PROSPECT CAPITAL CORP
Form 497
September 03, 2010

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Filed Pursuant to Rule 497(e)
Registration No. 333-164270

PROSPECTUS SUPPLEMENT
(To Prospectus dated March 4, 2010)

Up to 2,185,472 Shares

Common Stock

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.

On July 19, 2010, we entered into separate equity distribution agreements with each of RBC Capital Markets Corporation, or RBC, BB&T Capital Markets, a division of Scott & Stringfellow, LLC, or BB&T, and Knight Capital Markets LLC, or Knight, relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. We sometimes refer to RBC, BB&T and Knight individually as a Sales Manager and together as the Sales Managers. The equity distribution agreements provide that we may offer and sell up to 6,000,000 shares of our common stock from time to time through the Sales Managers, as our agents for the offer and sale of such common stock. During the period from July 19, 2010 (the date of the equity distribution agreements) through August 19, 2010, we sold 3,814,528 shares of our common stock through the Sales Managers pursuant to the equity distribution agreements. No sales of common stock were made pursuant to the equity distribution agreements during the period from August 20, 2010 through the date of this prospectus supplement. As such, there are 2,185,472 shares of common stock remaining that we may offer and sell through the Sales Managers pursuant to the equity distribution agreements and this prospectus supplement and the accompanying prospectus. See Prospectus Summary Recent Developments on page S-1 of this prospectus supplement.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act of 1933, as amended, or the 1933 Act, including sales made directly on the NASDAQ Global Select Market or sales made to or through a market maker other than on an exchange.

Each Sales Manager will receive from us a commission equal to 2% of the gross sales price of all shares of common stock sold through it as Sales Manager under the applicable equity distribution agreement. No Sales Manager is required to sell any specific number or dollar amount of common stock, but each will use its commercially reasonable efforts to sell the common stock offered by this prospectus supplement and the accompanying prospectus. See Plan of Distribution on page S-57 of this prospectus supplement.

These shares of common stock may be offered at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders at the annual meeting of stockholders held on December 11,

2009. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See Risk Factors beginning on page S-7 and Sales of Common Stock Below Net Asset Value beginning on page S-52 of this prospectus supplement and on page 80 of the accompanying prospectus.

Our common stock is traded on the NASDAQ Global Select Market under the symbol PSEC. The last reported closing sales price for our common stock on September 2, 2010 was $9.43 per share and our most recently determined net asset value per share was $10.29 as of June 30, 2010 ($10.02 on an as adjusted basis solely to give effect to our distributions with record dates of July 30, 2010 and August 31, 2010, our issuance of common stock on July 30, 2010 and August 31, 2010 in connection with our dividend reinvestment plan, our sale of 2,748,600 shares of common stock during the period from June 28, 2010 through July 16, 2010 (with settlement dates of July 1, 2010 through July 21, 2010) and our sale of 3,814,528 shares of common stock during the period from July 19, 2010 through August 19, 2010 (with settlement dates of July 22, 2010 through August 24, 2010).

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.

Investing in our common stock involves risks. See Risk Factors beginning on page S-7 of this prospectus supplement and on page 9 of the accompanying prospectus.

The SEC has not approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

RBC Capital Markets

BB&T Capital Markets
A division of Scott & Stringfellow, LLC

Knight

Prospectus Supplement dated September 3, 2010

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FORWARD-LOOKING STATEMENTS

Our annual report on Form l0-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 1934 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, project, projected, projections, plans, seeks, anticipates, anticipated, should, could, may, will, 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,

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the Securities and Exchange Commission, 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.

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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, 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 1933 Act.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the Sales Managers have 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 Sales Managers are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement 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 SUPPLEMENT

PROSPECTUS

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 June 30, 2010, we held investments in 58 portfolio companies. The aggregate fair value as of June 30, 2010 of investments in these portfolio companies held on that date is approximately $748 million. Our portfolio across all our long-term debt and certain equity investments had an annualized current yield of 14.2% as of June 30, 2010. The yield includes interest as well as dividends.

Recent Developments

Sales Pursuant to the Equity Distribution Agreements

During the period from July 19, 2010 (the date of the equity distribution agreements) through August 19, 2010, we sold 3,814,528 shares of our common stock through the Sales Managers pursuant to the equity distribution agreements. No sales of common stock were made pursuant to the equity distribution agreements during the period from August 20, 2010 through the date of this prospectus supplement. The sales resulted in gross proceeds to the Company of $37.0 million. The aggregate gross sales commission to RBC, the sole Sales Manager utilized through August 19, 2010, has been $0.7 million. The aggregate net proceeds from such sales are approximately $36.3 million after deducting related expenses, including commissions to the Sales Managers.

Stock Issuance in Connection with Dividend Reinvestment Plan

On July 30, 2010, we issued 83,875 shares of our common stock in connection with our dividend reinvestment plan.

On August 31, 2010, we issued 89,620 shares of our common stock in connection with our dividend reinvestment plan.

Dividends

On August 26, 2010, we declared monthly dividends in the following amounts and with the following record and payment dates:

$0.100625 per share for September 2010 to holders of record on September 30, 2010 with a payment date of October 29, 2010; and

$0.100750 per share for October 2010 to holders of record on October 29, 2010 with a payment date of November 30, 2010.

Recent Investment Activity

On July 14, 2010, we closed a $37.4 million first lien senior secured credit facility to support the acquisition by H.I.G. Capital of a leading consumer credit enhancement services company.

On July 23, 2010, we made a secured debt investment of $21 million in SonicWALL, Inc., a global leader in network security and data protection for small, mid-sized, and large enterprise organizations.

On July 30, 2010, we invested $52.4 million of combined debt and equity in AIRMALL USA Inc., a leading developer and manager of airport retail operations.

On July 30, 2010, we recapitalized our debt investment in Northwestern Management Services, LLC, a leading dental practice management company in the Southeast Florida market, providing $10.8 million of additional funding to fund the acquisition of six dental practices.

Amendment to Charter

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

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The Offering

Common stock offered by us	Up to 2,185,472 shares.
Common stock outstanding as of the date of this prospectus supplement	75,823,485 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	On June 18, 2010 and August 26, 2010, we announced that our Board of Directors declared monthly distributions in the following amounts and with the following record and payment dates: $0.10 per share for June 2010 to holders of record on June 30, 2010 with a payment date of July 30, 2010; $0.10025 per share for July 2010 to holders of record on July 30, 2010 with a payment date of August 31, 2010; $0.10050 per share for August 2010 to holders of record on August 31, 2010 with a payment date of September 30, 2010; $0.100625 per share for September 2010 to holders of record on September 30, 2010 with a payment date of October 29, 2010; and $0.100750 per share for October 2010 to holders of record on October 29, 2010 with a payment date of November 30, 2010, representing an annualized distribution yield (based on the August 2010 distribution) of approximately 12.8% based on our September 2, 2010 closing stock price of $9.43 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.

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. In these tables, we assume that we have borrowed $210 million under our credit facility, which is the maximum amount currently available under the credit facility. As of September 2, 2010, we had $78.7 million outstanding under our credit facility and, based on the assets currently pledged as collateral on the facility, an additional approximately $126.2 million was available to us for borrowing under our credit facility. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by you, us or Prospect Capital, or that we will pay fees or expenses, th 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)	2.00%
Offering expenses borne by us (as a percentage of offering price)(2)	0.36%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	2.36%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Management Fees(5)	2.65%
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 borrowed funds	1.26%(7)
Acquired Fund Fees and Expenses	0.01%(8)
Other expenses	1.91%
Total annual expenses	8.17%(6)

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 that our annual operating expenses would remain at the levels set forth in the table above and that we pay the transaction 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	$ 80.56	$ 192.99	$ 303.56	$ 572.05

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 would be zero at the 5% annual return assumption required by the SEC for this table, since no incentive fee is paid until the annual return exceeds 7%. This illustration assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation in any of the indicated time periods. 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 expenses, and returns to our investors after such expenses, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at NAV per share, 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 dividend 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 dividend. See Dividend Reinvestment Plan in the accompanying prospectus 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) Represents the commission with respect to our shares of common stock being sold in this offering, which we will pay to the Sales Managers in connection with sales of common stock effected by the Sales Managers in this offering. This is the only sales load to be paid in connection with this offering. There is no guaranty that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

(2) The offering expenses of this offering are estimated to be approximately $75,000.

(3) The expenses of the dividend reinvestment plan are included in other expenses.

(4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at June 30, 2010. See Capitalization in this prospectus supplement.

(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). Assuming that we have borrowed $210 million (the size of our credit facility), the 2% management fee of gross assets equals 2.65% of net assets. See Management 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 year ended June 30, 2010, 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 Management Services Investment Advisory Agreement in the accompanying prospectus.

(7) We may borrow additional money before and after the proceeds of this offering are substantially invested. After this offering, we will have an increased amount available for us under our credit facility and we will continue to seek additional commitments to upsize the facility to up to $300 million. For more information, see Risk Factors Risks Relating To Our Business Changes in interest rates may affect our cost of capital and net investment income and Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Expenses Financial Condition, Liquidity and Capital Resources in the accompanying prospectus. The table above assumes that we have borrowed $210 million under our credit facility, which is the maximum amount available under the credit facility. If we do not borrow amounts following this offering, our base management fee, as a percentage of net assets attributable to common stock, will decrease from the percentage shown in the table above, as borrowings will not represent a portion of our overall assets.

(8) The Company s stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of June 30, 2010. 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 $711 million as of June 30, 2010.

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SELECTED CONDENSED FINANCIAL DATA

You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the twelve months 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. 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-9 for more information.

	For the Year/Period Ended June 30,				
	2010	**2009**	**2008**	**2007**	**2006**
	(In thousands except data relating to shares, per share and number of portfolio companies)				
Performance Data:					
Interest income	$ 86,518	$ 62,926	$ 59,033	$ 30,084	$ 13,268
Dividend income	15,366	22,793	12,033	6,153	3,601
Other income	11,751	14,762	8,336	4,444	
Total investment income	113,635	100,481	79,402	40,681	16,869
Interest and credit facility expenses	(8,382)	(6,161)	(6,318)	(1,903)	(642)
Investment advisory expense	(30,542)	(26,705)	(20,199)	(11,226)	(3,868)
Other expenses	(8,260)	(8,452)	(7,772)	(4,421)	(3,801)
Total expenses	(47,184)	(41,318)	(34,289)	(17,550)	(8,311)
Net investment income	66,451	59,163	45,113	23,131	8,558
Realized and unrealized gains (losses)	(47,565)	(24,059)	(17,522)	(6,403)	4,338
Net increase in net assets from operations	$ 18,886	$ 35,104	$ 27,591	$ 16,728	$ 12,896
Per Share Data:					
Net increase in net assets from operations(1)	$ 0.32	$ 1.11	$ 1.17	$ 1.06	$ 1.83
Distributions declared per share	$ (1.33)	$ (1.62)	$ (1.59)	$ (1.54)	$ (1.12)
Average weighted shares outstanding for the period	59,429,222	31,559,905	23,626,642	15,724,095	7,056,846

Assets and Liabilities Data:					
Investments	$ 748,483	$ 547,168	$ 497,530	$ 328,222	$ 133,969
Other assets	84,212	119,857	44,248	48,280	4,511
Total assets	832,695	667,025	541,778	376,502	138,480
Amount drawn on credit facility	100,300	124,800	91,167		28,500
Amount owed to related parties	9,115	6,713	6,641	4,838	745
Other liabilities	12,595	2,916	14,347	71,616	965
Total liabilities	122,010	134,429	112,155	76,454	30,210
Net assets	$ 710,685	$ 532,596	$ 429,623	$ 300,048	$ 108,270
Investment Activity Data:					
No. of portfolio companies at period end	58	30	29(2)	24(2)	15
Acquisitions	$ 157,662	$ 98,305	$ 311,947	$ 167,255	$ 83,625
Sales, repayments, and other disposals	$ 136,221	$ 27,007	$ 127,212	$ 38,407	$ 9,954
Weighted-Average Yield at end of period(3)	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.

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 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 June 30, 2010 and our NAV when calculated effective September 30, 2010 may be higher or lower.

Our most recently estimated NAV per share is $10.02 on an as adjusted basis solely to give effect to our distributions with record dates of July 30, 2010 and August 31, 2010, our issuance of common stock on July 30, 2010 and August 31, 2010 in connection with our dividend reinvestment plan, our sale of 2,748,600 shares of common stock during the period from June 28, 2010 through July 16, 2010 (with settlement dates of July 1, 2010 through July 21, 2010) and our sale of 3,814,528 shares of common stock during the period from July 19, 2010 through August 19, 2010 (with settlement dates of July 22, 2010 through August 24, 2010) versus $10.29 determined by us as of June 30, 2010. NAV per share as of September 30, 2010, may be higher or lower than $10.02 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 June 30, 2010. 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, 2010 as described 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 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

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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.

Senior securities, including debt, expose us to additional risks, including the typical risks associated with leverage.

We currently use our revolving credit facility to leverage our portfolio and we expect in the future to borrow from and issue senior debt securities to banks and other lenders and may securitize certain of our portfolio investments.

With certain limited exceptions, as a BDC we are only allowed to borrow amounts such that our set coverage, as defined in the 1940 Act, is at least 200% after such borrowing. The amount of leverage that we employ will depend on our Investment Adviser s and our Board of Directors assessment of market conditions and other factors at the time of any proposed borrowing. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for stockholders, including:

- A likelihood of greater volatility in the net asset value and market price of our common stock;
- Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;
- The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;
- Increased operating expenses due to the cost of leverage, including issuance and servicing costs;
- Convertible or exchangeable securities issued in the future may have rights, preferences and privileges more favorable than those of our common stock; and
- Subordination to lenders superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds will be distributed to our stockholders.

For example, the amount we may borrow under our revolving credit facility is determined, in part, by the fair value of our investments. If the fair value of our investments declines, we may be forced to sell investments at a loss to maintain compliance with our borrowing limits. Other debt facilities we may enter into in the future may contain similar provisions. Any such forced sales would reduce our net asset value and also make it difficult for the net asset value to recover. Our Investment Adviser and our Board of Directors in their best judgment nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) $800 million in total assets, (ii) an average cost of funds of 5.25%, (iii) $100 million in debt outstanding and (iv) $675 million of shareholders equity.

Assumed Return on Our Portfolio (net of expenses)	**(10)%**	**(5)%**	**0%**	**5%**	**10%**
Corresponding Return to Stockholder	(12.63)%	(6.70)%	(0.78)%	5.15%	11.07%

The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table.

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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 $748,483 and $547,168 as of June 30, 2010 and June 30, 2009, respectively. During the fiscal year ended June 30, 2010, our net cost of investments increased by $197,335, or 37.1%, primarily as a result of the acquisition of Patriot Capital Funding, Inc. (Patriot) and our investment in three new and several follow-on investments while we sold one investment and we received repayment on eight other investments.

Compared to the end of last fiscal year (ended June 30, 2009), net assets increased by $178,089 or 33.4% during the year ended June 30, 2010, from $532,596 to $710,685. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $156,221, equity issued in conjunction with the Patriot acquisition of $92,800, dividend reinvestments of $11,216, and another $18,886 from operations. These increases, in turn, were offset by $101,034 in dividend distributions to our stockholders. The $18,886 increase in net assets resulting from operations is net of the following: net investment income of $66,451, realized loss on investments of $51,545, and a net increase in net assets due to changes in net unrealized appreciation of investments of $3,980.

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 tax distribution.

The merger has been accounted for as an acquisition of Patriot by Prospect in accordance with the acquisition method of accounting as detailed in ASC 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 date of acquisition. 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 the fiscal year ended June 30, 2010, to $7,708, when we settled severance accruals related to certain members of Patriot s top management. Under ASC 805, the adjustment to our preliminary estimates is reflected in the three and six months ended December 31, 2009 (See Note 13 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.

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	(3,891)
Net assets acquired	208,791
Preliminary gain on Patriot acquisition(3)	$ 7,708

(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 were 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 preliminary gain has been determined based upon the estimated value of certain liabilities which are not yet settled. Any changes to such accruals will be recoded in future periods as an adjustment to such gain. We do not believe such adjustments will be material.

During the period from the acquisition of Patriot on December 2, 2009 to June 30, 2010, we recognized $18,795 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in this amount is $14,216 resulting from the acceleration of purchase discounts from the early repayments of four loans, two revolving lines of credit, sale of one investment position and restructuring of five loans.

Market Conditions

While the economy continues to show signs of recovery from the deteriorating credit markets of 2008 and 2009, there is still a level of uncertainty and volatility in the capital markets. The growth and improvement in the capital markets that began during the second half of 2009 carried over into the first quarter of 2010. 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, and as of June 30, 2010, we had $180,678 available under our credit facility, of which $100,300 was outstanding. Further, as we make additional investments that are eligible to be pledged under 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, with interest distributions to us allowed.

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 4, 2010, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $439,622 of additional equity securities as of June 30, 2010.

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. Through this program we engaged two broker-dealers to act as agents and sell up to 8,000,000 shares of our common stock directly into the market over a period of time. Through this program we issued all 8,000,000 shares at an average price of $10.90 per share, raising $87,177 of gross proceeds, from March 23, 2010 through July 16, 2010 and paid a 2% commission to the broker-dealers on shares sold.

On July 19, 2010, we established a new at-the-market program, as we had sold all the shares authorized in the original at-the-market program, 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 currently pay a 2% commission to the broker-dealers on shares sold. Through this program we have issued 3,814,528 shares of our common stock at an average price of $9.71 per share, raising $37,052 of gross proceeds, on sales from July 19, 2010 through August 19, 2010.

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

Fourth Quarter Highlights

Investment Transactions

On April 7, 2010, we purchased $12,296 of second lien notes in Seaton Corporation, a human resources services company. The second lien notes bear interest in cash at the greater of 12.5% or Libor plus 9.0% and have a final maturity on March 14, 2011.

On May 26, 2010, we purchased $15,000 in senior notes issued by an affiliate of SkillSoft PLC, a leading Software as a Service provider of on-demand, e-learning, and performance support solutions. The senior notes bear interest in cash at 11.125% and has a final maturity on June 1, 2018.

On June 2, 2010, we made a secured second lien debt investment of $20,000 in Hoffmaster, Inc., which primarily serves the foodservice and consumer market segments. The secured second lien debt bears interest in cash at 13.50% and has a final maturity on June 2, 2017.

On June 24, 2010, we closed a $25,500 senior secured credit facility for EXL Acquisition Corp., a leading manufacturer and marketer of consumable lab testing equipment and supplies. The senior secured credit facility is composed of a Term A Loan and a Term B Loan. The Term A Loan bears interest in cash at the greater of Libor plus

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5.5% or, the greater of the (i) Prime Rate, (ii) the Federal Funds Rate plus 0.5% or (iii) 4.25% plus 4.5% and has a final maturity on June 24, 2015. The Term B Loan bears interest in cash at 12.0% and interest in kind at 2.0% and has a final maturity on December 24, 2015.

Equity Issuance

From April 1, 2010 to July 16, 2010, we completed the sale of the remaining 7,188,500 shares of our common stock pursuant to the March 17, 2010 equity distribution agreements, resulting in net proceeds of approximately $75,231 after deducting related expenses including commissions.

On April 23, 2010, we issued 248,731 shares of our common stock in connection with the dividend reinvestment plan.

Dividend

On June 18, 2010, we announced a change in dividend policy from quarterly to monthly dividends and declared monthly dividends in the following amounts and with the following dates:

$0.10 per share for June 2010 to holders of record on June 30, 2010 with a payment date of July 30, 2010;

$0.10025 per share for July 2010 to holders of record on July 30, 2010 with a payment date of August 31, 2010; and

$0.10050 per share for August 2010 to holders of record on August 31, 2010 with a payment date of September 30, 2010.

Credit Facility

On June 11, 2010, we closed an extension and expansion of our revolving credit facility with a syndicate of lenders. The lenders have commitments of $210,000 under the new credit facility as of June 11, 2010. The new credit facility includes an accordion feature which allows the facility to be increased to up to $300,000 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 credit 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 credit 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. 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. The credit facility will be used, together with our equity capital, to make additional long-term investments.

The new credit facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The new credit facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the new credit facility. The new credit facility also requires the maintenance of a minimum liquidity requirement.

Recent Developments

On July 14, 2010, we closed a $37,400 first lien senior secured credit facility to support the acquisition by H.I.G. Capital of a leading consumer credit enhancement services company.

On July 23, 2010, we made a secured debt investment of $21,000 in SonicWALL, Inc., a global leader in network security and data protection for small, mid-sized, and large enterprise organizations.

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On July 30, 2010, we issued 83,875 shares of our common stock in connection with the dividend reinvestment plan.

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

On July 30, 2010, we recapitalized our debt investment in Northwestern Management Services, LLC, a leading dental practice management company in the Southeast Florida market, providing $10,774 of additional funding to fund the acquisition of six dental practices.

During the period June 28, 2010 through July 16, 2010 (with settlement dates of July 1, 2010 through July 21, 2010), we sold 2,748,600 shares of our common stock at an average price of $9.75 per share, and raised $26,799 of gross proceeds, under our at-the-market program. Net proceeds were $26,262 after 2% commission to the broker-dealers on shares sold.

During the period July 19, 2010 through August 19, 2010 (with settlement dates of July 22, 2010 through August 24, 2010), we sold 3,814,528 shares of our common stock at an average price of $9.71 per share, and raised $37,052 of gross proceeds, under our at-the-market program. Net proceeds were $36,335 after 2% commission to the broker-dealer on shares sold.

On August 26, 2010, we declared monthly dividends in the following amounts and with the following dates:

> $0.100625 per share for September 2010 to holders of record on September 30, 2010 with a payment date of October 29, 2010; and

> $0.100750 per share for October 2010 to holders of record on October 29, 2010 with a payment date of November 30, 2010.

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

Critical Accounting Policies and Estimates

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

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. June 30, 2010 and June 30, 2009 financial statements include our accounts and the accounts of Prospect Capital Funding, LLC, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

Investment Classification

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

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

Investment Valuation

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

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

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

1) Each portfolio company or investment is reviewed by our investment professionals with the independent valuation 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 of our Investment Adviser and that of 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 Accounting Standards Codification (ASC or Codification) 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 us at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

The changes to GAAP from the application of ASC 820 relate to the definition of fair value, 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.

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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 year ended June 30, 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* (ASC 2010-06). ASC 2010-06 amends ASC 820-10 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers disclosures about postretirement benefit plan assets. ASC 2010-06 is effective 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.

We adopted FASB ASC 740, *Income Taxes* (ASC 740). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. 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 June 30, 2010 and for the year then ended, we did not have a liability for any unrecognized tax benefits. Management s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

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

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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 principal or interest payments are past due 90 days or more or when there is reasonable doubt that principal or interest will be collected. Unpaid 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 June 30, 2010, approximately 5.6% 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.

Dividends and Distributions

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

Financing Costs

We record origination expenses related to our credit facility as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the effective interest method over the stated life of the facility.

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 is completed.

Guarantees and Indemnification Agreements

We follow FASB 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. ASC 460 did not have a material effect on the financial statements. Refer to Note 3 and Note 11 to our consolidated financial statements for further discussion of guarantees and indemnification agreements.

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. Diluted net increase or decrease in net assets resulting from operations per share are not presented as there are no potentially dilutive securities outstanding.

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements to conform to the presentation as of and for the twelve months ended June 30, 2010.

Recent Accounting Pronouncements

In May 2009, the FASB issued ASC 855, *Subsequent Events* (ASC 855). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. We evaluated all events or transactions that occurred after June 30, 2010 up through the date we issued the accompanying financial statements. During this period, we did not have any material recognizable subsequent events other than those disclosed in our financial statements.

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB Codification which supersedes all existing accounting standard documents and will become the single source of authoritative non-governmental GAAP. All other accounting literature not included in the Codification will be considered non-authoritative. The Codification did not change GAAP but reorganizes the literature. ASC 105 is effective for interim and annual periods ending after September 15, 2009. We have conformed our financial statements and related Notes to the new Codification.

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 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Our management does not believe that the adoption of the amended guidance in ASC 860 will have a significant effect on our financial statements.

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), 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 is effective as of the beginning of our first annual reporting period that begins after November 15, 2009. Our management does not believe that the adoption of the amended guidance in ASC 860 will have a significant effect on our financial statements.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, *Measuring Liabilities at Fair Value*, to amend FASB Accounting Standards Codification ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), to clarify how entities should estimate the fair value of liabilities. ASC 820, as amended, includes clarifying guidance for circumstances in which a quoted price in an active market is not available, the effect of the existence of liability transfer restrictions, and the effect of quoted prices for the identical liability, including when the identical liability is traded as an asset. We adopted ASU 2009-05 effective October 1, 2009. The amended guidance in ASC 820 does not have a significant effect on our financial statements for the year ended June 30, 2010.

In September 2009, the FASB issued ASU 2009-12, *Measuring Fair Value of Certain Investments* (ASU 2009-12). This update provides further amendments to ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share. Specifically, measurement using net asset value per share is reasonable for investments within the scope of ASU 2009-12. We adopted ASU 2009-12 effective October 1, 2009. The amended guidance in ASC 820 does not have a significant effect on our financial statements for the year ended June 30, 2010.

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 and for interim periods within those fiscal years. 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.

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In February 2010, the FASB issued Accounting Standards Update 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09), which amends ASC Subtopic 855-10. ASU 2010-09 requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement that an SEC filer disclose the date through which subsequent events have been evaluated. ASC 2010-09 was effective upon issuance. The adoption of this standard had no effect on our results of operation or our financial position.

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 is effective as of the beginning of the first annual period that begins after November 15, 2009 and for interim periods within that first annual period. Our management does not believe that the adoption of the amended guidance in ASU 2010-10 will have a significant effect on our financial statements.

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 amends various SEC paragraphs pursuant to the issuance of Release No. 33-9026: *Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies.* We are assessing the potential effect this guidance will have on our consolidated financial statements.

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. We are assessing the potential effect this guidance will have on our consolidated financial statements.

Investment Holdings

As of June 30, 2010, 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. This concentration continues to decrease as we make investments outside of 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.

Our portfolio had an annualized current yield of 14.2% and 13.7% across all our long-term debt and certain equity investments as of June 30, 2010 and June 30, 2009, respectively. This yield includes interest from all of our long-term investments as well as dividends from GSHI for the year ended June 30, 2010 and GSHI and NRG for the year ended June 30, 2009. The 0.5% increase is primarily due to accretion of purchase discounts on the loans acquired from Patriot. This increase is partially offset by an increase in non-accrual loans. Monetization of other equity positions that we hold is not included in this yield calculation. In each 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.

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As of June 30, 2010, we own controlling interests in Ajax Rolled Ring & Machine (Ajax), AWCNC, LLC, Borga, Inc., C&J Cladding, LLC, Change Clean Energy Holdings, Inc. (CCEHI), Fischbein, LLC (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, R-V Industries, Inc. (R-V), Sidump r Trailer Company, Inc. and Yatesville Coal Holdings, Inc. (Yatesville). We also own an affiliated interest in Biotronic NeuroNetwork (Biotronic), Boxercraft Incorporated (Boxercraft), KTPS Holdings, LLC (KTPS), Smart, LLC and Sport Helmets Holdings, LLC (Sport Helmets).

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

	June 30, 2010				June 30, 2009			
Level of Control	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Control	$ 185,720	23.3%	$ 195,958	24.0%	$ 187,105	29.7%	$ 206,332	31.9%
Affiliate	65,082	8.2%	73,740	9.0%	33,544	5.3%	32,254	5.0%
Non-control/Non-affiliate	477,957	59.9%	478,785	58.6%	310,775	49.3%	308,582	47.8%
Money Market Funds	68,871	8.6%	68,871	8.4%	98,735	15.7%	98,735	15.3%
Total Portfolio	$ 797,630	100.0%	$ 817,354	100.0%	$ 630,159	100.0%	$ 645,903	100.0%

The following is our investment portfolio presented by type of investment at June 30, 2010 and June 30, 2009, respectively:

	June 30, 2010				June 30, 2009			
Type of Investment	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Money Market Funds	$ 68,871	8.6%	$ 68,871	8.4%	$ 98,735	15.7%	$ 98,735	15.3%
Revolving Line of Credit	4,754	0.6%	5,017	0.6%		%		%
Senior Secured Debt	313,755	39.4%	287,470	35.2%	232,534	36.9%	220,993	34.2%
Subordinated Secured Debt	333,453	41.8%	313,511	38.4%	251,292	39.9%	194,547	30.1%
Subordinated Unsecured Debt	30,209	3.8%	30,895	3.8%	15,065	2.4%	16,331	2.5%
Preferred Stock	16,969	2.1%	5,872	0.7%	10,432	1.6%	4,139	0.7%
Common Stock	20,243	2.5%	77,131	9.4%	16,310	2.6%	89,278	13.8%
Membership Interests	6,964	0.9%	17,730	2.2%	3,031	0.5%	7,270	1.1%
Overriding Royalty Interests		%	2,768	0.3%		%	3,483	0.5%
Net Profit Interests		%	1,020	0.1%		%	2,561	0.4%
Warrants	2,412	0.3%	7,069	0.9%	2,760	0.4%	8,566	1.4%

Total Portfolio	$	797,630	100.0%	$	817,354	100.0%	$	630,159	100.0%	$	645,903	100.0%

The following is our investment portfolio presented by geographic location of the investment at June 30, 2010 and June 30, 2009, respectively:

	June 30, 2010						June 30, 2009					
Geographic Location		**Cost**	**Percent of Portfolio**		**Fair Value**	**Percent of Portfolio**		**Cost**	**Percent of Portfolio**		**Fair Value**	**Percent of Portfolio**
Canada	$	21,002	2.6%	$	12,054	1.5%	$	19,344	3.1%	$	12,606	2.0%
Ireland		14,903	1.9%		15,000	1.8%			%			%
Netherlands		1,397	0.2%		1,233	0.2%			%			%
Midwest US		170,869	21.5%		167,571	20.5%		77,681	12.3%		84,097	13.0%
Northeast US		61,813	7.7%		62,727	7.7%		44,875	7.1%		47,049	7.3%
Southeast US		193,420	24.2%		171,144	20.9%		164,652	26.1%		101,710	15.7%
Southwest US		179,641	22.6%		235,945	28.9%		178,993	28.4%		253,615	39.3%
Western US		85,714	10.7%		82,809	10.1%		45,879	7.3%		48,091	7.4%
Money Market Funds		68,871	8.6%		68,871	8.4%		98,735	15.7%		98,735	15.3%
Total Portfolio	$	797,630	100.0%	$	817,354	100.0%	$	630,159	100.0%	$	645,903	100.0%

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The following is our investment portfolio presented by industry sector of the investment at June 30, 2010 and June 30, 2009, respectively:

	June 30, 2010				June 30, 2009			
Industry	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Aerospace and Defense	$ 56	%	$ 38	%	$	%	$	%
Automobile	19,017	2.4%	18,615	2.3%		%		%
Biomass Power	2,383	0.3%		%	2,530	0.4%	2,530	0.4%
Business Services	12,060	1.5%	12,132	1.5%		%		%
Chemical	1,397	0.2%	1,233	0.2%		%		%
Construction Services		%		%	5,017	0.8%	2,408	0.4%
Contracting	16,652	2.1%	4,542	0.6%	16,652	2.6%	5,000	0.8%
Durable Consumer Products	20,000	2.5%	20,000	2.4%		%		%
Ecological	141	%	340	%		%		%
Electronics	25,777	3.2%	25,629	3.1%		%		%
Financial Services	25,814	3.2%	25,592	3.1%	25,424	4.0%	23,073	3.6%
Food Products	53,681	6.7%	60,882	7.4%	27,413	4.4%	29,416	4.6%
Gas Gathering and Processing	37,503	4.7%	93,096	11.4%	35,003	5.6%	85,187	13.2%
Healthcare	89,026	11.2%	93,593	11.5%	57,535	9.1%	60,293	9.3%
Home and Office Furnishings, Housewares and Durable	14,112	1.8%	17,232	2.1%		%		%
Insurance	5,811	0.7%	5,952	0.7%		%		%
Machinery	15,625	2.0%	17,776	2.2%		%		%
Manufacturing	74,961	9.4%	64,784	7.9%	90,978	14.4%	110,929	17.2%
Metal Services and Minerals	19,252	2.4%	33,620	4.1%	3,302	0.5%	7,133	1.1%
Mining, Steel, Iron and Non-Precious Metals and Coal Production	1,130	0.1%	808	0.1%	48,890	7.8%	13,097	2.0%
Oil and Gas Production	122,034	15.3%	96,988	11.9%	104,183	16.5%	104,806	16.2%
Oilfield Fabrication	30,429	3.8%	30,429	3.7%	34,247	5.4%	34,931	5.4%
Personal and Nondurable Consumer Products	14,387	1.8%	20,049	2.5%		%		%
Pharmaceuticals	11,955	1.5%	12,000	1.5%	11,949	2.0%	11,452	1.8%
Prepackaged Software	14,903	1.9%	15,000	1.8%		%		%
Printing and Publishing	5,222	0.7%	5,284	0.6%		%		%
Production Services	21,002	2.6%	12,054	1.5%	19,344	3.1%	12,606	1.9%

Retail	14,669	1.8%	2,148	0.3%	14,623	2.3%	6,272	1.0%
Shipping Vessels	10,040	1.3%	3,583	0.4%	7,160	1.1%	7,381	1.1%
Specialty Minerals	15,814	2.1%	18,463	2.3%	15,814	2.5%	18,924	2.9%
Technical Services	11,387	1.4%	11,615	1.4%	11,360	1.8%	11,730	1.8%
Textiles and Leather	22,519	2.8%	25,006	3.1%		%		%
Money Market Funds	68,871	8.6%	68,871	8.4%	98,735	15.7%	98,735	15.3%
Total Portfolio	$ 797,630	100.0%	$ 817,354	100.0%	$ 630,159	100.0%	$ 645,903	100.0%

Investment Activity

At June 30, 2010, approximately 105.3% of our net assets or about $748,483 was invested in 58 long-term portfolio investments and 9.7% of our net assets invested in money market funds. Liabilities in excess of other assets offset the excess of these amounts over 100%.

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Long-Term Portfolio Investment Activity

During the year ended June 30, 2010, we acquired $207,126 of investments from Patriot, completed follow-on investments in existing portfolio companies totaling approximately $150,111, and recorded PIK interest of $7,551, resulting in gross investment originations with a cost basis of $364,788. The more significant of these investments are described briefly in the following:

During the year ended June 30, 2010, we made follow-on secured debt investments of $1,708 in Iron Horse in support of the build out of additional equipment and to fund working capital requirements. Effective January 1, 2010, we restructured our senior secured and bridge loans to Iron Horse. Our loans were replaced with three new tranches of senior secured debt.

During the year ended June 30, 2010, we provided additional fundings of $3,376 to Yatesville to fund ongoing operations.

During the year ended June 30, 2010, we made follow-on secured subordinated debt investments of $3,530 in Ajax.

On October 5, 2009 we purchased an additional secured debt investment of $1,675 in Resco Products, Inc. (Resco) at a discount of $670, increasing our cost basis by $1,005 in this investment.

On December 2, 2009, we acquired portfolio investments with a face amount of $289,030 for $207,126 from Patriot.

On March 31, 2010, we made a follow-on secured debt investment of $9,000 in H&M Oil & Gas (H&M) to fund ongoing operations including completion of several previously drilled oil wells.

On March 31, 2010, we made a $36,322 investment in Shearer s Foods, Inc. (Shearer s) for which we received $35,000 of junior secured debt and $1,322 of membership interests.

On January 19, 2010, we restructured our debt investment in Appalachian Energy Holdings LLC (AEH) and Coalbed, LLC (Coalbed) under Manx, a newly formed entity. We funded $2,800 at closing to Manx to provide working capital.

On April 7, 2010, we purchased $12,296 of second lien notes in Seaton Corporation, a human resources services company. The second lien notes bear interest in cash at the greater of 12.5% or Libor plus 9.0% and have a final maturity on March 14, 2011.

On May 26, 2010, we purchased $15,000 in senior notes issued by an affiliate of SkillSoft PLC, a leading Software as a Service provider of on-demand, e-learning, and performance support solutions. The senior notes bear interest in cash at 11.125% and has a final maturity on June 1, 2018.

On June 2, 2010, we made a secured second lien debt investment of $20,000 in Hoffmaster, Inc. (Hoffmaster), which primarily serves the foodservice and consumer market segments. The secured second lien debt bears interest in cash at 13.50% and has a final maturity on June 2, 2017.

On June 24, 2010, we closed a $25,500 senior secured credit facility for EXL Acquisition Corp. (EXL), a leading manufacturer and marketer of consumable lab testing equipment and supplies. The senior secured credit facility is composed of a Term A Loan and a Term B Loan. The Term A Loan bears interest in cash at the greater of Libor plus 5.5% or, the greater of the (i) Prime Rate, (ii) the Federal Funds Rate plus 0.5% or (iii) 4.25% plus 4.5% and has a final maturity on June 24, 2015. The Term B Loan bears interest in cash at 12.0% and interest in kind at 2.0% and has a final maturity on December 24, 2015.

During the year ended June 30, 2010, we closed-out ten positions which are briefly described below.

On August 31, 2009, C&J Cladding, LLC repaid the $3,150 loan receivable to us and we received an additional 5% prepayment penalty totaling $158. We continue to hold warrants for common units in this investment.

On September 4, 2009, Peerless Manufacturing Co. repaid the $20,000 loan receivable to us.

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On December 4, 2009, CS Operating, LLC repaid the $4,460 loan receivable to us.

On December 10, 2009, Resco repaid the $11,425 loan receivable to us.

On December 17, 2009, ADAPCO, Inc. repaid the $7,466 loan receivable to us. We continue to hold warrants for common stock in this investment.

On December 18, 2009, Quartermaster, Inc. repaid the $11,274 loan receivable to us.

On December 31, 2009, we sold our investment in Aylward Enterprises, LLC for net amount of $4,775.

On March 31, 2010, Shearer s repaid the $18,000 loan receivable to us.

On April 9, 2010, Custom Direct repaid the $3,603 loan receivable to us.

On May 11, 2010, Caleel and Hayden, LLC, repaid the $12,659 loan receivable to us.

During the year ended June 30, 2010, we also received principal amortization payments of $23,285 on several loans.

During the year ended June 30, 2010, we restructured our loans to Aircraft Fasteners International, LLC (AFI), EXL, LHC Holdings Corp. (LHC), 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 included $8,099 of accelerated original purchase discount recognized as interest income.

On September 30, 2008, we settled our net profits interests (NPIs) in IEC Systems LP (IEC) and Advanced Rig Services LLC (ARS) with the companies for a combined $12,576. IEC and ARS originally issued the NPIs to us when we loaned a combined $25,600 to IEC and ARS on November 20, 2007. In conjunction with the NPI realization, we recognized other income of $12,576 and simultaneously reinvested the $12,576 as incremental senior secured debt in IEC and ARS. The incremental debt will amortize over the period ending November 20, 2010.

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

Quarter-End	**Acquisitions(1)**	**Dispositions(2)**
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	$	1,175,317	$	370,863

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

(2) Includes scheduled principal payments, prepayments and repayments.

(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 June 30, 2010 the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of $726,588 to $798,597, 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.

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 analyses, applied to each investment, was a total valuation of $748,483, 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 year ended June 30, 2010, 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 often offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in significant 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. A few of the control investments in our portfolio 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. As of June 30, 2010, we control 78.1% 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 the first half of 2009 in light of the global macroeconomic crisis. The second half of 2009 and to-date 2010 show steady improvement versus the first half of 2009. At June 30, 2010, Ajax had a backlog of new business that would indicate continued improvement for 2010.

The Board of Directors decreased the fair value of our investment in Ajax to $30,904 as of June 30, 2010, a reduction of $13,006 from its amortized cost, compared to the $7,581 unrealized depreciation recorded at June 30, 2009.

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 temporary and recognized a realized loss of $41,134, which was the amount by which the amortized cost exceeded the fair value. At June 30, 2010, our Board of Directors, under recommendation from senior management, has set the value of the CCEHI investment with no value, a reduction of $2,383 from its amortized cost after the recognized depreciation.

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 we have experienced an increase in revenue, gross margin, and EBITDA (the later two metrics on both an absolute and a percentage of revenues basis) over the past five years.

During the past two years, we have held discussions with multiple interested purchasers for Gas Solutions. While we wish to unlock the value in Gas Solutions, we do not wish to enter into any agreement at any time that does not recognize the long-term value we see in Gas Solutions. As a well-hedged midstream asset, which we expect to generate recurring cash flows to us, Gas Solutions is a valuable asset that we wish to sell at a value-maximizing price, or not at all. In addition, a sale of the assets, rather than the stock of GSHI, might result in a significant tax liability at the GSHI level which would need to be paid prior to any distribution to us.

In February 2010, we hired Robert Bourne as President and CEO of Gas Solutions. Mr. Bourne has over 30 years of experience in the midstream sector, including gathering and processing, gas purchasing, storing and trading; producer services; and business development mergers and acquisitions. He served most recently at Energy Transfer, where he managed Houston Pipeline, among other activities. Mr. Bourne is focusing on our upside plant projects and seeking new opportunities to help Gas Solutions grow beyond its existing footprint.

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.

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 $93,096 for our debt and equity positions at June 30, 2010 based upon a combination of a discounted cash flow analysis and a public comparables analysis. At June 30, 2010 and June 30, 2009, GSHI was valued $55,593 and $50,184 above its amortized cost, respectively.

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.

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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. 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 $4,542 at June 30, 2010, a reduction of $12,110 from its amortized cost, compared to the $11,652 unrealized loss recorded at June 30, 2009.

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 several large 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%. Our equity ownership will incrementally decrease as debt tranches are repaid upon maturity. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Iron Horse.

The Board of Directors wrote-down the fair value of our investment in Iron Horse to $12,054 as of June 30, 2010, a reduction of $8,948 from its amortized cost, compared to the $6,738 unrealized depreciation recorded at June 30, 2009.

Manx Energy, Inc.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx Energy, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were 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.

The Board of Directors wrote-down the fair value of our investment in Manx to $4,686 as of June 30, 2010, a reduction of $13,584 from its amortized cost, compared to the $5,380 unrealized depreciation, for AEH and Coalbed combined, recorded at June 30, 2009.

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 its permitted reserves in 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 year ended June 30, 2010, we provided additional funding of $3,376 to Yatesville to fund ongoing operations, including new permitting. 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. As of June 30, 2010, our Board of Directors set the value of the remaining Yatesville investment at $809, which represents the residual value of recoverable reserves, a reduction of $12,288 from its value as of June 30, 2009.

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. Four control investments have experienced such volatility Fischbein and GSHI with improved operating results and NRG and R-V with declining operating results. Nine of the remaining controlled investments have experienced operating challenges and have been valued at significant discounts to the original investment.

The affiliate investments continue to report strong operating results, with valuations increasing significantly for two investments subsequent to the acquisition of Patriot Boxercraft and Sport Helmets.

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. AFI, Copernicus Group, Impact Products, LLC, Mac & Massey Holdings, LLC and Prince experienced meaningful increases in valuations. AFI, Deb Shops, Inc. (Deb Shops), H&M and Wind River Resources Corp. and Wind River II Corp. (Wind River) experienced decreases in valuations due to declines in their operating results. Shearer s completed a significant acquisition, which is driving the operating results and the increase in the value of the investment. For one investment, Miller Petroleum, Inc., we have held warrants in the company, and there has been a significant increase in the price per share of the company s stock, driving the increase in the value of our investment. The remaining investments did not experience significant changes in operations or valuation.

During the year ended June 30, 2010, we restructured our loans to AFI, EXL, LHC, Prince and ROM. The revised terms were more favorable than the original terms and increased the present value of the future cash flows. The cost bases of the new loans were recorded at par value, which included $8,099 of accelerated original purchase discount 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 our equity capital is currently comprised entirely of common equity.

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 lenders have commitments of $210 million under the new credit facility as of June 11, 2010. The new credit facility includes an accordion feature which allows the facility to be increased to up to $300 million 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 credit 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 credit 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 June 30, 2010 and 2009, we had $180,678 and $125,746 available to us for borrowing under our credit facility, of which $100,300 and $124,800 was outstanding, respectively. Interest on borrowings under the credit facility was one-month Libor plus 250 basis points prior to June 25, 2009, increasing to one-month Libor plus 400 basis points, subject to a minimum Libor floor of 200 basis points for the period from June 26, 2009 to June 10, 2010 and thereafter. 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. The following table shows the facility amounts and outstanding borrowings at June 30, 2010 and June 30, 2009:

	June 30, 2010		June 30, 2009	
	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Revolving Credit Facility	$ 210,000	$ 100,300	$ 175,000	$ 124,800

	Payments Due By Period		
	Less Than 1 Year	1-3 Years	More Than 3 Years
Revolving Credit Facility	$	$ 100,300	$

Concurrent with the extension of our revolving credit facility, 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.

During the year ended June 30, 2009, we completed three stock offerings and raised $100,304 of additional equity by issuing 12,942,500 shares of our common stock below net asset value diluting shareholder value by $2.06 per share. The following table shows the calculation of net asset value per share as of June 30, 2010 and June 30, 2009:

	As of June 30, 2010	As of June 30, 2009
Net Assets	$ 710,685	$ 532,596
Shares of common stock outstanding	69,086,862	42,943,084
Net asset value per share	$ 10.29(1)	$ 12.40

(1) Our most recently estimated NAV per share is $10.02 on an as adjusted basis solely to give effect to our distributions with record dates of July 30, 2010 and August 31, 2010, our issuance of common shares on July 30,

2010 in connection with our dividend reinvestment plan, and sales during the period June 28, 2010 through August 19, 2010 (which settled during the period from July 1, 2010 to August 24, 2010) under the ATM Program, versus $10.29 determined by us as of June 30, 2010. NAV as of September 30, 2010 may be higher or lower than $10.02 based on potential changes in valuations. Our Board of Directors has not yet determined the fair value of portfolio investments subsequent to June 30, 2010. 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.

At June 30, 2010, we had 69,086,862 shares of our common stock outstanding.

Results of Operations

Net increase in net assets resulting from operations for the years ended June 30, 2010, 2009 and 2008 was $18,886, $35,104 and $27,591, respectively, representing $0.32, $1.11 and $1.17 per weighted average share, respectively. During the year ended June 30, 2010, we experienced net unrealized and realized losses of $47,565 or approximately $0.80 per weighted average share primarily from the write-downs of our investments in Freedom

Marine, H&M, Iron Horse, NRG, R-V and Yatesville. During the year ended June 30, 2009, we experienced net unrealized and realized losses of $24,059 or approximately $0.76 per weighted average share primarily from the write-downs of our investments in CCEI and Yatesville. During the year ended June 30, 2008, we experienced net unrealized and realized losses of $17,522 or approximately $0.74 per weighted average share primarily from the sales of our investments in Advantage Oilfield Group and Central Illinois Energy at a loss.

During the last quarter of the fiscal year ended June 30, 2009 and the fiscal year ended June 30, 2010, we have raised a significant amount of equity capital, which was used in part to fund the Patriot acquisition, but has not yet been fully invested. As a result, our use of the credit facility has been less during the fiscal year ended June 30, 2010 and the excess cash on hand tends to depress our earnings per share. We continue to deploy our debt and equity raised into new investments.

To further illustrate the effects, for the fiscal year ended June 30, 2010 compared to the fiscal year ended June 30, 2009, weighted average shares outstanding have increased from 31,559,905 to 59,429,222, or 88.31%, while the average debt principal of investments increased from $525,144 to $633,275, or 20.1%. Partially offsetting this effect on EPS is the increase in the weighted interest rate earning on debt investments from 12.0% for the fiscal year ended June 30, 2009 to 13.7% for the fiscal year ended June 30, 2010.

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

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 $113,635, $100,481, and $79,402 for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. The primary driver of the increase from the year ended June 30, 2009 to the year ended June 30, 2010 is the acquisition of additional assets from Patriot and other new investments which increased interest income for the second half of the year. This increase is partially offset by a decline in dividend income from GSHI. Drivers of the increase from the year ended June 30, 2008 to the year ended June 30, 2009 include increased assets generating increased interest and dividend income along with increased income from royalty and settlement of net profits interests. The following table describes the various components of investment income and the related levels of debt investments:

	Year Ended	Year Ended	Year Ended

	June 30, 2010	June 30, 2009	June 30, 2008
Interest income	$ 86,518	$ 62,926	$ 59,033
Dividend income	15,366	22,793	12,033
Other income	11,751	14,762	8,336
Total investment income	$ 113,635	$ 100,481	$ 79,402
Average debt principal of investments	$ 633,275	$ 525,144	$ 397,913
Weighted-average interest rate earned	13.7%	12.0%	14.8%

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Total investment income has increased from $79,402 for the year ended June 30, 2008 to $100,481 for the year ended June 30, 2009 to $113,635 for the year ended June 30, 2010. Investment income has been increasing as we continue to deploy the additional capital, raised in both debt and equity offerings, in revenue-producing assets.

Average interest income producing assets have increased from $397,913 for the year ended June 30, 2008 to $525,144 for the year ended June 30, 2009 to $633,275 for the year ended June 30, 2010. The average yield on interest bearing assets increased from 12.0% for the year ended June 30, 2009 to 13.7% for the year ended June 30, 2010. This increase is primarily the result of higher interest rates earned on the assets acquired in the Patriot acquisition (including discount accretion). Average yields on interest bearing assets decreased from 14.8% for the year ended June 30, 2008 to 12.0% for the year ended June 30, 2009. This decrease was the result of our increasing our asset mix in financings with private equity sponsors. We believe that such financings offer less risk, and consequently lower yields, due, in part, to lesser risk to our capital resulting from larger equity at risk underneath our capital. Holding these types of investments has allowed us to more effectively utilize our credit facility to finance such assets at an average rate of 5.8%, 3.8 and 5.7% for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. Additionally, during the years ended June 30, 2010 and June 30, 2009, interest of $19,764 and $18,746, respectively, was foregone on non-accrual debt investments compared to $3,449 of foregone interest for the year ended June 30, 2008. Without these adjustments, the weighted average interest rates earned on debt investments would have been 17.3%, 15.6% and 15.7% for the years ended June 30, 2010, 2009 and 2008, respectively.

Investment income is also generated from dividends and other income. Dividend income grew significantly from $12,033 for the year ended June 30, 2008 to $22,793 for the year ended June 30, 2009 and declined to $15,366 for the year ended June 30, 2010. Dividend income is mostly attributable to dividends received from our investment in GSHI, which were $20,500 and $14,500 during the years ended June 30, 2009 and June 30, 2010, respectively.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Income from other sources grew from $8,336 for the year ended June 30, 2008 to $14,762 for the year ended June 30, 2009 and decreased to $11,751 for the year ended June 30, 2010. During the year ended June 30, 2008 we received royalty income and settlement of net profits interest of $2,984 in the aggregate related to Ken-Tex Energy Corp, and $4,751 of structuring fees related to Ajax, H&M and various other portfolio investments. During the year ended June 30, 2009, structuring fees of $1,274 were received primarily related to Biotronic and GSHI, a decrease of $3,477 from the year ended June 30, 2008. The increase in other income for the year ended June 30, 2009 is largely due to the settlement of our net profit interests in IEC/ARS for $12,576. During the year ended June 30, 2010, we recognized a $7,708 gain on the Patriot acquisition and received $2,388 of structuring and amendment fees primarily related to EXL, H&M, Hoffmaster and Shearer s, an overall decrease of $3,011 in other income from the year ended June 30, 2009.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base and incentive fees), credit facility 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 $47,184, $41,318 and $34,289 for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively.

The base investment advisory expenses were $13,929, $11,915 and $8,921 for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. These increases are directly related to our growth in total assets. $16,613,

$14,790 and $11,278 in income incentive fees were incurred for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. The increases have occurred as net interest income has increased due primarily to an increase in the asset base. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the years ended June 30, 2010, June 30, 2009 and June 30, 2008, we incurred $8,392, $6,161 and $6,318, respectively, of expenses related to our credit facilities. These expenses are related directly to the leveraging capacity put into place for each of those years and the levels of indebtedness actually undertaken in those years. The table below describes the various credit facility expenses and the related indicators of leveraging capacity and indebtedness.

	Year Ended June 30, 2010	Year Ended June 30, 2009	Year Ended June 30, 2008
Interest expense	$ 1,338	$ 5,075	$ 5,104
Amortization of deferred financing costs	5,297	759	726
Commitment and other fees	1,747	327	488
Total	$ 8,382	$ 6,161	$ 6,318
Weighted average debt outstanding	$ 23,147	$ 132,013	$ 90,032
Weighted average interest rate	5.78%	3.84%	5.67%
Facility amount at beginning of year	$ 175,000	$ 200,000	$ 200,000

The increase in our interest rate incurred for the year ended June 30, 2010 is primarily due to an increase of 150 basis points in our borrowing rate effective June 25, 2009 and the concurrent introduction of a Libor floor at 200 basis points. This increase was partially amended on June 11, 2010 with the closing of our current facility. The borrowing rate and Libor floor decreased by 75 basis points and 100 basis points, respectively. The decrease in our interest rate incurred for the year ended June 30, 2009 is primarily due to a decrease in average LIBOR of approximately 1.44% in comparison to 4.08% for the year ended June 30, 2008. This decrease was partially offset by an increase of 125 basis points in the then effective borrowing rate at November 14, 2008.

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 two years, Prospect Administration has added several additional staff members, including a senior finance professional, a controller, three corporate counsels and other finance professionals. As our portfolio continues to grow, we expect to continue to 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 have, as expected, increased alongside with the increase in staffing and asset base.

Total operating expenses, net of management fees and interest costs (Other Operating Expenses), were $8,280, $8,452 and $7,772 for the years ended June 30, 2010, 2009 and 2008, respectively. The decrease in Other Operating Expenses during the year ended June 30, 2010 when compared to the year ended June 30, 2009 is primarily the result operating efficiencies realized upon the termination of the sub-administration agreement and no excise taxes being paid in 2010 offset by the costs incurred in connection with merger discussions with Allied Capital Corporation expensed in the 2010 period. At December 31, 2008, we elected to retain a portion of our annual taxable income and accrued $533 for the excise tax that was paid with the filing of the return. Legal costs continue to decrease significantly from $2,503 for the year ended June 30, 2008 to $947 for the year ended June 30, 2009 to $702 for the year ended June 30, 2010 as there were reduced costs for litigation.

Net Investment Income, Net Realized Gains (Loss), Increase (Decrease) in Net Assets from Net Changes in Unrealized Appreciation/Depreciation and Net Increase in Net Assets Resulting from Operations

Our net investment income was $66,451, $59,163 and $45,113 for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. Net investment income represents the difference between investment income and operating expenses and is directly impacted by the items described above.

Net realized (losses) gains were ($51,545), ($39,078) and ($16,222) for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. The net realized loss during the year ended June 30, 2010 was due primarily to the determination that Yatesville was other than temporarily impaired and recognized a realized loss for the amount by which the amortized cost exceeded the current fair value. On June 30, 2009, we determined that the impairment of the CCEHI investment was other than temporarily impaired and recognized a realized loss for the amount by which the amortized cost exceeded the current fair value. This loss was partially offset by realized gains from sales of the Arctic warrants and Deep Down common stock. The net realized loss of $16,222 sustained in the year ended June 30, 2008 was due mainly to the sale of Charlevoix and Advantage Oilfield Group Ltd. (AOG).

Increase (decrease) in net assets from changes in unrealized appreciation/depreciation was $3,980, $15,019 and ($1,300) for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. For the year ended June 30, 2010, the net unrealized appreciation was driven by $25,184 of write-ups in our investments in Fischbein, GSHI, Prince, Shearer s, and Regional Management Corporation, and by the disposition of previously written-down investment in Yatesville mentioned above with an unrealized net appreciation of $35,471, which, in turn, were offset by $56,954 of write-downs in our investments in Deb Shops, Freedom Marine, H&M, Manx, NRG, R-V and Wind River. For the year ended June 30, 2009, the net unrealized appreciation was driven by significant write-ups of our investments in AGC, GSHI, NRG, R-V, Shearer s and Stryker, and by the disposition of previously written-down investment in CCEI mentioned above, which, in turn, were offset by significant write-downs in our investments in Ajax, AEH, Conquest Cherokee, LLC, Deb Shops, Iron Horse and Yatesville as well as the elimination of the unrealized appreciation resulting from the sale of Deep Down mentioned above. For the year ended June 30, 2008, $1,300 of the decrease in net assets from the net change in unrealized appreciation/depreciation was driven by significant write-downs in our investments in ICS, Worcester Energy Partners, Inc., and Yatesville partially offset by the write-up in our investment in GSHI and by the disposition of previously written-down investments in AOG and ESA.

Financial Condition, Liquidity and Capital Resources

Our cash flows provided by (used in) operating activities totaled $54,838, ($74,000) and ($204,025) for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. Investing activities used $106,586 for the acquisition of Patriot for the year ended June 30, 2010. There were no investing activities for the years ended June 30, 2009 and June 30, 2008. Financing activities provided cash flows of $42,887, $83,387 and $204,580 for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. Dividends paid were $82,908, $43,257 and $24,915 for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, 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, acquire Patriot, repay outstanding borrowings and to make cash distributions to holders of our common stock.

We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. At June 30, 2010, we had $100,300 outstanding borrowings on our $210,000 revolving credit facility.

On March 4, 2010, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $439,622 of additional equity securities as of June 30, 2010.

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 December 2, 2009, we acquired the outstanding shares of Patriot common stock for approximately $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 March 17, 2010, we established an at-the-market program through which we may sell, from time to time and at our discretion, 8,000,000 shares of our common stock. Through this program we issued 5,251,400 shares of our common stock at an average price of $11.50 per share, raising $60,378 of gross proceeds, from March 23, 2010 through June 30, 2010.

Off-Balance Sheet Arrangements

At June 30, 2010, 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. At June 30, 2010, 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. At June 30, 2010, the principal value of loans totaling approximately $35.24 million bear interest at floating rates.

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 year ended June 30, 2010, we did not engage in interest rate hedging activities.

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 in the accompanying prospectus and is subject to the qualifications and assumptions set forth therein.

The Hiring Incentives to Restore Employment Act of 2010 will require, after December 31, 2012, withholding at a rate of 30% on dividends in respect of, and gross proceeds from the sale or other disposition of, shares of our common stock held by foreign financial institutions (including foreign investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information about equity and debt interests in, and accounts maintained by, the institution to the extent such interests or accounts are held by certain U.S. persons or by certain non-U.S. entities that are wholly or partially owned by U.S. persons. Similarly, after December 31, 2012, dividends in respect of, and gross proceeds from the sale or other disposition of, shares of our common stock held by an investor that is a non-financial foreign entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any substantial United States owners or (ii) provides certain information regarding the entity s substantial United States owners, which we will in turn provide to the Secretary of the Treasury. Non-U.S. shareholders are encouraged to consult with their tax advisers regarding the possible implications of this new legislation on their investment in shares of our common stock.

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USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the 1933 Act, including sales made directly on the NASDAQ Global Select Market or sales made to or through a market maker other than on an exchange. There is no guaranty that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale, and may be for prices below our most recently determined net asset value per share. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all 2,185,472 shares of common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of $9.43 per share for our common stock on the NASDAQ Global Select Market as of September 2, 2010, we estimate that the net proceeds of this offering will be approximately $20.1 million after deducting the estimated Sales Manager commissions and our estimated offering expenses.

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.

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CAPITALIZATION

The equity distribution agreements provide that we may offer and sell up to 6,000,000 shares of our common stock from time to time through the Sales Managers, as our agents for the offer and sale of such common stock. During the period from July 19, 2010 (the date of the equity distribution agreements) through August 19, 2010, we sold 3,814,528 shares of our common stock through the Sales Managers pursuant to the equity distribution agreements. No sales of common stock were made pursuant to the equity distribution agreements during the period from August 20, 2010 through the date of this prospectus supplement. As such, there are 2,185,472 shares of common stock remaining that we may offer and sell through the Sales Managers pursuant to the equity distribution agreements. The table below assumes that we will sell all of the 2,185,472 shares remaining at a price of $9.43 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on September 2, 2010) but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than $9.43, depending on the market price of our common stock at the time of any such sale and whether such sale is made at a discount to our most recently determined net asset value per share.

The following table sets forth our capitalization as of June 30, 2010:

- on an actual basis;

- on an as adjusted basis giving effect to our distributions with record dates of July 30, 2010 and August 31, 2010, our issuance of 83,875 and 89,620 shares in connection with our dividend reinvestment plan on July 30, 2010 and August 31, 2010, respectively, the sale of 2,748,600 shares of common stock during the period June 28, 2010 through July 16, 2010 (with settlement dates of July 1, 2010 through July 21, 2010), the sale of 3,814,528 shares of our common stock during the period July 19, 2010 through August 19, 2010 (with settlement dates of July 22, 2010 through August 24, 2010) and repayments on our credit facility; and

- on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of 2,185,472 shares of our common stock at a price of $9.43 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on September 2, 2010) less commissions and expenses.

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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.

	As of June 30, 2010		
	Actual	As Adjusted for Stock Issuances and Additional Borrowings After June 30, 2010	As further Adjusted for this Offering
	(In thousands, except shares and per share data) (Unaudited)		
Long-term debt, including current maturities:			
Borrowings under senior credit facility(1)	$ 100,300	$ 78,700	$ 78,700
Amount owed to affiliates	9,115	9,115	9,115
Total long-term debt	109,415	87,815	87,815
Stockholders equity:			
Common stock, par value $0.001 per share (100,000,000(2) common shares authorized; 69,086,862 shares outstanding actual, 75,823,485 shares outstanding as adjusted for stock issuances in connection with our dividend reinvestment plan and pursuant to the March 17, 2010 equity distribution agreements completed after March 31, 2010 and 78,008,957 shares outstanding as further adjusted for this offering)	69	76	78
Paid-in capital in excess of par value	805,918	855,200	875,320
Distributions in excess of net investment income	(10,431)	(10,431)	(10,431)
Accumulated realized losses on investments	(104,595)	(104,595)	(104,595)
Net unrealized appreciation on investments	19,724	19,724	19,724
Total stockholders equity	710,685	759,974	780,096
Total capitalization	$ 820,100	$ 847,789	$ 867,911

(1) As of June 30, 2010, we had $100.3 million of borrowings outstanding under our recently completed extended credit facility. As of September 2, 2010, we had $78.7 million of borrowings under our credit facility, representing a $21.6 million decrease in borrowing subsequent to June 30, 2010.

(2)

As of August 31, 2010, the number of shares of common stock authorized for issuance by the Company increased from 100,000,000 to 200,000,000.

RECENT SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2008 annual meeting of stockholders held on February 12, 2009 and our 2009 annual meeting of stockholders held on December 11, 2009, 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 additional 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 Share	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	$10.18	0.03%
June 28, 2010 to July 16, 2010(3)	$9.47-$10.04	2,748,600	$10.26-$10.29	0.27%
July 19, 2010 to August 19, 2010(4)	$9.28-$10.04	3,814,528	$10.12-$10.26	0.31%

(1) The data for sales of shares below NAV pursuant to our at-the-market program are an estimate based on the last reported NAV adjusted for 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%.

(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.

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BOARD OF DIRECTORS

Directors and Executive Officers

Our directors and executive officers and their positions are set forth below. The address for each director and executive officer is c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, NY 10016. On March 23, 2010, our Board of Directors unanimously approved William J. Gremp as a member of the Board of Directors, effective April 1, 2010. Mr. Gremp replaced Mr. Graham D.S. Anderson as an independent director of the Company. Mr. Anderson resigned from the Board of Directors, effective April 1, 2010.

Independent Directors

Name and Age	Position(s) Held with the Company	Term of Office(1) and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director(2)
William J. Gremp, 67	Director	Class II Director from 2006 to 2009; Class I Director since April 2010; Term expires 2010	Mr. Gremp was responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co. from 1999 to 2009.	One	None
Eugene S. Stark, 52	Director	Class III Director since September 2008; Term expires 2010	Principal Financial Officer, Chief Compliance Officer and Vice President Administration of General American Investors Company, Inc. from May 2005 to present.	One	None
Andrew C. Cooper, 48	Director	Class II Director since February 2009; Term expires 2012	Mr. Cooper is an entrepreneur, who over the last 11 years has founded, built, run and sold three companies. He is Co-Chief Executive Officer of Unison Site Management, Inc., a specialty finance company focusing on cell site easements, and Executive Director of Brand Asset Digital, a digital media marketing and distribution company.	One	Unison Site Management, LLC, Brand Asset Digital, LLC and Aquatic Energy, LLC

(1) Our Board of Directors is divided into three classes of directors serving staggered three-year terms. Mr. Gremp is a Class I director with a term that will expire in December 2010, Mr. Eliasek and Mr. Cooper are Class II directors with terms that will expire in 2012 and Mr. Barry and Mr. Stark are Class III directors with terms that will expire in December 2010.

(2) No director otherwise serves as a director of an investment company subject to the 1940 Act.

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Interested Directors

Name and Age	Position(s) Held with the Company	Term of Office(1) and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director(2)
John F. Barry III,(3) 57	Director, Chairman of the Board of Directors, and Chief Executive Officer	Class III Director since June 2004; Term expires 2010	Chairman and Chief Executive Officer of the Company; Managing Director since June 2004; Managing Director of Prospect Capital Management.	One	None
M. Grier Eliasek,(3) 36	Director, President and Chief Operating Officer	Class II Director since June 2004; Term expires 2012	President and Chief Operating Officer of the Company, Managing Director of Prospect Capital Management and Prospect Administration.	One	None

(1) Our Board of Directors is divided into three classes of directors serving staggered three-year terms. Mr. Gremp is a Class I director with a term that will expire in December 2010, Mr. Eliasek and Mr. Cooper are Class II directors with terms that will expire in 2012 and Mr. Barry and Mr. Stark are Class III directors with terms that will expire in December 2010.

(2) No director otherwise serves as a director of an investment company subject to the 1940 Act.

(3) Messrs. Barry and Eliasek are each considered an interested person under the 1940 Act by virtue of serving as one of our officers and having a relationship with Prospect Capital Management.

For the fiscal year ended June 30, 2010, our Board of Directors held eighteen Board meetings, ten Audit Committee meetings, and two Nominating and Corporate Governance Committee meetings. The Audit Committee and Nominating and Corporate Governance Committee are composed of Messrs. Cooper, Gremp and Stark.

Information about Executive Officers who are not Directors

Name and Age	Position(s) Held with the Company	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
Brian H. Oswald, 49			

Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary	November 2008 to present as Chief Financial Officer and October 2008 to present as Chief Compliance Officer	Joined Prospect Administration as Managing Director in June 2008. Previously Managing Director in Structured Finance Group at GSC Group (2006 to 2008) and Chief Financial Officer at Capital Trust, Inc. (2003 to 2005).

Compensation of Directors and Officers

The following table sets forth information regarding the compensation received by the directors and executive officers from the Company for the fiscal year ended June 30, 2010. No compensation is paid to the interested directors by the Company. The independent directors who serve on both committees of the Board receive an annual fee of $85,000 per director plus reimbursement of any reasonable out-of-pocket expenses incurred, the independent directors who serve on one committee of the Board receive an annual fee of $60,000 per director plus reimbursement of any reasonable out-of-pocket expenses incurred and the independent directors who do not serve on any

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committees of the board receive an annual fee of $11,250 per director plus reimbursement of any out-of-pocket expenses incurred. All independent directors currently serve on both committees.

Name and Position	Aggregate Compensation from the Company	Pension or Retirement Benefits Accrued as Part of the Company s Expenses(1)	Total Compensation Paid to Director/ Officer
Interested Directors			
John F. Barry(2)	None	None	None
M. Grier Eliasek(2)	None	None	None
Independent Directors			
Graham D.S. Anderson(3)	$ 63,750	None	$ 63,750
Andrew C. Cooper(4)	$ 85,000	None	$ 85,000
William J. Gremp(5)	$ 21,250	None	$ 21,250
Eugene S. Stark(6)	$ 85,000	None	$ 85,000
Executive Officers			
Brian H. Oswald(2)	None	None	None

(1) We do not have a bonus, profit sharing or retirement plan, and directors do not receive any pension or retirement benefits.

(2) We have not paid, and we do not intend to pay, any annual cash compensation to our executive officers for their services as executive officers. Messrs. Barry and Eliasek are compensated by PCM from the income PCM receives under the management agreement between PCM and us. Mr. Oswald is compensated from the income Prospect Administration receives under the administration agreement.

(3) Mr. Anderson resigned as a Director of the Company effective April 1, 2010.

(4) Mr. Cooper joined our Board of Directors on February 12, 2009.

(5) Mr. Gremp joined our Board of Directors on April 1, 2010.

(6) Mr. Stark joined our Board of Directors on September 4, 2008.

Board Leadership Structure

The Board of Directors believes that the combined position of Chief Executive Officer of the Company and Chairman of the Board of Directors of the Company is a superior model that results in greater efficiency regarding management of the Company, reduced confusion due to the elimination of the need to transfer substantial information quickly and repeatedly between a chief executive officer and chairman, and business advantages to the Company arising from the specialized knowledge acquired from the duties of the dual roles. The need for efficient decision making is particularly acute in the line of business of the Company, whereby multiple factors including market factors, interest rates and innumerable other financial metrics change on an ongoing and daily basis. The Board of Directors has not identified a lead independent director of the Board of Directors of the Company in as much as the Board consists of only five individuals.

Director Independence

On an annual basis, each member of our Board of Directors is required to complete an independence questionnaire designed to provide information to assist the Board of Directors in determining whether the director is independent. Our Board of Directors has determined that each of our directors, other than Messrs. Barry and Eliasek, is independent under 1940 Act.

Role of the Chairman and Chief Executive Officer

As Chairman of the Board of Directors and Chief Executive Officer, Mr. Barry assumes a leading role in mid- and long-term strategic planning and supports major transaction initiatives of the Company. Mr. Barry also manages the day-to-day operations of the Company, with the support of the other executive officers. As Chief Executive

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Officer, Mr. Barry has general responsibility for the implementation of the policies of the Company, as determined by the Board of Directors, and for the management of the business and affairs of the Company. The Board of Directors has determined that its leadership structure, in which the majority of the directors are not affiliated with the Company, PCM or Prospect Administration, is appropriate in light of the services that PCM and Prospect Administration and their affiliates provide to the Company and for the potential conflicts of interest that could arise from these relationships.

Experience, Qualifications, Attributes and/or Skills that Led to the Board s Conclusion that such Members Should Serve as Director of the Company

The Board believes that, collectively, the directors have balanced and diverse experience, qualifications, attributes and skills, which allow the Board to operate effectively in governing the Company and protecting the interests of its shareholders. Below is a description of the various experiences, qualifications, attributes and/or skills with respect to each director considered by the Board.

John Francis Barry III

The Board benefits from Mr. Barry s years of experience in the investment banking and the financial advisory industries, as well as his service on multiple boards for various companies. In addition to overseeing the Company, Mr. Barry has served on the boards of directors of private and public companies, including financial services, financial technology and energy. Mr. Barry also managed an investment bank, focusing on private equity and debt financing for energy and other companies, and was the founding member of the project finance group at Merrill Lynch & Co. The Board also benefits from Mr. Barry s past experience as a corporate securities lawyer at a premiere United States law firm, advising energy companies and their commercial and investment bankers. Mr. Barry is also chairman of the board of directors of the Mathematics Foundation of America, a non-profit foundation which enhances opportunities in mathematics education for students from diverse backgrounds. Mr. Barry s longstanding service as chairman and chief executive officer of the Company and as a Managing Director of PCM and Prospect Administration provide him with a specific understanding of the Company, its operation, and the business and regulatory issues facing the Company.

M. Grier Eliasek

Mr. Eliasek brings to the Board business leadership and experience and knowledge of senior loan, mezzanine, bridge loan, private equity and venture capital investments, as well as a knowledge of diverse management practices. Mr. Eliasek is the President and Chief Operating Officer of the Company and a Managing Director of PCM and Prospect Administration. He is also responsible for leading the origination and assessment of investments for the Company. Mr. Eliasek serves on the board of directors of Gas Solutions Holdings, Inc., a gas gathering and processing company in East Texas, which helps provide the Company s Board with an in-depth knowledge of the management of companies in which the Company invests. The Board also benefits from Mr. Eliasek s experience as a consultant with Bain & Company, a global strategy consulting firm, where he managed engagements for companies in several different industries, by providing the Company with unique views on investment and management issues. At Bain, Mr. Eliasek analyzed new lines of businesses, developed market strategies, revamped sales organizations, and improved operational performance for Bain & Company clients. Mr. Eliasek s longstanding service as Director, President and Chief Operating Officer of the Company and as a Managing Director of PCM and Prospect Administration provide him with a specific understanding of the Company, its operation, and the business and regulatory issues facing the Company.

Andrew C. Cooper

Mr. Cooper s 25 years of experience in venture capital management, venture capital investing and investment banking provides the Board with a wealth of leadership, business investing and financial experience. Mr. Cooper s experience as the co-founder, director and former co-CEO of Unison Site Management, LLC, a leading cellular site owner with 2,000 plus cell sites which generate more than $40 million in annual cash flow, and as co-founder, CFO and VP of business development for Avesta Technologies, an enterprise, information and technology management software company bought by Visual Networks in 2000, Mr. Cooper provides the Board with the benefit of leadership and experience in finance and management. Mr. Cooper also serves on the board of Brand Asset Digital, Aquatic Energy and the Madison Square Boys and Girls Club of New York. Further, Mr. Cooper s time as a director of CSG Systems, Protection One Alarm, LionBridge Technologies and Weblink Wireless, provides the Board with a wealth of experience and an in-depth understanding of management practices. Mr. Cooper s knowledge of financial and accounting matters qualifies him to serve on the Company s Audit Committee and his independence from the Company, PCM and Prospect Administration enhances his service as a member of the Nominating and Corporate Governance Committee.

William J. Gremp

Mr. Gremp brings to the Board a broad and diverse knowledge of business and finance as a result of his career as an investment banker, spanning over 30 years working in corporate finance and originating and executing transactions and advisory assignments for energy and utility related clients. Since 1999, Mr. Gremp has been responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co. From 1996 to 1999, he served at Wachovia as senior vice president, managing director and co-founder of the utilities and energy investment banking group, responsible for origination, structuring, negotiation and successful completion of transactions utilizing investment banking, capital markets and traditional commercial banking products. From 1989 to 1996, Mr. Gremp was the managing director of global power and project finance at JPMorgan Chase & Co., and from 1970 to 1989, Mr. Gremp was with Merrill Lynch & Co., starting out as an associate in the mergers and acquisitions department, then in 1986 becoming the senior vice president, managing director and head of the regulated industries group. Mr. Gremp s knowledge of financial and accounting matters qualifies him to serve on the Company s Audit Committee and his independence from the Company, PCM and Prospect Administration enhances his service as a member of the Nominating and Corporate Governance Committee.

Eugene S. Stark

Mr. Stark brings to the Board over 20 years of experience in directing the financial and administrative functions of investment management organizations. The Board benefits from his broad experience in financial management; SEC reporting and compliance; strategic and financial planning; expense, capital and risk management; fund administration; due diligence; acquisition analysis; and integration activities. Since May 2005, Mr. Stark s position as the Principal Financial Officer, Chief Compliance Officer and Vice President of Administration at General American Investors Company, Inc., where he is responsible for operations, compliance, and financial functions, allows him to provide the Board with added insight into the management practices of other financial companies. From January to April of 2005, Mr. Stark was the Chief Financial Officer of the Company, prior to which he worked at Prudential Financial, Inc. between 1987 and 2004. His many positions within Prudential include 10 years as Vice President and Fund Treasurer of Prudential Mutual Funds, 4 years as Senior Vice President of Finance of Prudential Investments, and 2 years as Senior Vice President of Finance of Prudential Amenities. Mr. Stark is also a Certified Public Accountant. Mr. Stark s knowledge of financial and accounting matters qualifies him to serve on the Company s Audit Committee and his independence from the Company, PCM and Prospect Administration enhances his service as a member of the Nominating and Corporate Governance Committee. Mr. Stark is also a member of Mount Saint Mary Academy s Board of Trustee s Finance Committee.

Means by Which the Board of Directors Supervises Executive Officers

The Board of Directors is regularly informed on developments and issues related to the Company s business, and monitors the activities and responsibilities of the executive officers in various ways.

At each regular meeting of the Board of Directors, the executive officers report to the Board of Directors on developments and important issues. Each of the executive officers, as applicable, also provide regular updates to the members of the Board of Directors regarding the Company s business between the dates of regular meetings of the Board of Directors.

Executive officers and other members of PCM, at the invitation of the Board of Directors, regularly attend portions of meetings of the Board of Directors and its committees to report on the financial results of the Company, its operations, performance and outlook, and on areas of the business within their responsibility, including risk management and management information systems, as well as other business matters.

The Board s Role in Risk Oversight

The Company s Board of Directors performs its risk oversight function primarily through (a) its two standing committees, which report to the entire Board of Directors and are comprised solely of independent directors and (b) monitoring by the Company s Chief Compliance Officer, or CCO, in accordance with its compliance policies and procedures.

The Audit Committee and the Nominating and Governance Committee assist the Board of Directors in fulfilling its risk oversight responsibilities. The Audit Committee s risk oversight responsibilities include reviewing and discussing with management and the independent accountants the annual audited financial statements of the Company, including disclosures made in management s discussion and analysis; reviewing and discussing with management and the independent accountants the Company s quarterly financial statements prior to the filings of its quarterly reports on Form 10-Q; pre-approving the independent accountants engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent accountants. The Nominating and Governance Committee s risk oversight responsibilities include selecting qualified nominees to be elected to the Board of Directors by stockholders; selecting qualified nominees to fill any vacancies on the Board of Directors or a committee thereof; developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company; and overseeing the evaluation of the Board of Directors and management. Both the Audit Committee and the Nominating and Governance Committee consist solely of independent directors.

The Company s Board of Directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. The Company s Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Company and certain of its service providers. The Chief Compliance Officer s report, which is reviewed by the Board of Directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Company and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer s annual review; and (d) any compliance matter that has occurred since the date of the last report about which the Board of Directors would reasonably need to know to oversee the Company s compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors at least once each year.

The Company believes that its Board of Director s role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a business development company, or BDC, under the 1940 Act. Specifically, as a BDC the Company must comply with certain regulatory requirements that control certain types of risk in its business and operations. For example, the Company s ability to incur indebtedness is limited such that its asset coverage must equal at least 200% immediately after each time it incurs indebtedness, the Company generally has to invest at least 70% of its total assets in qualifying assets. In addition, the Company elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended. As a RIC the Company must, among other things, meet certain income source and asset diversification requirements.

The Company believes that the extent of its Board of Directors (and its committees) role in risk oversight complements its Board s leadership structure because it allows the Company s independent directors to exercise oversight of risk without any conflict that might discourage critical review through the two fully independent board committees, auditor and independent valuation providers, and otherwise.

The Company believes that a board s roles in risk oversight must be evaluated on a case by case basis and that the Board of Directors practices concerning risk oversight is appropriate. However, the Company continually re-examines the manners in which the Board administers its oversight function on an ongoing basis to ensure that they continue to meet the Company s needs.

MANAGEMENT SERVICES

Investment Advisory Agreement

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

Prospect Capital Management s services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2% on our gross assets (including amounts borrowed). For services rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and is appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter are appropriately prorated. See Business Management Services in the accompanying prospectus.

The total base management fees earned by and paid to Prospect Capital Management during the twelve months ended June 30, 2010, June 30, 2009 and June 30, 2008, were $13.9 million, $11.9 million and $8.9 million, respectively.

The income incentive fees were $16.6 million, $14.8 million and $11.3 million for the twelve months ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively. No capital gains incentive fees were earned for the twelve months ended June 30, 2010, June 30, 2009 and June 30, 2008.

The total investment advisory fees were $30.5 million, $26.7 million and $20.2 million for the twelve months ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively.

Because of the structure of the incentive fee, it is possible that we may have to pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate for a quarter, we will pay the applicable income incentive fee even if we have incurred negative total return in that quarter due to realized or unrealized losses on our investments.

Duration and Termination

The Investment Advisory Agreement was originally approved by our Board of Directors on June 23, 2004 and was recently re-approved by the Board of Directors on June 15, 2010 for an additional one-year term expiring June 24, 2011. Unless terminated earlier as described below, it will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The Investment Advisory Agreement will automatically terminate in the event of its assignment. The Investment Advisory Agreement may be terminated by either party without penalty upon not more than 60 days written notice to the other. See Risk Factors Risks Relating to Our Business We are dependent upon Prospect Capital Management s key management personnel for our future success in the accompanying prospectus.

Administration Agreement

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

We reimbursed Prospect Administration $3.4 million, $2.9 million and $2.1 million for the twelve months ended June 30, 2010, June 30, 2009 and June 30, 2008, respectively, for services it provided to the Company at cost.

Board of Directors approval of the Investment Advisory Agreement

On June 15, 2010, our Board of Directors voted unanimously to renew the Investment Advisory Agreement for the 12-month period ending June 24, 2011. In its consideration of the Investment Advisory Agreement, the Board of Directors focused on information it had received relating to, among other things: (a) the nature, quality and extent of the advisory and other services to be provided to us by Prospect Capital Management; (b) comparative data with respect to advisory fees or expense ratios paid by other business development companies with similar investment objectives; (c) our projected operating expenses; (d) the projected profitability of Prospect Capital Management and any existing and potential sources of indirect income to Prospect Capital Management or Prospect Administration from their relationships with us and the profitability of those relationships; (e) information about the services to be performed and the personnel performing such services under the Investment Advisory Agreement; (f) the organizational capability and financial condition of Prospect Capital Management and its affiliates; and (g) the possibility of obtaining similar services from other third party service providers or through an internally managed structure. In approving the renewal of the Investment Advisory Agreement, the Board of Directors, including all of the directors who are not interested persons, considered the following:

Nature, Quality and Extent of Services. The Board of Directors considered the nature, extent and quality of the investment selection process employed by Prospect Capital Management. The Board of Directors also considered Prospect Capital Management s personnel and their prior experience in connection with the types of investments made by us. The Board of Directors concluded that the services to be provided under the Investment Advisory Agreement are generally the same as those of comparable business development companies described in the available market data.

Investment Performance. The Board of Directors reviewed our investment performance as well as comparative data with respect to the investment performance of other externally managed business development companies. The Board of Directors concluded that Prospect Capital Management was delivering results consistent with our investment objective and that our investment performance was satisfactory when compared to comparable business development companies.

The reasonableness of the fees paid to Prospect Capital Management. The Board of Directors considered comparative data based on publicly available information on other business development companies with respect to services rendered and the advisory fees (including the management fees and incentive fees) of other business development companies as well as our projected operating expenses and expense ratio compared to other business development companies. The Board of Directors, on behalf of the Company, also considered the profitability of Prospect Capital Management. Based upon its review, the Board of Directors concluded that the fees to be paid under the Investment Advisory Agreement are reasonable compared to other business development companies.

Economies of Scale. The Board of Directors considered information about the potential of Prospect Capital Management to realize economies of scale in managing our assets, and determined that at this time there were no economies of scale to be realized by Prospect Capital Management.

Based on the information reviewed and the discussions detailed above, the Board of Directors (including all of the directors who are not interested persons) concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and approved the renewal of the Investment Advisory Agreement with Prospect Capital Management as being in the best interests of the Company and its stockholders.

Portfolio Managers

The following individuals function as portfolio managers primarily responsible for the day-to-day management of our portfolio. Our portfolio managers are not responsible for day-to-day management of any other accounts. For a description of their principal occupations for the past five years, see above.

Name	Position	Length of Service with Company (Years)
John F. Barry	Chairman and Chief Executive Officer	6
M. Grier Eliasek	President and Chief Operating Officer	6

Mr. Eliasek receives no compensation from the Company. Mr. Eliasek receives a salary and bonus from Prospect Capital Management that takes into account his role as a senior officer of the Company and of Prospect Capital Management, his performance and the performance of each of Prospect Capital Management and the Company. Mr. Barry receives no compensation from the Company. Mr. Barry, as the sole member of Prospect Capital Management, receives a salary and/or bonus from Prospect Capital Management and is entitled to equity distributions after all other obligations of Prospect Capital Management are met.

The following table sets forth the dollar range of our common stock beneficially owned by each of the portfolio managers described above as of June 30, 2010.

Name	Aggregate Dollar Range of Common Stock Beneficially Owned
John F. Barry	Over $ 100,000
M. Grier Eliasek	Over $ 100,000

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. The aggregate amount of brokerage commissions paid by us during the three most recent fiscal years is $78,544. Subject to policies established by our Board of Directors, Prospect Capital Management is primarily responsible for the execution of the publicly-traded securities portion of our portfolio transactions and the allocation of brokerage commissions.

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

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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. The report of our independent registered public accounting firm on the senior securities table as of June 30, 2010, is attached as an exhibit to the registration statement.

Class and Year	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
Credit Facility				
Fiscal 2010 (as of June 30, 2010)	$ 100,300	$ 8,086		
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		

(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 because we have had only bank debt outstanding during the time periods.

(4) This column is inapplicable because we have not had any preferred stock outstanding during any of the time periods.

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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% 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 ending 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 and declared a dividend of $0.10 per share for June 2010 to holders of record on June 30, 2010 with a payment date of

July 30, 2010. On August 26, 2010, we announced the declaration of monthly distributions in the following amounts and with the following dates:

$0.100625 per share for September 2010 to holders of record on September 30, 2010 with a payment date of October 29, 2010; and

$0.100750 per share for October 2010 to holders of record on October 29, 2010 with a payment date of November 30, 2010.

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.

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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 High(2)	Low(2)	Premium (Discount) of High to NAV	Premium (Discount) of Low to NAV	Dividend Declared
Twelve Months Ending June 30, 2005						
First quarter	$ 13.67	$ 15.45	$ 14.42	13.0%	5.5%	
Second quarter	13.74	15.15	11.63	10.3%	(15.4)%	$ 0.100
Third quarter	13.74	13.72	10.61	(0.1)%	(22.8)%	0.125
Fourth quarter	14.59	13.47	12.27	(7.7)%	(15.9)%	0.150
Twelve Months Ending June 30, 2006						
First quarter	$ 14.60	$ 13.60	$ 11.06	(6.8)%	(24.2)%	$ 0.200
Second quarter	14.69	15.46	12.84	5.2%	(12.6)%	0.280
Third quarter	14.81	16.64	15.00	12.4%	1.3%	0.300
Fourth quarter	15.31	17.07	15.83	11.5%	3.4%	0.340
Twelve Months Ending June 30, 2007						
First quarter	$ 14.86	$ 16.77	$ 15.30	12.9%	3.0%	$ 0.380
Second quarter	15.24	18.79	15.60	23.3%	2.4%	0.385
Third quarter	15.18	17.68	16.40	16.5%	8.0%	0.3875
Fourth quarter	15.04	18.68	16.91	24.2%	12.4%	0.390
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	10.09	12.31	9.93	22.0%	(1.6)%	0.40875

Third quarter	10.11	13.20	10.45	30.6%	3.4%	0.410
Fourth quarter	10.29	12.20	9.65	18.6%	(6.2)%	0.10
Twelve Months Ending June 30, 2011						
First quarter (to September 2, 2010)	(3)(4)	$ 10.00	$ 9.18	(4)	(4)	$ 0.31375(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 determined NAV per share was $10.29 as of June 30, 2010 ($10.02 on an as adjusted basis solely to give effect to our distributions with record dates of July 30, 2010 and August 31, 2010, our issuance of common stock on July 30, 2010 and August 31, 2010 in connection with our dividend reinvestment plan, our sale of 2,748,600 shares of common stock during the period June 28, 2010 through July 16, 2010 (with settlement dates of July 1, 2010 through July 21, 2010) and our sale of 3,814,528 shares of common stock during the period July 19, 2010 through August 19, 2010 (with settlement dates of July 22, 2010 through August 24, 2010). NAV per share as of September 30, 2010 may be higher or lower than $10.02 based on potential changes in valuations as of September 30, 2010.

(4) NAV has not yet been finally determined for any day after June 30, 2010.

(5) In June 2010, we changed our distribution policy from a quarterly payment to a monthly payment and declared the first three monthly distributions as follows:

$0.10 per share for June 2010 to holders of record on June 30, 2010 with a payment date of July 30, 2010;

$0.10025 per share for July 2010 to holders of record on July 30, 2010 with a payment date of August 31, 2010; and

$0.10050 per share for August 2010 to holders of record on August 31, 2010 with a payment date of September 30, 2010.

In August 2010, we declared two additional monthly distributions as follows:

$0.100625 per share for September 2010 to holders of record on September 30, 2010 with a payment date of October 29, 2010; and

$0.100750 per share for October 2010 to holders of record on October 24, 2010 with a payment date of November 30, 2010.

On September 2, 2010, the last reported sales price of our common stock was $9.43 per share.

As of September 2, 2010, we had approximately 52 stockholders of record.

The below table sets forth each class of our outstanding securities as of September 2, 2010.

Title of Class	**Amount Authorized**	**Amount Held by Registrant or for its Account**	**Amount Outstanding**
Common Stock	200,000,000	0	75,823,485

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SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2008 annual meeting of stockholders held on February 12, 2009 and our 2009 annual meeting of stockholders held on December 11, 2009, 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 of our common stock 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, 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 make sales of 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, including under the equity distribution agreements, and we may continue to do so under this prospectus supplement.

In making a determination that an offering below NAV per share is in our and our stockholders best interests, our Board of Directors considers 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 of common stock;
- 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 considers 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 at the time of the first offering is $10.02 and we have 76.0 million shares of common stock outstanding, sale of 16 million shares of common stock at net proceeds to us of $5.01 per share (an approximately 50% discount) would produce dilution of 8.70%. If we subsequently determined that our NAV per share increased to $10.20 on the then 92.0 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 13.3 million shares of common stock at net proceeds to us of $5.10 per share, which would produce dilution of 6.30%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

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Sales by us of our common stock at a discount from NAV 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.

NAV per share used in the tables below is based on our most recently determined NAV per share as of June 30, 2010, as adjusted to give effect to distributions with record dates of July 30, 2010 and August 31, 2010, our issuances of our common stock in connection with our dividend re-investment plan, our sale of 2,748,600 shares of common stock during the period June 28, 2010 through July 16, 2010 (with settlement dates of July 1, 2010 through July 21, 2010), and our sale of 3,814,528 shares of common stock during the period July 19, 2010 through August 19, 2010 (with settlement dates of July 22, 2010 through August 24, 2010). The NAV per share used for purposes of providing information in the table below is thus an estimate and does not necessarily reflect actual NAV per share at the time sales are made. Actual NAV per share may be higher or lower based on potential changes in valuations of our portfolio securities, accruals of income, expenses and distributions declared and thus may be higher or lower at the assumed sales prices than shown below.

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 shareholders 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 nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share. It is not possible to predict the level of market price decline that may occur.

The examples assume that the issuer has 76,000,000 common shares outstanding, $881,520,000 in total assets and $120,000,000 in total liabilities. The current NAV and NAV per share are thus $761,520,000 and $10.02. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 3,800,000 shares of common stock (5% of the outstanding shares of common stock) at $9.52 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 7,600,000 shares of common stock (10% of the outstanding shares of common stock) at $9.02 per share after offering expenses and commissions (a 10% discount from NAV) and (3) an offering of

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15,200,000 shares of common stock (20% of the outstanding shares of common stock) at $8.02 per share after offering expenses and commissions (a 20% discount from NAV).

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	Example 1 % Change	Example 2 10% Offering at 10% Discount Following Sale	Example 2 % Change	Example 3 20% Offering at 20% Discount Following Sale	Example 3 % Change
fering Price							
ce per Share to Public		$ 9.79		$ 9.24		$ 8.20	
t Proceeds per Share to uer		$ 9.52		$ 9.02		$ 8.02	
crease to NAV							
tal Shares Outstanding	76,000,000	79,800,000	5.00%	83,600,000	10.00%	91,200,000	20.00%
ᐧV per Share	$ 10.02	$ 10.00	(0.24)%	$ 9.93	(0.91)%	$ 9.69	(3.33)
lution to nparticipating ockholder							
ares Held by ockholder A	76,000	76,000	0.00%	76,000	0.00%	76,000	0.00%
rcentage Held by ockholder A	0.10%	0.10%	(4.76)%	0.09%	(9.09)%	0.08%	(16.67)
tal NAV Held by ockholder A	$ 761,520	$ 759,707	(0.24)%	$ 754,597	(0.91)%	$ 736,136	(3.33)
tal Investment by ockholder A (Assumed be $10.02 per Share)	$ 761,520	$ 761,520		$ 761,520		$ 761,520	
tal Dilution to ockholder A (Total ᐧV Less Total vestment)		$ (1,813)		$ (6,923)		$ (25,384)	
ᐧV per Share Held by ockholder A		$ 10.00		$ 9.93		$ 9.69	
vestment per Share ld by Stockholder A ssumed to be $10.02 r Share on Shares Held or to Sale)	$ 10.02	$ 10.02		$ 10.02		$ 10.02	
lution per Share Held Stockholder A (NAV r Share Less Investment r Share)		$ (0.02)		$ (0.09)		$ (0.33)	
rcentage Dilution to ockholder A (Dilution r Share Divided by vestment per Share)			(0.24)%		(0.91)%		(3.33)

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Impact On Existing Stockholders Who Do Participate in the Offering

Our existing stockholders who participate in an 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 but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in 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 shareholders 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 and accretion in the hypothetical 20% discount offering from the prior chart (Example 3) for a stockholder that acquires shares of common stock equal to (1) 50% of its proportionate share of the offering (i.e., 7,600 shares of common stock, which is 0.05% of an offering of 15,200,000 shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e. 22,800 shares of common stock, which is 0.15% of an offering of 15,200,000 shares of common stock rather than its 0.10% proportionate share). It is not possible to predict the level of market price decline that may occur.

	Prior to Sale Below NAV	50% Participation		150% Participation	
		Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per Share to Public		$ 8.20		$ 8.20	
Net Proceeds per Share to Issuer		$ 8.02		$ 8.02	
Decrease/Increase to NAV					
Total Shares Outstanding	76,000,000	91,200,000	20.00%	91,200,000	20.00%
NAV per Share	$ 10.02	$ 9.69	(3.33)%	$ 9.69	(3.33)%
Dilution/Accretion to Participating Stockholder					
Shares Held by Stockholder A	76,000	83,600	10.00%	98,800	30.00%
Percentage Held by Stockholder A	0.10%	0.09%	(8.33)%	0.11%	8.33%
Total NAV Held by Stockholder A	$ 761,520	$ 809,750	6.33%	$ 956,977	25.67%
Total Investment by Stockholder A (Assumed to be $10.02 per Share on Shares held Prior to		$ 823,838		$ 948,474	

Sale)									
Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment)			$	(14,088)		$	8,503		
NAV per Share Held by Stockholder A			$	9.69		$	9.69		
Investment per Share Held by Stockholder A (Assumed to Be $10.02 on Shares Held Prior to Sale)	$	10.02	$	9.86	(1.65)%	$	9.60		(4.19)%
Dilution/Accretion per Share Held by Stockholder A (NAV per Share Less Investment per Share)			$	(0.17)		$	0.09		
Percentage Dilution/Accretion to Stockholder A (Dilution/Accretion per Share Divided by Investment per Share)					(1.71)%				0.89%

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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, 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 would be experienced by a new investor in the same hypothetical 5%, 10% and 20% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (0.10%) of the shares of common stock in the offering as Stockholder A in the prior examples held immediately prior to the offering. It is not possible to predict the level of market price decline that may occur.

		Example 1 5% Offering at 5% Discount		**Example 2 10% Offering at 10% Discount**		**Example 3 20% Offering at 20% Discount**	
	Prior to Sale Below NAV	**Following Sale**	**% Change**	**Following Sale**	**% Change**	**Following Sale**	**% Change**
ffering Price							
ice per Share to Public		$ 9.79		$ 9.24		$ 8.20	
et Proceeds per Share to suer		$ 9.52		$ 9.02		$ 8.02	
ecrease/Increase to AV							
otal Shares Outstanding	76,000,000	79,800,000	5.00%	83,600,000	10.00%	91,200,000	20.00%
AV per Share	$ 10.02	$ 10.00	(0.24)%	$ 9.93	(0.91)%	$ 9.69	(3.33)%
lution/Accretion to ew Investor A							
ares Held by Investor	0	3,800		7,600		15,200	
rcentage Held by vestor A	0.00%	0.00%		0.01%		0.02%	
otal NAV Held by vestor A	$ 0	$ 37,985		$ 75,460		$ 147,227	
otal Investment by vestor A (At Price to		$ 37,216		$ 70,242		$ 124,636	

blic)				
tal Dilution/Accretion Investor A (Total NAV ss Total Investment)		$ 769	$ 5,218	$ 22,591
AV per Share Held by vestor A		$ 10.00	$ 9.93	$ 9.69
vestment per Share ld by Investor A	$ 0	$ 9.79	$ 9.24	$ 8.20
lution/Accretion per are Held by Investor A AV per Share Less vestment per Share)		$ 0.21	$ 0.69	$ 1.49
rcentage lution/Accretion to vestor A ilution/Accretion per are Divided by vestment per Share)		(2.07)%	7.43%	18.13%

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PLAN OF DISTRIBUTION

Upon written instructions from the Company, RBC, BB&T, and Knight, as applicable, will each use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, the common stock under the terms and subject to the conditions set forth in each Sales Manager s equity distribution agreement. We will instruct each Sales Manager as to the amount of common stock to be sold by such Sales Manager; provided, however, that, subject to the terms of the equity distribution agreements, any sales of common stock pursuant to the equity distribution agreements will only be effected by or through only one of RBC, BB&T, and Knight on any single given day, but in no event by more than one Sales Manager. We may instruct the Sales Managers not to sell common stock if the sales cannot be effected at or above the price designated by the Company in any instruction. We or the Sales Managers may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Each Sales Manager will provide written confirmation of a sale to us no later than the opening of the trading day on the NASDAQ Global Select Market following each trading day in which shares of our common stock are sold under the applicable equity distribution agreement. Each confirmation will include the number of shares of common stock sold on the preceding day, the net proceeds to us and the compensation payable by us to the applicable Sales Manager in connection with the sales.

Each Sales Manager will receive from us a commission equal to 2.0% of the gross sales price of all shares of common stock sold through it as Sales Manager under the applicable equity distribution agreement. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Managers under the terms of the equity distribution agreements, will be approximately $75,000.

Settlement for sales of shares of common stock will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by the Company and the respective Sales Manager in connection with a particular transaction, in return for payment of the net proceeds to the Company. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

In connection with the sale of the common stock on our behalf, each Sales Manager may be deemed to be an underwriter within the meaning of the 1933 Act, and the compensation of such Sales Manager may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to each Sales Manager against certain civil liabilities, including liabilities under the 1933 Act.

The offering of our shares of common stock pursuant to the equity distribution agreements will terminate upon the earlier of (i) the sale of all common stock subject to the equity distribution agreements or (ii) the termination of each equity distribution agreement. Each equity distribution agreement may be terminated by the Company in our sole discretion under the circumstances specified in such equity distribution agreement by giving notice to the respective Sales Manager. In addition, each Sales Manager may terminate such equity distribution agreement to which it is a party under the circumstances specified in the equity distribution agreement by giving notice to the Company.

The Sales Managers may perform investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The Sales Managers and their respective affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business.

The principal business address of RBC Capital Markets Corporation is Three World Financial Center, 200 Vesey Street, 8th Floor, New York, NY 10281, the principal business address of BB&T Capital Markets, a division of Scott & Stringfellow, LLC, is 901 East Byrd Street, Suite 410, Richmond, VA 23219 and the principal business address of Knight Capital Markets LLC is 405 Lexington Avenue, New York, NY 10174.

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 Sales Managers 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 1933 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 1934 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 Sales Managers. 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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INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Prospect Capital Corporation
New York, New York

We have audited the accompanying consolidated statements of assets and liabilities of Prospect Capital Corporation, including the schedule of investments, as of June 30, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended June 30, 2010, and the financial highlights for each of the periods presented. These financial statements and financial highlights are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

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

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Prospect Capital Corporation at June 30, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2010, and the financial highlights for each of the periods presented in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Prospect Capital Corporation s internal control over financial reporting as of June 30, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 30, 2010 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
BDO USA, LLP

New York, New York
August 30, 2010

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(In thousands, except share and per share data)

	June 30, 2010	June 30, 2009
Assets (Note 11)		
Investments at fair value (net cost of $728,759 and $531,424, respectively, Note 4)		
Control investments (net cost of $185,720 and $187,105, respectively)	$ 195,958	$ 206,332
Affiliate investments (net cost of $65,082 and $33,544, respectively)	73,740	32,254
Non-control/Non-affiliate investments (net cost of $477,957 and $310,775, respectively)	478,785	308,582
Total investments at fair value	748,483	547,168
Investments in money market funds	68,871	98,735
Cash	1,081	9,942
Receivables for:		
Interest, net	5,356	3,562
Dividends	1	28
Other	419	571
Prepaid expenses	371	68
Deferred financing costs	7,579	6,951
Other assets	534	
Total Assets	832,695	667,025
Liabilities		
Credit facility payable (Note 11)	100,300	124,800
Dividends payable	6,909	
Due to Prospect Administration (Note 8)	294	842
Due to Prospect Capital Management (Note 8)	8,821	5,871
Accrued expenses	4,981	2,381
Other liabilities	705	535
Total Liabilities	122,010	134,429
Net Assets	$ 710,685	$ 532,596
Components of Net Assets		
Common stock, par value $0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 69,086,862 and 42,943,084 issued and outstanding, respectively) (Note 6)	$ 69	$ 43
Paid-in capital in excess of par (Note 6)	805,918	545,707
(Over) undistributed net investment income	(10,431)	24,152
Accumulated realized losses on investments	(104,595)	(53,050)

Unrealized appreciation on investments		19,724		15,744
Net Assets	$	710,685	$	532,596
Net Asset Value Per Share	$	10.29	$	12.40

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Year Ended		
	June 30, 2010	June 30, 2009	June 30, 2008
Investment Income			
Interest income: (Note 4)			
Control investments (Net of foreign withholding tax of $19, $166, and $230, respectively)	$ 17,218	$ 19,281	$ 21,709
Affiliate investments (Net of foreign withholding tax of $-, $-, and $70, respectively)	7,957	3,039	1,858
Non-control/Non-affiliate investments	61,343	40,606	35,466
Total interest income	86,518	62,926	59,033
Dividend income			
Control investments	14,860	22,468	11,327
Non-control/Non-affiliate investments	474		
Money market funds	32	325	706
Total dividend income	15,366	22,793	12,033
Other income: (Note 5)			
Control investments	261	1,249	1,123
Affiliate investments			