | 5,175,000 | \$12.40 | 3.37% |
| August 20, 2009 | \$8.50 | 3,449,686 | \$11.57 | 1.78% |
| September 24, 2009 | \$9.00 | 2,807,111 | \$11.36 | 1.20% |
| June 21, 2010 to June 25, 2010 ² | \$10.01-\$10.67 | 1,072,500 | \$10.39-10.40 | 0.06% |
| June 28, 2010 to July 16, 2010 ³ | \$9.47-\$10.04 | 2,748,600 | \$10.31-10.34 | 0.29% |
| July 19, 2010 to August 19, 2010 ⁴ | \$9.28-\$10.04 | 3,814,528 | \$10.26-10.36 | 0.39% |
| September 7, 2010 to September 23, 2010 ⁵ | \$9.47-\$9.98 | 2,185,472 | \$10.22-10.25 | 0.18% |
| September 24, 2010 to September 27, 2010 ⁶ | \$9.74-\$9.92 | 302,400 | \$10.25-10.26 | 0.02% |
| September 28, 2010 to October 29, 2010 ⁷ | \$9.65-\$10.09 | 4,929,556 | \$10.13-10.27 | 0.32% |
| November 11, 2010 to December 10, 2010 ⁸ | \$9.70-\$10.54 | 4,513,920 | \$10.18-10.28 | 0.22% |

¹ The data for sales of shares below NAV pursuant to our previous equity distribution agreements are an estimate based on the last reported NAV adjusted and capital events occurring during the period since the last calculated NAV. All amounts presented are approximations based on the best available data at the time of issuance. Overall, the dilution from the issuance of shares below NAV in connection with the at-the-market program is estimated to be less than 1.5%.

² Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or June 24, 2010 to June 30, 2010.

³ Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or July 1, 2010 to July 21, 2010.

⁴ Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or July 22, 2010 to August 24, 2010.

⁵ Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or September 10, 2010 to September 28, 2010.

⁶ Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or September 29, 2010 to September 30, 2010.

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Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or October 1, 2010 to November 3, 2010.

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Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or November 16, 2010 to December 15, 2010.

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Table of Contents**SENIOR SECURITIES**

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of March 31, 2011.

| Credit Facility | Total Amount Outstanding(1) | Asset Coverage per Unit(2) | Involuntary Liquidating Preference per Unit(3) | Average Market Value per Unit(4) |
|---|------------------------------------|-----------------------------------|---|---|
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 47,500 | \$ 27,009 | | |
| Fiscal 2010 (as of June 30, 2010) | 100,300 | 8,093 | | |
| Fiscal 2009 (as of June 30, 2009) | 124,800 | 5,268 | | |
| Fiscal 2008 (as of June 30, 2008) | 91,167 | 5,712 | | |
| Fiscal 2007 (as of June 30, 2007) | | N/A | | |
| Fiscal 2006 (as of June 30, 2006) | 28,500 | 4,799 | | |
| Fiscal 2005 (as of June 30, 2005) | | N/A | | |
| Fiscal 2004 (as of June 30, 2004) | | N/A | | |
| 2010 Notes | | | | |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 150,000 | \$ 8,553 | | |
| 2011 Notes | | | | |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 172,500 | \$ 7,437 | | |
| All Senior Securities | | | | |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 370,000 | \$ 3,467 | | |

(1) Total amount of each class of senior securities outstanding at the end of the period presented (in 000's).

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.

(3) This column is inapplicable.

(4) This column is inapplicable.

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DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

We have paid and intend to continue to distribute monthly distributions to our stockholders out of assets legally available for distribution. Our distributions, if any, will be determined by our Board of Directors. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the period as a result of our deliberate planning or by accounting reclassifications.

In order to maintain RIC tax treatment, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In order to avoid certain excise taxes imposed on RICs, we are required to distribute with respect to each calendar year by January 31 of the following year an amount at least equal to the sum of

98% of our ordinary income for the calendar year,

98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and

any ordinary income and net capital gains for preceding years that were not distributed during such years.

In December 2008, our Board of Directors elected to retain excess profits generated in the quarter ended September 30, 2008 and pay a 4% excise tax on such retained earnings. We paid \$533,000 for the excise tax with the filing of our tax return in March 2009. No such election was made in December 2009.

In addition, although we currently intend to distribute realized net capital gains (which we define as net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may decide in the future to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock are subject to the same U.S. Federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan" in the accompanying prospectus. The tax consequences of distributions to stockholders are described in the accompanying prospectus under the label "Material U.S. Federal Income Tax Considerations". To the extent prudent and practicable, we intend to declare and pay dividends on a monthly basis.

With respect to the distributions paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies were treated as taxable income and accordingly, distributed to stockholders. During the fiscal year ended June 30, 2009, we recorded total dividends of approximately \$56.1 million. For the fiscal year ended June 30, 2010, we recorded total distributions of approximately \$81.5 million. On June 18, 2010, we announced a change in dividend policy from quarterly to monthly dividends. For the first, second and third quarters of the fiscal year ending June 30, 2011, we recorded total distributions of approximately \$75.5 million.

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Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the year. Our ability to pay distributions could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PSEC". The following table sets forth, for the periods indicated, our NAV per share of common stock and the high and low closing prices per share of our common stock as reported on the NASDAQ Global Select Market. Our common stock historically trades at prices both above and below its NAV per share. There can be no assurance, however, that such premium or discount, as applicable, to NAV per share will be maintained. Common stock of business development companies, like that of closed-end investment companies, frequently trades at a discount to current NAV per share. In the past, our common stock has traded at a discount to our NAV per share. The risk that our common stock may continue to trade at a discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline.

| | NAV ¹ | Stock Price | | Premium (Discount) of High to NAV | Premium (Discount) of Low to NAV | Dividend Declared |
|---|------------------|-------------------|------------------|--|---|--------------------------|
| | | High ² | Low ² | | | |
| Twelve Months Ending June 30, 2008 | | | | | | |
| First quarter | \$ 15.08 | \$ 18.68 | \$ 14.16 | 23.9% | (6.1)% | \$ 0.3925 |
| Second quarter | 14.58 | 17.17 | 11.22 | 17.8% | (23.0)% | 0.395 |
| Third quarter | 14.15 | 16.00 | 13.55 | 13.1% | (4.2)% | 0.400 |
| Fourth quarter | 14.55 | 16.12 | 13.18 | 10.8% | (9.4)% | 0.40125 |
| Twelve Months Ending June 30, 2009 | | | | | | |
| First quarter | \$ 14.63 | \$ 14.24 | \$ 11.12 | (2.7)% | (24.0)% | \$ 0.4025 |
| Second quarter | 14.43 | 13.08 | 6.29 | (9.4)% | (56.4)% | 0.40375 |
| Third quarter | 14.19 | 12.89 | 6.38 | (9.2)% | (55.0)% | 0.405 |
| Fourth quarter | 12.40 | 10.48 | 7.95 | (15.5)% | (35.9)% | 0.40625 |
| Twelve Months Ending June 30, 2010 | | | | | | |
| First quarter | \$ 11.11 | \$ 10.99 | \$ 8.82 | (1.1)% | (20.6)% | \$ 0.4075 |
| Second quarter | 10.10 | 12.31 | 9.93 | 21.9% | (1.7)% | 0.40875 |
| Third quarter | 10.12 | 13.20 | 10.45 | 30.4% | 3.3% | 0.410 |
| Fourth quarter | 10.30 | 12.20 | 9.65 | 18.4% | (6.3)% | 0.10 |
| Twelve Months Ending June 30, 2011 | | | | | | |
| First quarter | \$ 10.24 | \$ 10.00 | \$ 9.18 | (2.3)% | (10.4)% | \$ 0.301375 _s |
| Second quarter | 10.25 | 10.86 | 9.69 | 6.0% | (5.5)% | 0.302625 _s |
| Third quarter | 10.33 | 12.33 | 10.72 | 19.4 | 3.8 | 0.303450 |
| Fourth quarter (to June 20, 2011) | (3)(4) | 12.18 | 10.65 | (4) | (4) | (5) |

¹ Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high or low sales price. The NAVs shown are based on outstanding shares of our common stock at the end of each period.

² The High/Low Stock Price is calculated as of the closing price on a given day in the applicable quarter.

³ Our most recently estimated NAV per share is \$10.23 on an as adjusted basis solely to give effect to our distributions with record dates of April 29, 2011 and May 31, 2011, our issuance of common stock on April 29, 2011 and May 31, 2011 in connection with our dividend reinvestment plan and our public stock offering of 9,000,000 shares on April 7, 2011 versus \$10.33 determined by us as of March 31, 2011. NAV per share as of June 30, 2011, may be higher or lower than \$10.23 based on potential changes in valuations and earnings for the quarter then ended.

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NAV has not yet been finally determined for any day after March 31, 2011.

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In June 2010, we changed our distribution policy from a quarterly payment to a monthly payment.

In February 2011, we announced the declaration of three additional monthly distributions as follows:

\$0.101150 per share for February 2011 to holders of record on February 28, 2011 with a payment date of March 31, 2011;

\$0.101175 per share for March 2011 to holders of record on March 31, 2011 with a payment date of April 29, 2011; and

\$0.101200 per share for April 2011 to holders of record on April 29, 2011 with a payment date of May 31, 2011.

In May 2011, we announced the declaration of four additional monthly distributions as follows:

\$0.101225 per share for May 2011 to holders of record on May 31, 2011 with a payment date of June 24, 2011;

\$0.101250 per share for June 2011 to holders of record on June 30, 2011 with a payment date of July 22, 2011;

\$0.101275 per share for July 2011 to holders of record on July 29, 2011 with a payment date of August 26, 2011; and

\$0.101300 per share for August 2011 to holders of record on August 31, 2011 with a payment date of September 23, 2011.
On June 20, 2011, the last reported sales price of our common stock was \$10.68 per share.

As of June 20, 2011, we had approximately 69 stockholders of record.

The below table sets forth each class of our outstanding securities as of June 20, 2011.

| Title of Class | Amount Authorized | Amount Held by Registrant or for its Account | Amount Outstanding |
|-----------------------|------------------------------|---|-------------------------------|
| Common Stock | 200,000,000 | 0 | 97,513,877 |

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SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2010 annual meeting of stockholders held on December 10, 2010, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from NAV per share during the twelve-month period following such approval. In order to sell shares pursuant to this authorization, a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, such directors must 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 of common stock, 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.

We may sell our common stock at prices below our most recently determined NAV per share. Pursuant to the approval of our Board of Directors, we have made such sales in the past and we have done so under this prospectus supplement.

The offering being made pursuant to this prospectus supplement is at a price below our most recently determined NAV per share. In making a determination that this offering below NAV per share is in our and our stockholders' best interests, our Board of Directors considered a variety of factors including matters such as:

The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;

The relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;

Whether the estimated offering price would closely approximate the market value of our shares;

The potential market impact of being able to raise capital during the current financial market difficulties;

The nature of any new investors anticipated to acquire shares of common stock in the offering;

The anticipated rate of return on and quality, type and availability of investments; and

The leverage available to us.

Our Board of Directors also considered the fact that sales of common stock at a discount will benefit our Investment Advisor as the Investment Advisor will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at a premium to NAV per share.

We will not sell shares of common stock under a prospectus supplement to the registration statement (the "current registration statement") if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV per share at the time of the first offering is \$10.23 and we have 97.5 million shares of common stock outstanding, the sale of 10.0 million shares of common stock at net proceeds to us of \$5.12 per share (an approximately 50% discount) would produce dilution of 4.65%. If we subsequently determined that our NAV per share increased back to

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\$10.24 on the then 107.5 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 28.07 million shares of common stock at net proceeds to us of \$5.12 per share, which would produce dilution of 10.35%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

Sales by us of our common stock at a discount from NAV per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than NAV per share on three different set of investors:

existing shareholders who do not purchase any shares of common stock in the offering;

existing shareholders who purchase a relatively small amount of shares of common stock in the offering or a relatively large amount of shares of common stock in the offering; and

new investors who become shareholders by purchasing shares of common stock in the offering.

Impact On Existing Stockholders Who Do Not Participate in the Offering

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares of common stock in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares of common stock they hold and their NAV per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to the offering. These stockholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of NAV dilution that would be experienced by a stockholder who does not participate in the offering. It is not possible to predict the level of market price decline that may occur. NAV has not been finally determined for any day after March 31, 2011. The table below is shown based upon the pro-forma NAV calculated by us taking into account the dilutive effects on our NAV per share of our distributions with record dates of April 29, 2011 and May 31, 2011, our issuance of common stock on April 29, 2011 and May 31, 2011 in connection with our dividend reinvestment plan and our public stock offering of 9,000,000 shares on April 7, 2011. For

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purposes of illustration, the table below assumes that our March 31, 2010 NAV per share has been reduced by 1.0% to \$10.23 per share as a result of the foregoing transactions.

| | Prior to Sale Below NAV | Following Sale | % Change |
|---|----------------------------|-------------------|-------------|
| Offering Price | | | |
| Price per Share to Public | | \$ 10.15 | |
| Net Proceeds per Share to Issuer | | \$ 10.02 | |
| Decrease to NAV | | | |
| Total Shares Outstanding | 97,513,877 | 107,513,877 | 10.25% |
| NAV per Share | \$ 10.23 | \$ 10.21 | (0.19)% |
| Dilution to Nonparticipating Stockholder | | | |
| Shares Held by Stockholder A | 97,514 | 97,514 | 0.00% |
| Percentage Held by Stockholder A | 0.10% | 0.09% | (9.30)% |
| Total NAV Held by Stockholder A | \$ 997,416 | \$ 995,525 | (0.19)% |
| Total Investment by Stockholder A (Assumed to be \$10.23 per Share) | | \$ 997,416 | |
| Total Dilution to Stockholder A (Total NAV Less Total Investment) | | \$ (1,891) | |
| NAV per Share Held by Stockholder A | | \$ 10.21 | |
| Investment per Share Held by Stockholder A (Assumed to be \$10.23 on Shares Held Prior to Sale) | \$ 10.23 | \$ 10.23 | |
| Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share) | | \$ (0.02) | |
| Percentage Dilution to Stockholder A (NAV per Share Divided by Investment per Share) | | | (0.19)% |
| Impact On Existing Stockholders Who Do Participate in the Offering | | | |

Our existing stockholders who participate in the offering below NAV per share or who buy additional shares of common stock in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares of common stock immediately prior to the offering. The level of NAV dilution will decrease as the number of shares of common stock such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution on their existing shares but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in average NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of common stock such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution and accretion in the offering for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 5,000 shares, which is 0.05% of the offering of 10,000,000 shares rather than its 0.10% proportionate share) and

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(2) 150% of such percentage (i.e., 15,000 shares, which is 0.15% of the offering rather than its 0.10% proportionate share). NAV has not been finally determined for any day after March 31, 2011. The table below is shown based upon the pro-forma NAV calculated by us taking into account the dilutive effects on our NAV per share of our distributions with record dates of April 29, 2011 and May 31, 2011, our issuance of common stock on April 29, 2011 and May 31, 2011 in connection with our dividend reinvestment plan and our public stock offering of 9,000,000 shares on April 7, 2011. For purposes of illustration, the table below assumes that our March 31, 2011 NAV per share has been reduced by 1.0% to \$10.23 per share as a result of the foregoing transactions.

| | Prior to Sale Below NAV | 50% Participation Following Sale | % Change | 150% Participation Following Sale | % Change |
|--|----------------------------|--|-------------|---|-------------|
| Offering Price | | | | | |
| Price per Share to Public | | \$ 10.15 | | \$ 10.15 | |
| Net Proceeds per Share to Issuer | | \$ 10.02 | | \$ 10.02 | |
| Decrease/Increase to NAV | | | | | |
| Total Shares Outstanding | 97,513,877 | 107,513,877 | 10.25% | 107,513,877 | 10.25% |
| NAV per Share | \$ 10.23 | \$ 10.21 | (0.19)% | \$ 10.21 | (0.19)% |
| Dilution/Accretion to Participating Stockholder | | | | | |
| Shares Held by Stockholder A | 97,514 | 102,514 | 5.13% | 112,514 | 15.38% |
| Percentage Held by Stockholder A | 0.10% | 0.10% | (4.65)% | 0.10% | 4.65% |
| Total NAV Held by Stockholder A | \$ 997,416 | \$ 1,046,571 | 4.93% | \$ 1,148,661 | 15.16% |
| Total Investment by Stockholder A (Assumed to be \$10.23 per Share on Shares held Prior to Sale) | | \$ 1,048,166 | | \$ 1,149,666 | |
| Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment) | | \$ (1,595) | | \$ (1,005) | |
| NAV per Share Held by Stockholder A | | \$ 10.21 | | \$ 10.21 | |
| Investment per Share Held by Stockholder A (Assumed to Be \$10.23 on Shares Held Prior to Sale) | \$ 10.23 | \$ 10.22 | | \$ 10.22 | |
| Dilution/Accretion per Share Held by Stockholder A (NAV per Share Less Investment per Share) | | \$ (0.01) | | \$ (0.01) | |
| Percentage Dilution/Accretion to Stockholder A (NAV per Share Divided by Investment per Share) | | | (0.15)% | | (0.09)% |
| Impact On New Investors | | | | | |

Investors who are not currently stockholders and who participate in an offering below NAV but whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by the issuer will experience an immediate decrease, albeit small, in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share due to selling compensation and expenses paid by the issuer being significantly less than the discount per share will experience an immediate increase in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however,

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be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution or accretion for new investors that will be experienced by a new investor who purchases the same percentage (0.10%) of the shares in the offering as the stockholder in the prior examples held immediately prior to the offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. It is not possible to predict the level of market price decline that may occur. NAV has not been finally determined for any day after March 31, 2011. The table below is shown based upon the pro-forma NAV calculated by us taking into account the dilutive effects on our NAV per share of our distributions with record dates of April 29, 2011 and May 31, 2011, our issuance of common stock on April 29, 2011 and May 31, 2011 in connection with our dividend reinvestment plan and our public stock offering of 9,000,000 shares on April 7, 2011. For purposes of illustration, the table below assumes that our March 31, 2011 NAV per share has been reduced by 1.0% to \$10.23 per share as a result of the foregoing transactions.

| | Prior to Sale Below NAV | Following Sale | % Change |
|---|----------------------------|-------------------|-------------|
| Offering Price | | | |
| Price per Share to Public | | \$ 10.15 | |
| Net Proceeds per Share to Issuer | | \$ 10.02 | |
| Decrease/Increase to NAV | | | |
| Total Shares Outstanding | 97,513,877 | 107,513,877 | 10.25% |
| NAV per Share | \$ 10.23 | \$ 10.21 | (0.19)% |
| Dilution/Accretion to New Investor A | | | |
| Shares Held by Investor A | 0 | 10,000 | |
| Percentage Held by Investor A | 0.00% | 0.01% | |
| Total NAV Held by Investor A | \$ 0 | \$ 102,091 | |
| Total Investment by Investor A (At Price to Public) | | \$ 101,500 | |
| Total Dilution/Accretion to Investor A (Total NAV Less Total Investment) | | \$ 591 | |
| NAV per Share Held by Investor A | | \$ 10.21 | |
| Investment per Share Held by Investor A | \$ 0.00 | \$ 10.15 | |
| Dilution/Accretion per Share Held by Investor A (NAV per Share Less Investment per Share) | | \$ 0.06 | |
| Percentage Dilution/Accretion to Investor A (NAV per Share Divided by Investment per Share) | | | 0.58% |

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UNDERWRITING

Under the terms of an underwriting agreement, Barclays Capital Inc., as the underwriter in this offering, has agreed to purchase from us, 10,000,000 shares of common stock.

The underwriting agreement provides that the underwriter's obligation to purchase shares of common stock depends on the satisfaction of the conditions contained in the underwriting agreement including:

the obligation to purchase all of the shares of common stock offered hereby, if any of the shares are purchased;

the representations and warranties made by us to the underwriter are true;

there is no material change in our business or in the financial markets; and

we deliver customary closing documents to the underwriter.

Commissions and Expenses

The following table summarizes the underwriting discounts and commissions we will pay to the underwriter. These amounts are shown assuming both no exercise and full exercise of the underwriter's option to purchase additional shares. The underwriting fee is the difference between the initial price to the public and the amount the underwriter pays to us for the shares.

| | No Exercise | Full Exercise |
|-----------|----------------|------------------|
| Per share | \$ 0.11 | 0.11 |
| Total | \$ 1,100,000 | \$ 1,265,000 |

The underwriter has advised us that it proposes to offer the shares of common stock directly to the public at the public offering price on the cover of this prospectus supplement and to selected dealers, which may include the underwriter, at such offering price less a selling concession not in excess of \$0.05 per share. After the offering, the underwriter may change the offering price and other selling terms. Sales of shares made outside of the United States may be made by affiliates of the underwriters.

The expenses of the offering that are payable by us are estimated to be \$200,000 (excluding underwriting discounts and commissions).

Option to Purchase Additional Shares

We have granted the underwriter an option exercisable for 30 days after the date of this prospectus supplement, to purchase, from time to time, in whole or in part, up to an aggregate of 1,500,000 shares at the public offering price less underwriting discounts and commissions. This option may be exercised if the underwriter sells more than the 10,000,000 shares set forth on the cover of this prospectus supplement.

Lock-Up Agreements

We and each of our directors and executive officers have agreed, without the prior written consent of the underwriter not to, during the period ending 45 days following the date of the underwriting agreement, (i) offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, or file with the Commission a registration statement relating to, any securities of the Company that are substantially similar to the common stock offered hereby, including but not limited to any options or warrants to purchase shares of common stock or any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or any such substantially similar securities, or publicly disclose the intention to

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make any offer, sale, pledge, disposition or filing or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock or any such other securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of common stock or such other securities, in cash or otherwise (other than shares of common stock to be sold hereunder or pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of the underwriting agreement).

Barclays Capital Inc., in its sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice. When determining whether or not to release the common stock and other securities from lock-up agreements, Barclays Capital will consider, among other factors, the holder's reasons for requesting the release, the number of shares of common stock or other securities for which the release is being requested and market conditions at the time.

Indemnification

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriter may be required to make for these liabilities.

Stabilization and Short Positions

The underwriter may engage in stabilizing transactions, covering transactions or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Exchange Act:

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover short positions.

These stabilizing transactions and covering transactions may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The NASDAQ Global Select Market or otherwise and, if commenced, may be discontinued at any time.

Neither we nor the underwriter make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor the underwriter will make representation that the underwriter will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Passive Market Making

In connection with the offering, underwriters may engage in passive market making transactions in the common stock on The NASDAQ Global Select Market in accordance with Rule 103 of Regulation M under the Exchange Act during the period before the commencement of offers or sales of common stock and extending through the completion of distribution. A passive market maker must display its bids at a price not in excess of the highest independent bid of the security. However, if all independent bids are lowered below the passive market maker's bid that bid must be lowered when specified purchase limits are exceeded.

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Electronic Distribution

A prospectus supplement and the accompanying prospectus in electronic format may be made available on the Internet sites or through other online services maintained by the underwriter or by its affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter, prospective investors may be allowed to place orders online. The underwriter may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriter on the same basis as other allocations.

Other than the prospectus supplement and the accompanying prospectus in electronic format, the information on the underwriter's website and any information contained in any other website maintained by the underwriter is not part of the prospectus supplement and the accompanying prospectus or the registration statement of which the prospectus supplement and the accompanying prospectus forms a part, has not been approved and/or endorsed by us or the underwriter in its capacity as underwriter and should not be relied upon by investors.

Stamp Taxes

If you purchase shares of common stock offered in the prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of the prospectus.

Relationships

From time to time, Barclays Capital Inc. and its affiliates have, directly or indirectly, provided investment banking or financial advisory services to us, for which they have received customary fees and commissions, and expect to provide these services to us in the future, for which they expect to receive customary fees and expense reimbursement.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), including each Relevant Member State that has implemented the 2010 PD Amending Directive with regard to persons to whom an offer of securities is addressed and the denomination per unit of the offer of securities (each, an "Early Implementing Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), no offer of shares will be made to the public in that Relevant Member State (other than offers (the "Permitted Public Offers") where a prospectus will be published in relation to the shares that has been approved by the competent authority in a Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive), except that with effect from and including that Relevant Implementation Date, offers of shares may be made to the public in that Relevant Member State at any time:

(1) to "qualified investors" as defined in the Prospectus Directive, including:

(a) in the case of Relevant Member States other than Early Implementing Member States), legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities, or any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43.0 million and (iii) an annual turnover of more than €50.0 million as shown in its last annual or consolidated accounts; or

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(b) (in the case of Early Implementing Member States), persons or entities that are described in points (1) to (4) of Section I of Annex II to Directive 2004/39/EC, and those who are treated on request as professional clients in accordance with Annex II to Directive 2004/39/EC, or recognized as eligible counterparties in accordance with Article 24 of Directive 2004/39/EC unless they have requested that they be treated as non-professional clients; or

(2) to fewer than 100 (or, in the case of Early Implementing Member States, 150) natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), as permitted in the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or

(3) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State (other than a Relevant Member State where there is a Permitted Public Offer) who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that (A) it is a "qualified investor", and (B) in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (x) the shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, or in circumstances in which the prior consent of the Subscribers has been given to the offer or resale, or (y) where shares have been acquired by it on behalf of persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any shares to be offered so as to enable an investor to decide to purchase any shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71 EC (including the 2010 PD Amending Directive, in the case of Early Implementing Member States) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in Switzerland

The shares being sold by the Company in this offering may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the offering or the shares being sold in the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company or the shares being sold in the offering have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offering will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offering has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes

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("CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the shares being sold in the offering.

Notice to Prospective Investors in the Dubai International Financial Centre

This document relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This document is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The shares which are the subject of the offering contemplated by this prospectus may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this document you should consult an authorized financial adviser.

Notice to Prospective Investors in Hong Kong

The shares may not be offered or sold by means of any document other than (1) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (2) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (3) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (2) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (1) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (2) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (a) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (b) where no consideration is given for the transfer; or (c) by operation of law.

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Notice to Prospective Investors in Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

The underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriter and certain of its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses. An affiliate of the underwriter is a lender under the Company's credit facility.

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

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LEGAL MATTERS

Certain legal matters regarding the common stock offered hereby have been passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, and Venable LLP as special Maryland counsel. Certain legal matters will be passed upon for the underwriter by Troutman Sanders LLP. Troutman Sanders LLP will rely as to certain matters of Maryland law upon Venable LLP.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO USA, LLP (formerly BDO Seidman, LLP) is the independent registered public accounting firm for the Company.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our common stock offered by this prospectus supplement. The registration statement contains additional information about us and the common stock being registered by this prospectus supplement. 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, 2010, are available free of charge by contacting us at 10 East 40th Street, 44th floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

March 31, 2011 and June 30, 2010

(in thousands, except share and per share data)

| | March 31, 2011 (Unaudited) | June 30, 2010 (Audited) |
|---|-------------------------------|----------------------------|
| Assets (Note 5) | | |
| Investments at fair value: | | |
| Control investments (cost of \$235,879 and \$185,720, respectively) | \$ 275,349 | \$ 195,958 |
| Affiliate investments (cost of \$56,594 and \$65,082, respectively) | 70,754 | 73,740 |
| Non-control/Non-affiliate investments (cost of \$881,166 and \$477,957, respectively) | 867,414 | 478,785 |
| Total investments at fair value (cost of \$1,173,639 and \$728,759, respectively, Note 4) | 1,213,517 | 748,483 |
| Investments in money market funds | 94,919 | 68,871 |
| Cash | 2,395 | 1,081 |
| Receivables for: | | |
| Interest, net | 10,728 | 5,356 |
| Dividends | 60 | 1 |
| Other | 561 | 419 |
| Prepaid expenses | 496 | 371 |
| Deferred financing costs, net | 16,186 | 7,579 |
| Other assets | | 534 |
| Total Assets | 1,338,862 | 832,695 |
| Liabilities | | |
| Credit facility payable (Note 5) | 47,500 | 100,300 |
| Senior convertible notes (Note 6) | 322,500 | |
| Payable for securities purchased | 31,984 | |
| Dividends payable | 8,940 | 6,909 |
| Due to Prospect Administration (Note 10) | 1,456 | 294 |
| Due to Prospect Capital Management (Note 10) | 6,353 | 9,006 |
| Accrued expenses | 5,319 | 4,057 |
| Other liabilities | 1,889 | 705 |
| Total Liabilities | 425,941 | 121,271 |
| Net Assets | \$ 912,921 | \$ 711,424 |
| Components of Net Assets | | |
| Common stock, par value \$0.001 per share (200,000,000 and 100,000,000 common shares authorized, respectively; 88,358,811 and 69,086,862 issued and outstanding, respectively) (Note 7) | \$ 88 | \$ 69 |
| Paid-in capital in excess of par (Note 7) | 991,658 | 805,918 |
| Distributions in excess of net investment income | (21,202) | (9,692) |
| Accumulated realized losses on investments | (97,501) | (104,595) |
| Unrealized appreciation on investments | 39,878 | 19,724 |

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| | | | | |
|----------------------------------|----|---------|----|---------|
| Net Assets | \$ | 912,921 | \$ | 711,424 |
| Net Asset Value Per Share | \$ | 10.33 | \$ | 10.30 |

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****For The Three and Nine Months Ended March 31, 2011 and 2010****(in thousands, except share and per share data)****(Unaudited)**

| | For The Three Months Ended March 31, | | For The Nine Months Ended March 31, | |
|---|---|---------------|--|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Investment Income | | | | |
| Interest Income: (Note 4) | | | | |
| Control investments (Net of foreign withholding tax of \$0, \$0, \$0, and (\$19), respectively) | \$ 5,180 | \$ 4,494 | \$ 15,798 | \$ 14,137 |
| Affiliate investments | 3,049 | 2,731 | 9,523 | 5,119 |
| Non-control/Non-affiliate investments | 26,275 | 20,722 | 65,466 | 42,065 |
| Total interest income | 34,504 | 27,947 | 90,787 | 61,321 |
| Dividend income: | | | | |
| Control investments | 2,760 | 2,300 | 6,810 | 12,660 |
| Non-control/Non-affiliate investments | | | 1,508 | |
| Money market funds | 3 | 1 | 10 | 29 |
| Total dividend income | 2,763 | 2,301 | 8,328 | 12,689 |
| Other income: (Note 8) | | | | |
| Control investments | 2 | 235 | 1,787 | 243 |
| Affiliate investments | 22 | 6 | 176 | 73 |
| Non-control/Non-affiliate investments | 7,282 | 1,516 | 12,007 | 2,365 |
| Gain on Patriot acquisition (Note 3) | | | | 8,632 |
| Total other income | 7,306 | 1,757 | 13,970 | 11,313 |
| Total Investment Income | 44,573 | 32,005 | 113,085 | 85,323 |
| Operating Expenses | | | | |
| Investment advisory fees: | | | | |
| Base management fee (Note 10) | 6,037 | 3,576 | 15,216 | 9,961 |
| Income incentive fee (Note 10) | 5,997 | 4,744 | 16,015 | 12,640 |
| Total investment advisory fees | 12,034 | 8,320 | 31,231 | 22,601 |
| Interest and credit facility expenses | 5,660 | 2,111 | 10,182 | 5,480 |
| Legal fees | 283 | 146 | 763 | 536 |
| Valuation services | 262 | 231 | 711 | 504 |

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| | | | | |
|--|------------------|------------------|------------------|-----------------|
| Audit, compliance and tax related fees | 168 | 181 | 649 | 682 |
| Allocation of overhead from Prospect Administration (Note 10) | 1,669 | 840 | 3,309 | 2,520 |
| Insurance expense | 74 | 64 | 217 | 190 |
| Directors' fees | 64 | 64 | 191 | 192 |
| Potential merger expenses (Note 11) | | 925 | | 925 |
| Other general and administrative expenses | 403 | 149 | 1,801 | 1,143 |
| Total Operating Expenses | 20,617 | 13,031 | 49,054 | 34,773 |
| Net Investment Income | 23,956 | 18,974 | 64,031 | 50,550 |
| Net realized gain (loss) on investments (Note 4) | 2,078 | (2) | 7,094 | (51,231) |
| Net change in unrealized appreciation (depreciation) on investments (Note 4) | 7,725 | 6,968 | 20,154 | 5,723 |
| Net Increase in Net Assets Resulting from Operations | \$ 33,759 | \$ 25,940 | \$ 91,279 | \$ 5,042 |
| Net increase in net assets resulting from operations per share: (Note 9 and Note 14) | \$ 0.38 | \$ 0.41 | \$ 1.11 | \$ 0.09 |
| Dividends declared per share | \$ 0.30 | \$ 0.41 | \$ 0.91 | \$ 1.23 |

See notes to consolidated financial statements.

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

For The Nine Months Ended March 31, 2011 and 2010

(in thousands, except share data)

(Unaudited)

| | For The Nine Months Ended | |
|---|---------------------------|-------------------|
| | March 31, 2011 | March 31, 2010 |
| Increase in Net Assets from Operations: | | |
| Net investment income | \$ 64,031 | \$ 50,550 |
| Net realized gain (loss) on investments | 7,094 | (51,231) |
| Net change in unrealized appreciation (depreciation) on investments | 20,154 | 5,723 |
| Net Increase in Net Assets Resulting from Operations | 91,279 | 5,042 |
| Dividends to Shareholders | (75,541) | (94,125) |
| Capital Share Transactions: | | |
| Net proceeds from capital shares sold | 178,317 | 108,858 |
| Less: Offering costs of public share offerings | (724) | (1,606) |
| Fair value of equity issued in conjunction with Patriot acquisition | | 92,800 |
| Reinvestment of dividends | 8,166 | 8,254 |
| Net Increase in Net Assets Resulting from Capital Share Transactions | 185,759 | 208,306 |
| Total Increase in Net Assets | 201,497 | 119,223 |
| Net assets at beginning of period | 711,424 | 532,596 |
| Net Assets at End of Period | \$ 912,921 | \$ 651,819 |
| Capital Share Activity: | | |
| Shares sold | 18,494,476 | 12,243,297 |
| Shares issued for Patriot acquisition | | 8,444,068 |
| Shares issued through reinvestment of dividends/distributions | 777,473 | 767,782 |
| Net increase in capital share activity | 19,271,949 | 21,455,147 |
| Shares outstanding at beginning of period | 69,086,862 | 42,943,084 |
| Shares Outstanding at End of Period | 88,358,811 | 64,398,231 |

See notes to consolidated financial statements.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****For The Nine Months Ended March 31, 2011 and 2010****(in thousands, except share data)****(Unaudited)****For The Nine Months Ended March 31,**

| | 2011 | 2010 |
|--|------------------|------------------|
| Cash Flows from Operating Activities: | | |
| Net increase in net assets resulting from operations | \$ 91,279 | \$ 5,042 |
| Net realized (gain) loss on investments | (7,094) | 51,231 |
| Net change in unrealized appreciation on investments | (20,154) | (5,723) |
| Accretion of purchase discount on investments | (10,874) | (15,865) |
| Amortization of deferred financing costs | 3,628 | 3,427 |
| Gain on Patriot acquisition | | (8,632) |
| Change in operating assets and liabilities: | | |
| Payments for purchases of investments | (632,526) | (64,390) |
| Payment-in-kind interest | (8,510) | (4,299) |
| Proceeds from sale of investments and collection of investment principal | 214,124 | 96,338 |
| Purchases of cash equivalents | | (199,997) |
| Sales of cash equivalents | | 199,997 |
| Net (increase) decrease investments in money market funds | (26,048) | 75,724 |
| (Increase) decrease in interest receivable | (5,372) | 2,653 |
| (Increase) decrease in dividends receivable | (59) | 27 |
| (Increase) decrease in other receivables | (142) | 167 |
| Increase in prepaid expenses | (125) | (43) |
| Decrease in due from Prospect Administration | | 1,500 |
| Decrease (increase) in other assets | 534 | (534) |
| Increase (decrease) in due to Prospect Administration | 1,162 | (599) |
| (Decrease) increase in due to Prospect Capital Management | (2,653) | 3,960 |
| Increase in payable for securities purchased | 31,984 | 1,743 |
| Increase (decrease) in accrued expenses | 1,262 | (626) |
| Increase in other liabilities | 1,184 | 1,031 |
| Net Cash (Used In) Provided By Operating Activities | (368,400) | 142,132 |
| Cash Flows from Investing Activities: | | |
| Acquisition of Patriot, net of cash acquired (Note 3) | | (106,586) |
| Net Cash Used In Investing Activities | | (106,586) |
| Cash Flows from Financing Activities: | | |
| Issuance of Senior Convertible Notes (Note 6) | 322,500 | |
| Borrowings under credit facility | 259,100 | 115,000 |
| Payments under credit facility | (311,900) | (185,600) |
| Financing costs paid and deferred | (12,235) | (1,424) |
| Net proceeds from issuance of common stock | 178,317 | 108,858 |
| Offering costs from issuance of common stock | (724) | (1,606) |
| Dividends paid | (65,344) | (59,467) |
| Net Cash Provided By Financing Activities | 369,714 | (24,239) |
| Total Increase in Cash | 1,314 | 11,307 |

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| | | | | |
|---|----|-------|----|--------|
| Cash balance at beginning of period | | 1,081 | | 9,942 |
| Cash Balance at End of Period | \$ | 2,395 | \$ | 21,249 |
| Cash Paid For Interest | \$ | 1,377 | \$ | 865 |
| Non-Cash Financing Activity: | | | | |
| Amount of shares issued in connection with Patriot acquisition | \$ | | \$ | 92,800 |
| Amount of shares issued in connection with dividend reinvestment plan | \$ | 8,166 | \$ | 8,254 |

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2011 and June 30, 2010

(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments ¹ | March 31, 2011 | | | % of Net Assets |
|--|-------------------------------------|---|-----------------|---------------|-------------------------|-----------------|
| | | | Principal Value | Cost | Fair Value ² | |
| LEVEL 3 PORTFOLIO INVESTMENTS: | | | | | | |
| Control Investments (25.00% or greater of voting control) | | | | | | |
| AIRMALL USA, Inc ²⁸ | Pennsylvania / | Senior Secured Term Loan (12.00%, due 6/30/2015) ^{3,4} | \$ 30,000 | \$ 30,000 | \$ 30,000 | 3.3% |
| | Property Management | Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015) | 12,500 | 12,500 | 12,500 | 1.4% |
| | | Convertible Preferred Stock (9,919.684 shares) | | 9,920 | 9,226 | 1.0% |
| | | Common Stock (100 shares) | | | | 0.0% |
| | | | | 52,420 | 51,726 | 5.7% |
| Ajax Rolled Ring & Machine, Inc. | South Carolina / Manufacturing | Senior Secured Note Tranche A (10.50%, due 4/01/2013) ⁴ | 20,717 | 20,717 | 20,717 | 2.3% |
| | | Subordinated Secured Note Tranche B (11.50% plus 6.00% PIK, due 4/01/2013) ^{3,4} | 15,035 | 15,035 | 10,783 | 1.2% |
| | | Convertible Preferred Stock Series A (6,142.6 shares) | | 6,057 | | 0.0% |
| | | Unrestricted Common Stock (6 shares) | | | | 0.0% |
| | | | | 41,809 | 31,500 | 3.5% |
| AWCNC, LLC ²⁰ | North Carolina / Machinery | Members Units Class A (1,800,000 units) | | | | 0.0% |
| | | Members Units Class B-1 (1 unit) | | | | 0.0% |
| | | Members Units Class B-2 (7,999,999 units) | | | | 0.0% |
| | | | | | | 0.0% |
| Borga, Inc. | California / Manufacturing | Revolving Line of Credit \$1,000 Commitment (5.00% plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due) ^{4,26} | 1,000 | 945 | 850 | 0.1% |
| | | Senior Secured Term Loan B (8.50% plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due) ⁴ | 1,612 | 1,500 | 956 | 0.1% |
| | | 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) | 8,890 | 707 | | 0.0% |
| | | Common Stock (100 shares) ²² | | | | 0.0% |
| | | Warrants (33,750 warrants) ²² | | | | 0.0% |
| | | | | 3,152 | 1,806 | 0.2% |
| C&J Cladding LLC | Texas / Metal Services and Minerals | Membership Interest (400 units) ²³ | | 580 | 5,456 | 0.6% |
| | | | | 580 | 5,456 | 0.6% |
| | | Common Stock (1,000 shares) | | 2,540 | | 0.0% |

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| | | | | | | | |
|--|------------------------------|---|--------|--------|--------|---------------|---------------|
| Change Clean Energy Holdings, Inc. ("CCEHI" or "Biomass") ⁵ | Maine / Biomass Power | | | | | | |
| | | | | | | 2,540 | 0.0% |
| Fischbein, LLC | North Carolina / Machinery | Senior Subordinated Debt (13.00% plus 3.50% PIK, due 5/01/2013) | 2,133 | 1,988 | 2,133 | | 0.2% |
| | | Membership Interest ²⁵ | | 1,899 | 11,842 | | 1.3% |
| | | | | | | 3,887 | 13,975 |
| | | | | | | | 1.5% |
| Freedom Marine Services LLC ²¹ | Louisiana / Shipping Vessels | Subordinated Secured Note (12.00% plus 4.00% PIK, in non-accrual status effective 10/1/2010, due 12/31/2011) ⁴ | 11,093 | 10,838 | 3,783 | | 0.4% |
| | | Net Profits Interest (22.50% payable on equity distributions) ⁷ | | | | | 0.0% |
| | | | | | | 10,838 | 3,783 |
| | | | | | | | 0.4% |

See notes to consolidated financial statements.

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

March 31, 2011 and June 30, 2010

(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments ¹ | March 31, 2011 | | | % of Net Assets |
|--|---------------------------------------|--|-----------------|---------------|-------------------------|-----------------|
| | | | Principal Value | Cost | Fair Value ² | |
| LEVEL 3 PORTFOLIO INVESTMENTS: | | | | | | |
| Control Investments (25.00% or greater of voting control) | | | | | | |
| Gas Solutions | Texas / Gas Gathering | Senior Secured Note (18.00%, due 12/11/2016) | \$ 25,000 | \$ 25,000 | \$ 25,000 | 2.8% |
| Holdings, Inc. ^{8,3} | Texas / Gas and Processing | Junior Secured Note (18.00%, due 12/12/2016) | 12,000 | 12,000 | 12,000 | 1.3% |
| | | Common Stock (100 shares) | | 5,003 | 60,596 | 6.7% |
| | | | | 42,003 | 97,596 | 10.8% |
| Integrated Contract Services, Inc. ⁹ | North Carolina / Contracting | Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, due 3/21/2012-1/02/2013) ¹⁰ | 1,363 | 1,361 | 1,363 | 0.1% |
| | | Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due) ¹⁰ | 1,170 | 1,170 | 317 | 0.0% |
| | | Senior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due) | 960 | 660 | | 0.0% |
| | | Junior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due) | 14,003 | 14,003 | | 0.0% |
| | | Preferred Stock Series A (10 shares) | | | | 0.0% |
| | | Common Stock (49 shares) | | 679 | | 0.0% |
| | | | | 17,873 | 1,680 | 0.1% |
| Iron Horse Coiled Tubing, Inc. ²⁴ | Alberta, Canada / Production Services | Senior Secured Tranche 2 (Zero Coupon, due 12/31/2016) | 2,338 | 2,338 | 2,142 | 0.2% |
| | | Senior Secured Tranche 3 (2.00%, due 12/31/2016) | 14,000 | 13,781 | 13,231 | 1.4% |
| | | Common Stock (3,821 shares) | | 268 | 1,590 | 0.2% |
| | | | | 16,387 | 16,963 | 1.8% |
| Manx Energy, Inc. ("Manx") ¹² | Kansas / Oil & Gas Production | Appalachian Energy Holdings, LLC ("AEH") Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 1/19/2013) | 2,203 | 2,000 | 345 | 0.0% |
| | | Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 1/19/2013) ⁶ | 6,608 | 5,991 | 1,034 | 0.1% |
| | | Manx Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, due 1/19/2013) | 3,300 | 3,300 | 3,300 | 0.4% |
| | | Manx Preferred Stock (6,635 shares) | | 6,307 | | 0.0% |
| | | Manx Common Stock (3,416,335 shares) | | 1,171 | | 0.0% |
| | | | | 18,769 | 4,679 | 0.5% |
| NRG Manufacturing, Inc. | Texas / Manufacturing | Senior Secured Note (16.50%, due 8/31/2011) ^{3,4} | 13,080 | 13,080 | 13,080 | 1.4% |
| | | Common Stock (800 shares) | | 2,317 | 19,826 | 2.2% |
| | | | | 15,397 | 32,906 | 3.6% |
| Nupla Corporation | California / Home & Office | Revolving Line of Credit \$2,000 Commitment (7.25% plus 2.00% default interest, due 9/04/2012) ^{4,26} | 1,093 | 999 | 1,093 | 0.1% |

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| | | | | | |
|--------------|--|-------|--------------|--------------|-------------|
| Furnishings, | | | | | |
| Housewares & | Senior Secured Term Loan A (8.00% plus 2.00% default interest, | | | | |
| Durable | due 9/04/2012) ⁴ | 4,658 | 1,022 | 4,658 | 0.5% |
| | Senior Subordinated Debt (15.00% PIK, in non-accrual status | | | | |
| | effective 4/01/2009, due 3/04/2013) | 3,767 | | 334 | 0.0% |
| | Preferred Stock Class A (2,850 shares) | | | | 0.0% |
| | Preferred Stock Class B (1,330 shares) | | | | 0.0% |
| | Common Stock (2,360,743 shares) | | | | 0.0% |
| | | | 2,021 | 6,085 | 0.6% |

See notes to consolidated financial statements.

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

March 31, 2011 and June 30, 2010

(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments ¹ | March 31, 2011 | | % of Net Assets | |
|--|--|---|-----------------|----------------|-----------------|-------------------------|
| | | | Principal Value | Cost | | Fair Value ² |
| LEVEL 3 PORTFOLIO INVESTMENTS: | | | | | | |
| Control Investments (25.00% or greater of voting control) | | | | | | |
| R-V Industries, Inc. | Pennsylvania / Manufacturing | Warrants (200,000 warrants, expiring 6/30/2017) | | \$ 1,682 | \$ 1,931 | 0.2% |
| | | Common Stock (545,107 shares) | | 5,086 | 5,263 | 0.6% |
| | | | | 6,768 | 7,194 | 0.8% |
| Yatesville Coal Holdings, Inc. ¹¹ | Kentucky / Mining, Steel, Iron and Non-Precious Metals and Coal Production | Senior Secured Note (Non-accrual status effective 1/01/2009, due 12/31/2010) ⁴ | \$ 1,035 | 1,035 | | 0.0% |
| | | Junior Secured Note (Non-accrual status effective 1/01/2009, due 12/31/2010) ⁴ | 400 | 400 | | 0.0% |
| | | Common Stock (1,000 shares) | | | | 0.0% |
| | | | | 1,435 | | 0.0% |
| Total Control Investments | | | | 235,879 | 275,349 | 30.2% |
| Affiliate Investments (5.00% to 24.99% voting control) | | | | | | |
| Biotronic NeuroNetwork | Michigan / Healthcare | Senior Secured Note (11.50% plus 1.00% PIK, due 2/21/2013) ^{3, 4} | 26,227 | 26,227 | 27,014 | 3.0% |
| | | Preferred Stock Series A (9,925.455 shares) ¹³ | | 2,300 | 5,401 | 0.6% |
| | | Preferred Stock Series B (1,753.64 shares) ¹³ | | 579 | 1,360 | 0.1% |
| | | | | 29,106 | 33,775 | 3.7% |
| Boxercraft Incorporated | Georgia / Textiles & Leather | Senior Secured Term Loan A (9.50%, due 9/16/2013) ^{3, 4} | 2,950 | 2,611 | 2,884 | 0.3% |
| | | Senior Secured Term Loan B (10.00%, due 9/16/2013) ^{3, 4} | 4,767 | 3,973 | 4,637 | 0.5% |
| | | Subordinated Secured Term Loan (12.00% plus 6.50% PIK, due 3/16/2014) ³ | 7,601 | 6,295 | 7,520 | 0.8% |
| | | Preferred Stock (1,000,000 shares) | | | 408 | 0.0% |
| | | Common Stock (10,000 shares) | | | | 0.0% |
| | | | | 12,879 | 15,449 | 1.6% |
| Smart, LLC(15) | New York / Diversified / Conglomerate Service | Membership Interest Class B (1,218 units) | | | | 0.0% |
| | | Membership Interest Class D (1 unit) | | | | 0.0% |
| | | | | | | 0.0% |

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| | | | | | | | |
|---------------------------------|--|--|-------|---------------|---------------|--|-------------|
| Sport Helmets Holdings, LLC(15) | New York / Personal & Nondurable Consumer Products | Revolving Line of Credit \$3,000 Commitment (5.75%, due 12/14/2013) ^{4, 26, 27} | | | | | 0.0% |
| | | Senior Secured Term Loan A (4.06%, due 12/14/2013) ^{3, 4} | 2,350 | 1,416 | 2,335 | | 0.3% |
| | | Senior Secured Term Loan B (4.56%, due 12/14/2013) ^{3, 4} | 7,331 | 5,495 | 7,331 | | 0.8% |
| | | Senior Subordinated Debt Series A (12.00% plus 3.00% PIK, due 6/14/2014) ³ | 7,493 | 6,196 | 7,493 | | 0.8% |
| | | Senior Subordinated Debt Series B (10.00% plus 5.00% PIK, due 6/14/2014) ³ | 1,409 | 1,044 | 1,409 | | 0.2% |
| | | Common Stock (20,554 shares) | | 458 | 2,962 | | 0.3% |
| | | | | 14,609 | 21,530 | | 2.4% |
| | | Total Affiliate Investments | | 56,594 | 70,754 | | 7.8% |

See notes to consolidated financial statements.

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

March 31, 2011 and June 30, 2010

(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments ¹ | March 31, 2011 | | | % of Net Assets |
|--|--|--|-----------------|---------------|-------------------------|-----------------|
| | | | Principal Value | Cost | Fair Value ² | |
| LEVEL 3 PORTFOLIO INVESTMENTS: | | | | | | |
| Non-control/Non-affiliate Investments (less than 5.00% of voting control) | | | | | | |
| ADAPCO, Inc. | Florida / Ecological | Common Stock (5,000 shares) | | \$ 141 | \$ 245 | 0.0% |
| | | | | 141 | 245 | 0.0% |
| Aircraft Fasteners International, LLC | California / Machinery | Revolving Line of Credit \$500 Commitment (9.50%, due 11/01/2012) ^{4, 26, 27} | \$ | | | 0.0% |
| | | Senior Secured Term Loan (9.50%, due 11/01/2012) ^{3, 4} | 3,799 | 3,799 | 3,799 | 0.4% |
| | | Junior Secured Term Loan (12.00% plus 6.00% PIK, due 5/01/2013) ³ | 4,829 | 4,829 | 4,829 | 0.5% |
| | | Convertible Preferred Stock (32,500 units) | | 396 | 226 | 0.0% |
| | | | | 9,024 | 8,854 | 0.9% |
| American Gilsonite Company | Utah / Specialty Minerals | Senior Subordinated Note (12.00% plus 2.50% PIK, due 12/10/2016) ⁴ | 30,169 | 30,169 | 30,169 | 3.3% |
| | | Membership Interest in AGC/PEP, LLC (99.9999%) ¹⁶ | | | 3,689 | 0.4% |
| | | | | 30,169 | 33,858 | 3.7% |
| Arrowhead General Insurance Agency, Inc. ¹⁷ | California / Insurance | Junior Secured Term Loan (11.25%, due 9/30/2017) ⁴ | 27,000 | 27,000 | 27,000 | 3.0% |
| | | | | 27,000 | 27,000 | 3.0% |
| Caleel + Hayden, LLC ¹⁵ | Colorado / Personal & Nondurable Consumer Products | Membership Units (7,500 shares) | | 351 | 883 | 0.1% |
| | | Options in Mineral Fusion Natural Brands, LLC (11,662 options) | | | | 0.0% |
| | | | | 351 | 883 | 0.1% |
| Cargo Airport Services USA, LLC | New York / Transportation | Revolving Line of Credit \$5,000 Commitment (11.50%, due 3/31/2012) ^{4, 26} | 1,435 | 1,435 | 1,435 | 0.2% |
| | | Senior Secured Term Loan A (11.50%, due 3/31/2016) ⁴ | 20,000 | 20,000 | 20,000 | 2.2% |
| | | Senior Secured Term Loan B (11.50%, due 3/31/2016) ⁴ | 33,000 | 33,000 | 33,000 | 3.6% |
| | | Common Equity (1.5 units) | | 1,500 | 1,500 | 0.2% |
| | | | | 55,935 | 55,935 | 6.2% |
| Clearwater Seafoods LP | Canada / Food Products | Second Lien Term Loan (12.00%, due 2/4/2016) | 45,000 | 45,000 | 45,000 | 4.9% |

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| | | | | | |
|-------------------------------|---------------------------------|--|---------------|---------------|-------------|
| | | | 45,000 | 45,000 | 4.9% |
| The Copernicus Group, Inc. | North Carolina / Healthcare | Revolving Line of Credit \$1,000 Commitment (8.00%, due 2/9/2016) ^{4, 26} | | | 0.0% |
| | | Senior Secured Term Loan A (8.00%, due 2/9/2016) ^{3, 4} | 11,250 | 11,250 | 1.2% |
| | | Senior Secured Term Loan B (14.00%, due 2/9/2016) ⁴ | 11,250 | 11,250 | 1.2% |
| | | Preferred Stock Series A (1,000,000 shares) | | 67 | 0.1% |
| | | Preferred Stock Series C (212,121 shares) | | 212 | 0.0% |
| | | | 22,779 | 23,650 | 2.5% |
| Deb Shops, Inc. ¹⁷ | Pennsylvania / Retail | Second Lien Debt (14.00% PIK, in non-accrual status effective 2/24/2009, due 10/23/2014) | 19,501 | 14,606 | 0.2% |
| | | | 14,606 | 1,372 | 0.2% |
| Diamondback Operating, LP | Oklahoma / Oil & Gas Production | Net Profits Interest (15.00% payable on Equity distributions) ⁷ | | | 0.0% |
| | | | | | 0.0% |

See notes to consolidated financial statements.

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

March 31, 2011 and June 30, 2010

(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments ¹ | March 31, 2011 | | | % of Net Assets |
|--|---------------------------------------|---|-----------------|---------------|-------------------------|-----------------|
| | | | Principal Value | Cost | Fair Value ² | |
| LEVEL 3 PORTFOLIO INVESTMENTS: | | | | | | |
| Non-control/Non-affiliate Investments (less than 5.00% of voting control) | | | | | | |
| Empire Today, LLC ¹⁷ | Illinois / Durable Consumer Products | Senior Secured Note (11.375%, due 2/1/2017) | \$ 7,500 | \$ 7,422 | \$ 7,500 | 0.8% |
| | | | | 7,422 | 7,500 | 0.8% |
| Fairchild Industrial Products, Co. | North Carolina / Electronics | Preferred Stock Class A (285.1 shares) | | 377 | 726 | 0.1% |
| | | Common Stock Class B (28 shares) | | 211 | 445 | 0.0% |
| | | | | 588 | 1,171 | 0.1% |
| H&M Oil & Gas, LLC | Texas / Oil & Gas Production | Senior Secured Note (13.00% plus 3.00% PIK, past due) ⁴ | 60,470 | 60,470 | 42,825 | 4.7% |
| | | Net Profits Interest (8.00% payable on Equity distributions) ⁷ | | | | 0.0% |
| | | | | 60,470 | 42,825 | 4.7% |
| Hoffmaster Group, Inc. | Wisconsin / Durable Consumer Products | Second Lien Term Loan (13.50%, due 6/2/2017) ³ | 20,000 | 20,000 | 20,400 | 2.2% |
| | | | | 20,000 | 20,400 | 2.2% |
| Hudson Products Holdings, Inc. ¹⁷ | Texas / Manufacturing | Senior Secured Term Loan (8.50%, due 8/24/2015) ^{3, 4} | 6,365 | 5,809 | 5,453 | 0.6% |
| | | | | 5,809 | 5,453 | 0.6% |
| ICON Health & Fitness, Inc. ¹⁷ | Utah / Durable Consumer Products | Senior Secured Note (11.875%, due 10/15/2016) ³ | 32,500 | 32,337 | 32,500 | 3.6% |
| | | | | 32,337 | 32,500 | 3.6% |
| IEC Systems LP ("IEC") / Advanced Rig Services LLC ("ARS") | Texas / Oilfield Fabrication | IEC Senior Secured Note (12.00% plus 3.00% PIK, due 11/20/2012) ^{3, 4} | 16,196 | 16,196 | 16,520 | 1.8% |
| | | ARS Senior Secured Note (12.00% plus 3.00% PIK, due 11/20/2012) ^{3, 4} | 8,504 | 8,504 | 8,674 | 1.0% |
| | | | | 24,700 | 25,194 | 2.8% |
| Jordan Healthcare Holdings, Inc. | Texas / Healthcare | Senior Subordinated Debt (12.00% plus 2.50% PIK, due 6/23/2016) ⁴ | 15,372 | 15,372 | 15,372 | 1.7% |

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| | | | | | | |
|---|----------------------------------|--|---------------|---------------|--------------|-------------|
| | | | 15,372 | 15,372 | 1.7% | |
| Label Corp Holdings, Inc. ¹⁷ | Nebraska / Printing & Publishing | Senior Secured Term Loan (8.50%, due 8/08/2014) ^{3, 4} | 5,749 | 5,272 | 5,651 | 0.6% |
| | | | | 5,272 | 5,651 | 0.6% |
| LHC Holdings Corp. | Florida / Healthcare | Revolving Line of Credit \$750 Commitment (8.50%, due 6/30/2012) ^{26, 27} | | | | 0.0% |
| | | Senior Secured Term Loan A (8.50%, due 6/30/2012) ^{3, 4} | 1,097 | 1,097 | 1,072 | 0.1% |
| | | Senior Subordinated Debt (12.00% plus 2.50% PIK, due 5/31/2013) ³ | 4,565 | 4,272 | 4,384 | 0.5% |
| | | Membership Interest (125 units) | | 216 | 213 | 0.0% |
| | | | | 5,585 | 5,669 | 0.6% |
| Mac & Massey Holdings, LLC | Georgia / Food Products | Senior Subordinated Debt (10.00% plus 5.75% PIK, due 2/10/2013) ³ | 9,056 | 8,011 | 9,056 | 1.0% |
| | | Membership Interest (250 units) | | 129 | 623 | 0.1% |
| | | | | 8,140 | 9,679 | 1.1% |
| Maverick Healthcare, LLC | Arizona / Healthcare | Preferred Units (1,250,000 units) | | 1,253 | 1,760 | 0.2% |
| | | Common Units (1,250,000 units) | | | 270 | 0.0% |
| | | | | 1,253 | 2,030 | 0.2% |

See notes to consolidated financial statements.

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

March 31, 2011 and June 30, 2010

(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments ¹ | March 31, 2011 | | | % of Net Assets |
|--|--|--|-----------------|---------------|-------------------------|-----------------|
| | | | Principal Value | Cost | Fair Value ² | |
| LEVEL 3 PORTFOLIO INVESTMENTS: | | | | | | |
| Non-control/Non-affiliate Investments (less than 5.00% of voting control) | | | | | | |
| Medical Security Card Company, LLC | Arizona / Healthcare | Revolving Line of Credit \$1,500 Commitment (9.50%, due 2/1/2016) ^{4, 26} | \$ | \$ | \$ | 0.0% |
| | | Senior Secured Term Loan (11.25%, due 2/1/2016) ⁴ | 20,500 | 20,500 | 20,500 | 2.2% |
| | | | 20,500 | 20,500 | 20,500 | 2.2% |
| Northwestern Management Services, LLC | Florida / Healthcare | Revolving Line of Credit \$1,500 Commitment (10.50%, due 7/30/2015) ^{4, 26} | | | | 0.0% |
| | | Senior Secured Term Loan A (10.50%, due 7/30/2015) ^{3, 4} | 18,250 | 18,250 | 18,250 | 2.0% |
| | | Common Stock (50 shares) | | 371 | 682 | 0.1% |
| | | | 18,621 | 18,932 | 18,932 | 2.1% |
| Out Rage, LLC ⁴ | Wisconsin / Durable Consumer Products | Revolving Line of Credit \$1,500 Commitment (11.0%, due 3/2/2015) ²⁶ | | | | 0.0% |
| | | Senior Secured Term Loan (11.00%, due 3/2/2015) | 12,500 | 12,500 | 12,500 | 1.4% |
| | | | 12,500 | 12,500 | 12,500 | 1.4% |
| Pinnacle Treatment Centers, Inc. | Pennsylvania / Healthcare | Revolving Line of Credit \$1,000 Commitment (8.0%, due 1/10/2016) ^{4, 26} | | | | 0.0% |
| | | Senior Secured Term Loan (11.0%, due 1/10/2016) ⁴ | 19,000 | 19,000 | 19,000 | 2.1% |
| | | | 19,000 | 19,000 | 19,000 | 2.1% |
| Prince Mineral Company, Inc. ³ | New York / Metal Services and Minerals | Junior Secured Term Loan (9.00%, due 12/21/2012) ⁴ | 11,050 | 11,050 | 11,050 | 1.2% |
| | | Senior Subordinated Debt (13.00% plus 2.00% PIK, due 7/21/2013) | 12,426 | 1,868 | 12,426 | 1.4% |
| | | | 12,918 | 23,476 | 23,476 | 2.6% |
| Progressive Logistics Services, LLC | Georgia / Commercial Services | Senior Secured Term Loan A (8.50%, due 1/6/2016) ⁴ | 15,000 | 15,000 | 15,000 | 1.6% |
| | | Senior Secured Term Loan B (14.50%, due 1/6/2016) ⁴ | | | | |