PROSPECT CAPITAL CORP
Form 497
May 13, 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 4,553,800 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 March 17, 2010, we entered into separate equity distribution agreements with each of BB&T Capital Markets, a division of Scott & Stringfellow, LLC and Knight Capital Markets LLC, which we refer to individually as a Sales Manager and together as the Sales Managers, relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. The equity distribution agreements provide that we may offer and sell up to 8,000,000 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 March 17, 2010 (the date of the equity distribution agreements) through April 30, 2010, we sold 3,446,200 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 May 1, 2010 through the date of this prospectus supplement. As such, there are 4,553,800 shares of common stock remaining that we may offer and sell through the Sales Managers pursuant to the equity distribution agreements. See Prospectus Summary Recent Developments on page S-2 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. In connection with the sale of the common stock on our behalf, a Sales Manager may be deemed to be an underwriter within the meaning of the 1933 Act, and the compensation of a Sales Manager may be deemed to be underwriting commissions or discounts.

Neither Sales Manager is required to sell any specific number or dollar amount of common stock, but each will use its reasonable efforts to sell the common stock offered by this prospectus supplement. See Plan of Distribution on page S-38 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-34 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 May 12, 2010 was $10.96 per share and our most recently determined net asset value per share was $10.09 as of March 31, 2010 ($10.16 on an as adjusted basis solely to give effect to our issuance of common stock on April 23, 2010 in connection with our dividend reinvestment plan and our sale of 2,634,700 shares of common stock during the period from April 1, 2010 through April 30, 2010 pursuant to the equity distribution agreements).

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.

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.

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

Knight Capital Markets LLC

Prospectus Supplement dated May 13, 2010

FORWARD-LOOKING STATEMENTS

Our annual report on Form l0-K for the year ended June 30, 2009, 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 the Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), as amended, 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, expected, project, projected, projections, plans, seeks, anticipates, anticipated, should, could, ma foreseeable future, believe, believes and scheduled and variations of these words and similar expressions are intend 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,

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 Securities 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 Mangers 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 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 and Investment Advisor 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. A majority of our investments to date have been in energy-related industries. We have made no investments to date in the real estate or mortgage industries, and we do not intend currently to focus on such investments.

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

As of March 31, 2010, we held investments in 55 portfolio companies. The aggregate fair value as of March 31, 2010 of investments in these portfolio companies held on that date is approximately $697 million. Our portfolio across all our long-term debt and certain equity investments had an annualized current yield of 14.6% as of March 31, 2010. The

yield includes interest as well as dividends.

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Recent Developments

Sales Pursuant to the Equity Distribution Agreements

During the period from March 17, 2010 (the date of the equity distribution agreements) through April 30, 2010, we sold 3,446,200 shares of our common stock through the Sales Managers pursuant to the equity distribution agreements, including 3,446,200 through BB&T Capital Markets, a division of Scott & Stringfellow, LLC and none through Knight Capital Markets LLC. No sales of common stock were made pursuant to the equity distribution agreements during the period from May 1, 2010 through the date of this prospectus supplement. The sales resulted in gross proceeds to the Company of $41.7 million. The aggregate gross sales commission to the Sales Managers through April 30, 2010 has been $0.8 million, with $0.8 million paid to BB&T Capital Markets, a division of Scott & Stringfellow, LLC and zero paid to Knight Capital Markets LLC. The aggregate net proceeds from such sales are approximately $40.4 million after deducting related expenses, including commission to the Sales Managers.

Board of Directors

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, who was previously an independent director of the Company from June 2006 through December 2008, will serve as a Class I independent director of the Company and will serve as a member of the Audit Committee and the Nominating and Corporate Governance Committee. Mr. Gremp does not sit on the board of directors of any other public companies. Mr. Gremp was born in 1942 and the address for Mr. Gremp is c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, NY 10016. Mr. Gremp replaces Mr. Graham D.S. Anderson as an independent director of the Company. Mr. Anderson resigned from the Board of Directors effective April 1, 2010.

In selecting Mr. Gremp as a director, the Board of Directors evaluated him against the knowledge, experience, skills, expertise and diversity that in the Company s view are necessary and desirable for directors. The knowledge, experience, skills, expertise and diversity of Mr. Gremp were considered in their totality, and none of the criteria, in isolation, was controlling. In that regard, over the last five years, Mr. Gremp s principal occupation included credit evaluation, securities research and accounting principles at Merrill Lynch & Co. The Company believes that using these criteria allows for directors who have balanced and diverse experience, skills, attributes and qualifications, which in turn allows the Board of Directors to operate effectively in governing the Company and protecting the interests of shareholders.

Third Quarter Dividend

On April 23, 2010, we paid our previously declared dividend for our third fiscal quarter (for the fiscal year ending June 30, 2010) of $0.41 per share to holders of record on March 31, 2010.

Credit Facility

The revolving period for our credit facility with Rabobank Nederland (Rabobank) is currently scheduled to terminate on June 24, 2010. If the credit facility is not renewed or extended by the participant banks by June 24, 2010, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on June 24, 2011. At May 12, 2010 we had $35.0 million of borrowing under our credit facility. On April 30, 2010, we entered into an engagement with Rabobank and Key Equipment Finance, Inc. to syndicate and Rabobank to structure a new syndicated credit facility, and we are currently negotiating the terms of such facility. While we are optimistic that we can successfully reach an agreement, we cannot provide assurances that we will be able do so or as to any terms of such a facility. See *Risk Factors* *Failure to extend our existing credit*

facility, which is currently scheduled to expire on June 24, 2010, could have a material adverse effect on our results of operations and financial condition and our ability to pay expenses and make distributions.

The Offering

Common stock offered by us	Up to 4,553,800 shares.
Common stock outstanding as of the date of this prospectus supplement	67,281,662 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	For our third fiscal quarter of 2010, our Board of Directors declared a quarterly dividend of $0.410 per share, representing an annualized dividend yield of approximately 15.0% based on our May 12, 2010 closing stock price of $10.96 per share. Such dividend was payable out of earnings. Our dividend is 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 at March 31, 2010. As of March 31, 2010, we had $54.2 million outstanding under our credit facility and approximately $62.5 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, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:

Sales load (as a percentage of offering price)(1)	2.00%
Offering expenses borne by us (as a percentage of offering price)(2)	0.35%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	2.35%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Management Fees(5)	2.79%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.47%
Interest payments on borrowed funds	1.94%(7)
Acquired Fund Fees and Expenses	0.02%(8)
Other expenses	2.08%(9)
Total annual expenses	9.30%(6)(9)

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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	$ 90.14	$ 219.77	$ 344.73	$ 637.71

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.

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 $300,000.

(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 March 31, 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 at March 31, 2010), the 2% management fee of gross assets equals 2.79% 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 quarter ended March 31, 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 existing credit facility and we will continue to seek additional lenders to upsize the facility to up to $250 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 at March 31, 2010. 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.

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(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 March 31, 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 $649 million as of March 31, 2010.

(9) Other expense is based on our annualized expenses during our quarter ended March 31, 2010, as adjusted for the increased costs anticipated in connection with the credit facility. See Management Management Services Administration Agreement in the accompanying prospectus.

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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, 2009, 2008, 2007, 2006 and 2005 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the nine months ended March 31, 2010 and 2009 have been derived from unaudited financial data, but in the opinion of our management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results for such interim periods. Interim results at and for the nine months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010. 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 Nine Months Ended March 31		For the Year/Period Ended June 30,				
	2010	2009	2009	2008	2007	2006	200
	(In thousands except data relating to shares, per share and number of portfolio companies)						
nance Data:							
income	$ 61,321	$ 50,862	$ 62,926	$ 59,033	$ 30,084	$ 13,268	$ 4
d income	12,689	13,833	22,793	12,033	6,153	3,601	3
ncome	8,395	13,986	14,762	8,336	4,444		
vestment	82,405	78,681	100,481	79,402	40,681	16,869	8
and credit expenses	(5,480)	(4,828)	(6,161)	(6,318)	(1,903)	(642)	
ent advisory :	(22,016)	(20,535)	(26,705)	(20,199)	(11,226)	(3,868)	(1
xpenses	(6,692)	(6,136)	(8,452)	(7,772)	(4,421)	(3,801)	(3
penses	(34,188)	(31,499)	(41,318)	(34,289)	(17,550)	(8,311)	(5
estment	48,217	47,182	59,163	45,113	23,131	8,558	2
d and ed gains	(45,508)	(11,329)	(24,059)	(17,522)	(6,403)	4,338	6
rease in net rom ns	$ 2,709	$ 35,853	$ 35,104	$ 27,591	$ 16,728	$ 12,896	$ 8

are Data:							
rease in net rom ons(1)	$ 0.05	$ 1.21	$ 1.11	$ 1.17	$ 1.06	$ 1.83	$
tions d per share	$ (1.23)	$ (1.21)	$ (1.62)	$ (1.59)	$ (1.54)	$ (1.12)	$ (
e weighted utstanding period	56,948,036	29,708,458	31,559,905	23,626,642	15,724,095	7,056,846	7,055
and ies Data:							
ents	$ 697,001	$ 555,041	$ 547,168	$ 497,530	$ 328,222	$ 133,969	$ 55
ssets	53,526	47,765	119,857	44,248	48,280	4,511	48
sets	750,527	602,806	667,025	541,778	376,502	138,480	103
drawn on acility	54,200	137,567	124,800	91,167		28,500	
owed to parties	9,489	6,555	6,713	6,641	4,838	745	
abilities	37,352	14,660	2,916	14,347	71,616	965	
abilities	101,041	158,782	134,429	112,155	76,454	30,210	
ets	$ 649,486	$ 444,024	$ 532,596	$ 429,623	$ 300,048	$ 108,270	$ 102
ment Activity							
ortfolio ies at period	55	31	30	29(2)	24(2)	15	
tions	$ 275,815	$ 90,376	$ 98,305	$ 311,947	$ 167,255	$ 83,625	$ 79
epayments, er disposals	$ 96,338	$ 23,859	$ 27,007	$ 127,212	$ 38,407	$ 9,954	$ 32
ed-Average end of 3)	14.6%	15.1%	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 (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.

Failure to extend our existing credit facility, which is currently scheduled to expire on June 24, 2010, could have a material adverse effect on our results of operations and financial position and our ability to pay expenses and make distributions.

The revolving period for our credit facility with Rabobank is currently scheduled to terminate on June 24, 2010. If the credit facility is not renewed or extended by the participant banks by June 24, 2010, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on June 24, 2011. At May 12, 2010 we had $35.0 million of borrowing under our credit facility. On April 30, 2010, we entered into an engagement with Rabobank and Key Equipment Finance, Inc. to syndicate and Rabobank to structure a new syndicated credit facility, and we are currently negotiating the terms of such facility. While we are optimistic that we can successfully reach an agreement, we cannot provide assurances that we will be able to do so. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the one-year term-out period through one or more of the following: (1) principal collections on our securities pledged under the facility, (2) at our option, interest collections on our securities pledged under the facility and cash collections on our securities not pledged under the facility, or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position and may force us to decrease or stop paying certain expenses and making distributions until the facility is repaid. In addition, our stock price could decline significantly, we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

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. In addition, the U.S. economy has been in a recession, the aftermath of which may be severe and prolonged. Similar conditions have occurred in the financial markets and economies of numerous other countries and could worsen, 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 March 31, 2010 and our NAV when calculated effective June 30, 2010 may be higher or lower.

Our most recently estimated NAV per share is $10.16 on an as adjusted basis solely to give effect to our issuance of common stock on April 23, 2010 in connection with our dividend reinvestment plan and our sale of 2,634,700 shares

of common stock during the period from April 1, 2010 through April 30, 2010 pursuant to the equity distribution agreements, versus $10.09 determined by us as of March 31, 2010. NAV as of June 30, 2010 may be higher or lower than $10.16 based on potential changes in valuations and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to March 31, 2010. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in

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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 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.

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.

General

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, 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.

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 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 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 gain of $5,714 was recorded by Prospect in the quarter ended December 31, 2009 related to the acquisition of Patriot. The acquisition of Patriot was negotiated in July 2009 with the purchase agreement being signed on August 3, 2009. Between July 2009 and December 2, 2009, our valuation of certain of the investments acquired from Patriot increased due to market improvement, which resulted in the recognition of the gain at closing.

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

Cash (to repay Patriot debt)	$ 107,313
Cash (to fund purchase of restricted stock from former Patriot employees)	970
Common stock issued(1)	92,800
Total purchase price	201,083
Assets acquired:	
Investments(2)	207,126
Cash and cash equivalents	1,697
Other assets	3,859
Assets acquired	212,682
Other liabilities assumed	(5,885)
Net assets acquired	206,797
Preliminary gain on Patriot acquisition(3)	$ 5,714

(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 March 31, 2010, and for the quarter ended March 31, 2010, we recognized $14,454 and $9,133, respectively, of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in these amounts is $11,462 and $7,213 for the quarters ended December 31, 2009 and March 31, 2010, respectively, resulting from the acceleration of purchase discounts from the early repayments of three loans, three revolving lines of credit, sale of one investment position and restructuring of three loans.

Merger Discussions with Allied Capital Corporation

In January 2010, we delivered a proposal letter to Allied Capital Corporation (Allied) noting our opposition to Allied s proposed merger with Ares Capital Corporation (Ares) and containing an offer to acquire each outstanding Allied share in exchange for 0.385 of a share of our common stock. Allied expressed that our offer did not constitute a

Superior Proposal as defined in their Merger Agreement with Ares and declined our January 2010 offer. In February 2010, we increased our offer to 0.4416 of a share of our common stock. This final offer was also declined by Allied. On March 5, 2010, following Allied s announcement of a special dividend to shareholders, we terminated our solicitation in opposition of the proposed merger with Ares. We incurred $925 of administrative and legal expense for advice relating to this potential acquisition for the quarter ended March 31, 2010.

Market Conditions

While the economy continues to show signs of recovery from the deteriorating credit markets of 2008 and 2009, there is still a significant 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 in a 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.

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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 March 31, 2010, we had $116,657 available under our credit facility, of which $54,200 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 24, 2010, with an amortization running to June 24, 2011, with interest distributions to us allowed. We expect to enter into a new extended three-year revolving facility prior to June 24, 2010. While we are optimistic and have made substantial progress, we cannot guarantee the completion of such extension.

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 $489,770 of additional equity securities as of March 31, 2010.

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. An at-the-market offering is a registered offering by a publicly traded issuer of its listed equity securities selling shares directly into the market at market prices. We have engaged two 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-dealer on shares sold. Through this program we issued 811,500 shares of our common stock at an average price of $12.60 per share, raising $10,230 of gross proceeds, from March 23, 2010 through March 31, 2010. During the period from April 1, 2010 to May 10, 2010 we issued 2,634,700 shares of our common stock at an average price of $11.93 per share, and raised $31,432 of gross proceeds, under our at-the-market program.

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

Critical Accounting Policies and Estimates

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

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X, and the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our March 31, 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.

In April 2009, the FASB issued ASC 820-10-65, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC 820-10-65). This update provides further clarification for ASC 820 in markets that are not active and provides additional guidance for determining when the volume of trading level of activity for an asset or liability has significantly decreased and for identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 820-10-65 for the three and nine months ended March 31, 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). ASU 2010-06 amends ASC 820-10 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. Our management does not believe that the adoption of the amended guidance in ASC 820-10 will have a significant effect on our financial statements.

Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual taxable income in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual taxable income exceeds the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

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 March 31, 2010 and for the three and nine months then ended, we did not have a liability for any unrecognized tax benefits. Management s

determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

Revenue Recognition

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income.

Loans are placed on non-accrual status when 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 March 31, 2010, approximately 5.8% 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.

Statement of Assets and Liabilities Overview

During the nine months ended March 31, 2010, net assets have increased by $116,890 from $532,596 as of June 30, 2009 to $649,486 as of March 31, 2010. This net increase in assets primarily resulted from $208,306 of capital share transactions including 8,444,068 of shares issued in conjunction with the Patriot Acquisition, offset by $94,125 in dividends declared to our stockholders. During this nine month period we recognized net investment income of $48,217, a decrease in net assets due to realized losses of $51,231 and an increase in net assets due to changes in unrealized depreciation of investments of $5,723.

The aggregate fair value of our portfolio investments was $697,001 and $547,168 as of March 31, 2010 and June 30, 2009, respectively. During the nine months ended March 31, 2010, our net cost of investments increased by $144,110, or 27.1%, primarily from the acquisition of Patriot. At March 31, 2010, we were invested in 55 long-term portfolio investments.

Investment Activity

During the nine months ended March 31, 2010, we acquired $207,126 of investments from Patriot, completed follow-on investments in existing portfolio companies totaling approximately $64,390, and recorded PIK interest of $4,299, resulting in gross investment originations with a cost basis of $275,815. The more significant of these investments are described briefly in the following:

During the nine months ended March 31, 2010, we made follow-on secured debt investments of $1,708 in Iron Horse Coiled Tubing, Inc. (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 nine months ended March 31, 2010, we provided additional fundings of $3,376 to Yatesville Coal Holdings, Inc. (Yatesville) to fund ongoing operations.

During the nine months ended March 31, 2010, we made follow-on secured subordinated debt investments of $3,530 in Ajax Rolled Ring & Machine (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 Energy, Inc. (Manx), a newly formed entity. We funded $2,800 at closing to Manx to provide working capital.

During the nine months ended March 31, 2010, we closed-out eight positions which are briefly described below.

On August 31, 2009, C&J Cladding, LLC (C&J) 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.

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 a net amount of $4,775.

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

During the nine months ended March 31, 2010, we also received principal amortization payments of $15,743 on several loans.

During the three months ended March 31, 2010, we restructured our loans to Aircraft Fasteners International, LLC (AFI), Prince Mineral Company, Inc. (Prince) and R-O-M Corporation (ROM). The revised terms were more favorable than the original terms and increased the present value of the future cash flows. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which included $6,735 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)
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	$ 1,086,344	$ 330,980

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

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

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

Investment Holdings

As of March 31, 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 14.6% and 15.1% across all our long-term debt and certain equity investments as of March 31, 2010 and 2009, respectively. At March 31, 2010, this yield includes interest from all of our long-term investments as well as dividends from Gas Solutions Holdings, Inc. (GSHI). We expect the current yield to decline over time as we add to the portfolio. 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.

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

As of March 31, 2010, we own controlling interests in Ajax, AWCNC, LLC, Borga, Inc., C&J, Change Clean Energy Holdings, Inc. (CCEHI), Fischbein, LLC (Fischbein), Freedom Marine Services LLC (Freedom Marine), GSHI, Integrated Contract Services, Inc. (ICS), Iron Horse, Manx, NRG Manufacturing, Inc. (NRG), Nupla Corporation, R-V Industries, Inc. (R-V), Sidump r Trailer Company, Inc. and Yatesville. We also own an affiliated interest in Biotronic NeuroNetwork, Boxercraft Incorporated (Boxercraft), KTPS Holdings, LLC (KTPS), Miller Petroleum, Inc. (Miller), Smart, LLC and Sport Helmets Holdings, LLC (Sport Helmets).

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

	March 31, 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	$ 181,894	26.1%	$ 194,647	27.0%	$ 187,105	29.7%	$ 206,332	31.9%
Affiliate	63,197	9.0%	73,516	10.2%	33,544	5.3%	32,254	5.0%
Non-control/Non-affiliate	430,443	61.6%	428,838	59.6%	310,775	49.3%	308,582	47.8%
Money Market Funds	23,011	3.3%	23,011	3.2%	98,735	15.7%	98,735	15.3%
Total Portfolio	$ 698,545	100.0%	$ 720,012	100.0%	$ 630,159	100.0%	$ 645,903	100.0%

The following is our investment portfolio presented by type of investment at March 31, 2010 and June 30, 2009, respectively:

	March 31, 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	$ 23,011	3.3%	$ 23,011	3.2%	$ 98,735	15.7%	$ 98,735	15.3%
Revolving Line of Credit	2,271	0.3%	2,136	0.3%		%		%
Senior Secured Debt	307,880	44.1%	285,567	39.6%	232,534	36.9%	220,993	34.2%
Subordinated Secured Debt	304,418	43.6%	277,927	38.6%	251,292	39.9%	194,547	30.1%
Subordinated Unsecured Debt	15,245	2.2%	15,838	2.2%	15,065	2.4%	16,331	2.5%
Preferred Stock	16,969	2.4%	6,626	0.9%	10,432	1.6%	4,139	0.7%

Common Stock	19,715	2.8%	80,467	11.2%	16,310	2.6%	89,278	13.8%
Membership Interests	7,204	1.0%	18,478	2.6%	3,031	0.5%	7,270	1.1%
Overriding Royalty Interests		%	2,727	0.4%		%	3,483	0.5%
Net Profit Interests		%	871	0.1%		%	2,561	0.4%
Warrants	1,832	0.3%	6,364	0.9%	2,760	0.4%	8,566	1.4%
Total Portfolio	$ 698,545	100.0%	$ 720,012	100.0%	$ 630,159	100.0%	$ 645,903	100.0%

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The following is our investment portfolio presented by geographic location of the investment at March 31, 2010 and June 30, 2009, respectively:

	March 31, 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	3.0%	$ 12,325	1.7%	$ 19,344	3.1%	$ 12,606	2.0%
Netherlands	1,749	0.2%	1,539	0.2%		%		%
Midwest US	153,080	21.9%	148,268	20.6%	77,681	12.3%	84,097	13.0%
Northeast US	64,888	9.3%	64,853	9.0%	44,875	7.1%	47,049	7.3%
Southeast US	177,382	25.4%	155,500	21.6%	164,652	26.1%	101,710	15.7%
Southwest US	189,630	27.2%	250,483	34.8%	178,993	28.4%	253,615	39.3%
Western US	67,803	9.7%	64,033	8.9%	45,879	7.3%	48,091	7.4%
Money Market Funds	23,011	3.3%	23,011	3.2%	98,735	15.7%	98,735	15.3%
Total Portfolio	$ 698,545	100.0%	$ 720,012	100.0%	$ 630,159	100.0%	$ 645,903	100.0%

The following is our investment portfolio presented by industry sector of the investment at March 31, 2010 and June 30, 2009, respectively:

	March 31, 2010				June 30, 2009			
Industry Sector	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	$ 56	%	$ 72	%	$	%	$	%
Automobile	867	0.1%	528	0.1%		%		%
Biomass Power	2,825	0.4%	1,928	0.3%	2,530	0.4%	2,530	0.4%
Chemical	1,749	0.3%	1,539	0.2%		%		%
Construction Services		%		%	5,017	0.8%	2,408	0.4%
Contracting	16,652	2.4%	4,649	0.6%	16,652	2.6%	5,000	0.8%
Ecological	141	%	344	%		%		%
Electronics	13,735	2.0%	13,885	1.9%		%		%
Financial Services	25,814	3.7%	25,124	3.5%	25,424	4.0%	23,073	3.6%
Food Products	53,180	7.6%	59,192	8.2%	27,413	4.4%	29,416	4.6%
Gas Gathering and Processing	35,003	5.0%	90,596	12.6%	35,003	5.6%	85,187	13.2%
Healthcare	87,902	12.6%	93,255	13.0%	57,535	9.1%	60,293	9.3%
Home and Office Furnishings, Housewares and Durable	15,484	2.2%	16,941	2.4%		%		%
Insurance	5,711	0.8%	5,699	0.8%		%		%

Machinery	15,995	2.3%	16,382	2.2%		%		%
Manufacturing	94,861	13.6%	84,257	11.7%	90,978	14.4%	110,929	17.2%
Metal Services and Minerals	13,057	1.9%	23,530	3.3%	3,302	0.5%	7,133	1.1%
Mining, Steel, Iron and Non-Precious Metals and Coal Production	1,035	0.1%	1,035	0.1%	48,890	7.8%	13,097	2.0%
Oil and Gas Production	121,330	17.4%	104,981	14.6%	104,183	16.5%	104,806	16.2%
Oilfield Fabrication	31,383	4.5%	31,383	4.4%	34,247	5.4%	34,931	5.4%
Personal and Nondurable Consumer Products	26,870	3.8%	30,527	4.2%		%		%
Pharmaceuticals	11,954	1.7%	12,000	1.7%	11,949	2.0%	11,452	1.8%
Printing and Publishing	7,666	1.1%	8,885	1.2%		%		%
Production Services	21,002	3.0%	12,325	1.7%	19,344	3.1%	12,606	1.9%
Retail	14,669	2.1%	2,568	0.4%	14,623	2.3%	6,272	1.0%
Shipping Vessels	9,204	1.3%	4,118	0.6%	7,160	1.1%	7,381	1.1%
Specialty Minerals	15,814	2.3%	17,772	2.5%	15,814	2.5%	18,924	2.9%
Technical Services	11,380	1.6%	11,615	1.6%	11,360	1.8%	11,730	1.8%
Textiles and Leather	20,195	2.9%	21,871	3.0%		%		%
Money Market Funds	23,011	3.3%	23,011	3.2%	98,735	15.7%	98,735	15.3%
Total Portfolio	$ 698,545	100.0%	$ 720,012	100.0%	$ 630,159	100.0%	$ 645,903	100.0%

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Investment Valuation

In determining the fair value of our portfolio investments at March 31, 2010, the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of $668,037 to $731,462, excluding money market funds.

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 and trading comparables. 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 such asset, including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales and trading values of companies within the industry. The end result of these analyses was a total valuation of $697,001, excluding money market investments.

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

During the nine months ended March 31, 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 2010, we funded an additional $3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. As of March 31, 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 March 31, 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 $28,442 as of March 31, 2010, a reduction of $14,877 from its amortized cost, compared to the $14,059 unrealized depreciation at December 31, 2009 and 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 nine months ended March 31, 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 March 31, 2010, our Board of Directors, under recommendation from senior management, has set the value of the CCEHI investment at $1,928, a reduction of $897 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 $90,596 for our debt and equity positions at March 31, 2010 based upon a combination of a discounted cash flow analysis and a public comparables analysis. At March 31, 2010, December 31, 2009 and June 30, 2009, GSHI was valued $55,593, $50,184 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.

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 $4,649 at March 31, 2010, a reduction of $12,003 from its amortized cost, compared to the $11,377 and $11,652 unrealized loss recorded at December 31, 2009 and June 30, 2009, respectively.

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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 $12,325 as of March 31, 2010, a reduction of $8,677 from its amortized cost, compared to the $8,399 and $6,738 unrealized depreciation recorded at December 31, 2009 and June 30, 2009, respectively.

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 $6,196 as of March 31, 2010, a reduction of $12,074 from its amortized cost, compared to the $10,618 and $5,380 unrealized depreciation, for AEH and Coalbed combined, recorded at December 31, 2009 and June 30, 2009, respectively.

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 nine months ended March 31, 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. Our Board of Directors set the value of the remaining Yatesville investment at $1,035, which represents the residual value of recoverable reserves, as of March 31, 2010 and December 31, 2010, a reduction of $12,062 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

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C&J and Fischbein with improved operating results and NRG and R-V with declining operating results. The remaining four 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 three investments Boxercraft, KTPS and Sport Helmets. For one investment, Miller, 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.

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. Caleel + Hayden, LLC, Copernicus Group, Custom Direct, Inc., Impact Products, LLC, Mac & Massey Holdings, LLC and Prince experienced meaningful increases in valuations. AFI, H&M, and ROM 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. The remaining investments did not experience significant changes in operations or valuation.

During the quarter, we restructured our loans to AFI, 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 basis of the new loans were recorded at par value, which included $6,735 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 new Facility, for which six lenders have closed on $210,000 to date, includes an accordion feature which allows the Facility to accept up to an aggregate total of $250,000 of commitments. The revolving period of the Facility extends through June 2010, with an additional one year amortization period after the completion of the revolving period. As of March 31, 2010 and June 30, 2009, we had $54,200 and $124,800 of borrowings outstanding under our credit facility, respectively.

Interest on borrowings under the credit facility is one-month Libor plus 400 basis points, subject to a minimum Libor floor of 200 basis points after that date. The maintenance of this facility requires us to pay a fee for the amount not drawn upon. This fee assessed at the rate of 100 basis points per annum. The following table shows the facility amounts and outstanding borrowings at March 31, 2010 and June 30, 2009:

	As of March 31, 2010		As of June 30, 2009	
	Facility	**Amount**	**Facility**	**Amount**

	Amount	Outstanding	Amount	Outstanding
Revolving Credit Facility	$ 210,000	$ 54,200	$ 175,000	$ 124,800

The following table shows the contractual maturity of our revolving credit facility at March 31, 2010:

	Payments Due By Period		
	Less Than 1 Year	1 - 3 Years	More Than 3 Years
Credit Facility Payable	$ 54,200	$	$

During the nine months ended March 31, 2010, we completed public and private offerings, and implemented our at-the-market program, and raised $107,701 of additional equity by issuing 12,243,297 shares of our common stock diluting shareholder value by $0.82 per share. We also issued 8,444,068 shares to acquire Patriot increasing net asset value to shareholders by $0.14 per share. The following table shows the calculation of net asset value per share as of March 31, 2010 and June 30, 2009:

	As of March 31, 2010	As of June 30, 2009
Net Assets	$ 649,486	$ 532,596
Shares of common stock outstanding	64,398,231	42,943,084
Net asset value per share	$ 10.09	$ 12.40

At March 31, 2010, we had 64,398,231 of our common stock issued and outstanding.

Results of Operations

For the three months ended March 31, 2010 and March 31, 2009, the net increase in net assets resulting from operations was $25,940 and $15,331, respectively, representing $0.41 and $0.51 per share, respectively. We experienced a net realized and unrealized gain of $6,966, or approximately $0.11 per share in the three months ended March 31, 2010. This compares with the net realized and unrealized gain of $3,611 during the three months ended March 31, 2009, or approximately $0.12 per share.

For the nine months ended March 31, 2010 and March 31, 2009, the net increase in net assets resulting from operations was $2,709 and $35,853, respectively, representing $0.05 and $1.21 per share, respectively. We experienced a net realized and unrealized loss of $45,508 or approximately $0.80 per share in the nine months ended March 31, 2010. This compares with the net realized and unrealized loss of $11,329 during the nine months ended March 31, 2009 or approximately $0.38 per share.

During the last quarter of the fiscal year ended June 30, 2009 and the first three quarters of 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 in 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 three months ended March 31, 2010 compared to the three months ended March 31, 2009, weighted average shares outstanding have increased from 29,971,508 to 63,659,663, or 112.4%, while the average debt principal of investments increased from $537,277 to $676,780, or 26.0%. Partially offsetting this effect on EPS is the increase in the weighted interest rate earning on debt investments from 12.13% for the three months ended March 31, 2009 to 16.75% for the three months ended March 31, 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.

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Investment income consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including net profits interest, overriding royalties interest and structuring fees. The following table details the various components of investment income and the related levels of debt investments for the three months ended March 31, 2010 and March 31, 2009:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2010	**2009**	**2010**	**2009**
Interest income	$ 27,947	$ 16,065	$ 61,321	$ 50,862
Dividend income	2,301	4,445	12,689	13,833
Other income	1,757	159	8,395	13,986
Total investment income	$ 32,005	$ 20,669	$ 82,405	$ 78,681
Average debt principal of investments	$ 676,780	$ 537,277	$ 579,835	$ 523,363
Weighted-average interest rate earned	16.75%	12.13%	14.09%	12.95%

Total investment income increased significantly from $20,669 for the three months ended March 31, 2009 to $32,005 for the three months ended March 31, 2010. This $11,336 increase is primarily due to the additional revenue generated from assets acquired in the Patriot acquisition. In conjunction with the refinancing of three assets, we recognized accelerated purchase discount accretion of $6,735 during the three months ended March 31, 2010.

Total investment income has increased for the nine months ended March 31, 2010 from the amount reported for the nine months ended March 31, 2009. This $3,724 increase is primarily due to the additional revenue generated from assets acquired in the Patriot acquisition along with the $5,714 gain recognized from the Patriot acquisition, partially offset by increased forgone interest on non-accrual loans during the nine months ended March 31, 2010 and the settlement of our net profits interests in IEC/ARS for $12,576 during the nine months ended March 31, 2009. During the nine months ended March 31, 2010, we recognized $16,604 of forgone interest on non-accrual loans compared to $11,270 during the nine months ended March 31, 2009. In conjunction with the refinancing of three assets and the repayment/sale of four other loans, we recognized accelerated purchase discount accretion of $11,075 during the nine months ended March 31, 2010.

Average principal balances of debt investments have increased from $537,277 for the three months ended March 31, 2009 to $676,780 for the three months ended March 31, 2010. For the nine months ended March 31, 2009 and 2010, average principal balances of debt investments increased from $523,363 to $579,835, respectively. These increases are primarily due to the Patriot acquisition which resulted in an additional $289,030 of debt principal to our portfolio.

The weighted-average interest rate earned increased from 12.13% for the three months ended March 31, 2009 to 16.75% for the three months ended March 31, 2010. This increase is primarily the result of higher interest rates earned on the assets acquired in the Patriot acquisition (including discount accretion). For the nine months ended March 31, 2009 and 2010, weighted-average interest rate earned increased from 12.95% to 14.09%, respectively. This increase is primarily the result of higher interest rates earned on the assets acquired in the Patriot acquisition (including discount accretion) offset by forgone interest on non-accrual loans. During the nine month period ended March 31, 2010, interest of $16,604 was forgone on non-accrual debt investments compared to $11,270 of forgone interest for the nine

months ended March 31, 2009.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income 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 $13,031 and $8,949

for the three months ended March 31, 2010 and March 31, 2009, respectively. Operating expenses were $34,188 and $31,499 for the nine months ended March 31, 2010 and March 31, 2009, respectively.

The base management fee was $3,576 and $2,977 for the three months ended March 31, 2010 and March 31, 2009, respectively. The base management fee was $9,962 and $8,740 for the nine months ended March 31, 2010 and March 31, 2009, respectively. The increase in this expense for the three and nine months ended March 31, 2010 is directly related to our growth in total assets.

For the three months ended March 31, 2010 and March 31, 2009, we incurred $4,744 and $2,930, respectively, of income incentive fees. The $1,814 increase in the income incentive fee for the respective three-month period is driven by an increase in pre-incentive fee net investment income from $14,650 for the three months ended March 31, 2009 to $23,718 for the three months ended March 31, 2010, primarily the result of additional investment income from the Patriot acquisition. For the nine months ended March 31, 2010 and March 31, 2009 we incurred $12,054 and $11,795, respectively, of income incentive fees.

During the three and nine months ended March 31, 2010, we incurred $2,111 and $5,480 of expenses related to our credit facility. This compares with expenses of $1,345 and $4,828 incurred during the three and nine months ended March 31, 2009. These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken during those quarters. The table below describes the various credit facility expenses and the related indicators of leveraging capacity and indebtedness during these periods.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2010	2009	2010	2009
Interest on borrowings	$ 327	$ 1,101	$ 720	$ 4,043
Amortization of deferred financing costs	1,322	180	3,428	540
Commitment and other fees	462	64	1,332	245
Total	$ 2,111	$ 1,345	$ 5,480	$ 4,828
Weighted-average debt outstanding	$ 22,040	$ 144,887	$ 15,972	$ 132,099
Weighted-average interest rate on borrowings	6.00%	3.08%	6.00%	4.08%
Facility amount at beginning of period	$ 195,000	$ 200,000	$ 175,000	$ 200,000

The increase in our interest rate incurred is primarily due to an increase of 150 basis points in our current borrowing rate effective June 25, 2009 and the concurrent introduction of a Libor floor at 200 basis points.

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, two 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 $2,600 and $1,697 for the three months ended March 31, 2010 and 2009, respectively, and $6,692 and $6,136 for the nine months ended March 31, 2010 and 2009, respectively. The increase in Other Operating Expenses during the three month period ended March 31, 2010 when compared to the three months ended March 31, 2009 is primarily the result of the costs incurred in connection with merger discussions with Allied Capital Corporation expensed in the 2010 period. These merger costs offset by the taxes paid in the prior year are the primary drivers of the increase

during the nine month 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.

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

Net investment income was $18,974 and $11,720 for the three months ended March 31, 2010 and March 31, 2009, respectively. This $7,254 increase was due primarily to accelerated purchase discount accretion and an increase in interest bearing assets as a result of the Patriot acquisition, partially offset by increased advisory fees and a decrease in dividend income. Net investment income was $48,217 and $47,182 for the nine months ended March 31, 2010 and March 31, 2009, respectively.

There were no significant realized gains or losses during the three months ended March 31, 2010 and March 31, 2009. Net realized (loss) gains were ($51,231) and $1,661 for the nine months ended March 31, 2010 and March 31, 2009, respectively. The net realized loss of $51,231 for the nine months ended March 31, 2010 was due primarily to the impairment of Yatesville. See *Investment Valuations* for further discussion.

Net increase in net assets from changes in unrealized appreciation/depreciation was $6,968 and $3,611 for the three months ended March 31, 2010 and March 31, 2009, respectively. For the three months ended March 31, 2010, the $6,968 increase in net assets from the net change in unrealized appreciation/depreciation was driven primarily by write-ups of our investments in GSHI, Prince and Miller, partially offset by unrealized depreciation of our investments in NRG and Freedom Marine. For the three months ended March 31, 2009, the $3,611 increase in net assets from the net change in unrealized appreciation/depreciation was driven primarily by write-ups of our investments in GSHI, H&M, and NRG which were partially offset by unrealized depreciation of our investments in Ajax, Deb Shops, Inc. (Deb Shops), CCEI, and Yatesville.

For the nine months ended March 31, 2010 and March 31, 2009, net assets increased (decreased) from changes in unrealized appreciation/depreciation by $5,723 and $(12,990), respectively. The $18,713 increase occurring during the nine months ended March 31, 2010 was primarily attributable to unrealized depreciation recognized for our investments in Ajax, Freedom Marine, H&M, Manx, NRG, and R-V partially offset by the impairment of our investment in Yatesville of $51,228. The $12,990 decrease occurring during the nine months ended March 31, 2009 was attributable to unrealized depreciation recognized for our investments in Ajax, AEH, R-V, Deb Shops, CCEI, and Yatesville partially offset by write-ups of our investments in GSHI and NRG.

Financial Condition, Liquidity and Capital Resources

For the nine months ended March 31, 2010 and March 31, 2009, our operating activities provided (used) $142,132 and ($25,552) of cash, respectively. Investing activities for the Patriot acquisition used $106,586 and zero for the nine months ended March 31, 2010 and March 31, 2009, respectively. Financing activities (used) provided ($24,239) and $25,446 of cash during the nine months ended March 31, 2010 and March 31, 2009, respectively, which included the payments of dividends of $59,467 and $32,413, during the nine months ended March 31, 2010 and March 31, 2009, 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 March 31, 2010, we had $54,200 in 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 $489,770 of additional equity securities as of March 31, 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 811,500 shares of our common stock at an average price of $12.60 per share, raising $10,230 of gross proceeds, from March 23, 2010 through March 31, 2010.

Off-Balance Sheet Arrangements

At March 31, 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.

As of March 31, 2010, we have $13,757 of undrawn revolver commitments to our portfolio companies.

Developments Since the End of the Fiscal Quarter

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

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.

During the period from April 1, 2010 to May 10, 2010 we issued 2,634,700 shares of our common stock at an average price of $11.93 per share, and raised $31,432 of gross proceeds, under our at-the-market program.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. At March 31, 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 March 31, 2010, the principal value of loans totaling approximately $72.886 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 three months ended March 31, 2010, we did not engage in interest rate hedging activities.

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SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAXATION CONSIDERATIONS

The following summary of certain U.S. Federal income tax considerations supplements the discussion set forth under the heading Material U.S. Federal Income Taxation 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 of the 4,553,800 shares of common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of $10.96 per share for our common stock on the NASDAQ Global Select Market as of May 12, 2010, we estimate that the net proceeds of this offering will be approximately $48.7 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 8,000,000 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 March 17, 2010 (the date of the equity distribution agreements) through April 30, 2010, we sold 3,446,200 shares of our common stock through the Sales Mangers pursuant to the equity distribution agreements. No sales of common stock were made pursuant to the equity distribution agreements during the period from May 1, 2010 through the date of this prospectus supplement. As such, there are 4,553,800 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 4,553,800 shares remaining at a price of $10.96 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on May 12, 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 $10.96, 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 March 31, 2010:

on an actual basis;

on an as adjusted basis giving effect to our distribution of 248,731 shares in connection with our dividend reinvestment plan on April 23, 2010, the sale of 2,634,700 shares of our common stock pursuant to the equity distribution agreements for the period from April 1, 2010 through April 30, 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 4,553,800 shares of our common stock at a price of $10.96 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on May 12, 2010) less commissions and expenses.

This table should be read in conjunction with Use of Proceeds and our Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus.

	As of March 31, 2010		
	Actual	As Adjusted for Stock Issuances and Borrowing Repayments After March 31, 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)	$	54,200	$	35,000	$	35,000
Amount owed to affiliates		9,489		9,489		9,489
Total long-term debt		63,689		44,489		44,489
Stockholders equity:						
Common stock, par value $0.001 per share (100,000,000 common shares authorized; 64,398,231 shares outstanding actual, 67,281,662 shares outstanding as adjusted for stock issuances in connection with our dividend reinvestment plan and pursuant to the equity distribution agreements completed after March 31, 2010 and 71,835,462 shares outstanding as further adjusted for this offering)		64		67		72
Paid-in capital in excess of par value		753,992		787,755		836,486
Undistributed (distributions in excess of) net investment income		(21,756)		(21,756)		(21,756)
Accumulated realized losses on investments		(104,281)		(104,281)		(104,281)
Net unrealized depreciation on investments		21,467		21,467		21,467
Total stockholders equity		649,486		683,252		731,988
Total capitalization	$	713,175	$	727,741	$	776,477

(1) As of March 31, 2010, we had $54.2 million of borrowings outstanding under our credit facility. As of May 12, 2010, we had $35 million of borrowings under our credit facility, representing a $19.2 million decrease in borrowing subsequent to March 31, 2010.

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 supplement and in the base prospectus. Pursuant to this authority, 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%

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DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

We have paid and intend to continue to distribute quarterly 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 quarterly distributions may from time to time be paid out of our capital rather than from earnings for the quarter 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