PROSPECT CAPITAL CORP
Form 497
February 23, 2012

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The information in this preliminary prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed pursuant to Rule 497
File No. 333-176637

Subject to Completion, dated February 22, 2012

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated October 21, 2011)

12,000,000 Shares

Prospect Capital Corporation

Common Stock

This is an offering of 12,000,000 shares of the common stock of Prospect Capital Corporation. Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

Our common stock is traded on the NASDAQ Global Select Market under the symbol "PSEC." The last reported closing sales price for our common stock on February 21, 2012 was $11.26 per share and our most recently determined net asset value per share was $10.69 as of December 31, 2011 ($10.59 on an as adjusted basis solely to give effect to our distribution with a record date of January 31, 2012 and our issuance of common stock on January 25, 2012 and February 17, 2012 in connection with our dividend reinvestment plan).

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

	Per Share	Total
Price to the public	$	$
Underwriting discounts and commissions	$	$
Proceeds to Prospect Capital Corporation (before expenses)	$	$

The underwriter has an option for a period of 30 days from the date of this prospectus supplement to purchase up to an aggregate of 1,800,000 additional shares of our common stock at $ per share.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by

contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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.

Barclays Capital

Prospectus Supplement dated February , 2012

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FORWARD-LOOKING STATEMENTS

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

- our future operating results,
- our business prospects and the prospects of our portfolio companies,
- the impact of investments that we expect to make,
- our contractual arrangements and relationships with third parties,
- the dependence of our future success on the general economy and its impact on the industries in which we invest,
- the ability of our portfolio companies to achieve their objectives,
- difficulty in obtaining financing or raising capital, especially in the current credit and equity environment,
- the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets,
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise,
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us,
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company,
- the adequacy of our cash resources and working capital,

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

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

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, Internal Revenue Service,

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- the NASDAQ Global Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and

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

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

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters 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 underwriters 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 and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in the prospectus.

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PROSPECTUS SUMMARY

This summary highlights some of the information contained elsewhere in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under "Risk Factors" in this prospectus supplement and in the accompanying prospectus and the other information included in this prospectus supplement and the accompanying prospectus.

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

The Company

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

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

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

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. 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 December 31, 2011, we held investments in 75 portfolio companies. The aggregate fair value as of December 31, 2011 of investments in these portfolio companies held on that date is approximately $1.717 billion. Our portfolio across all our long-term debt had an annualized current yield of 12.2% as of December 31, 2011.

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Recent Developments

Dividends

On February 6, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

$0.101450 per share for February 2012 to holders of record on February 29, 2012 with a payment date of March 23, 2012;

$0.101475 per share for March 2012 to holders of record on March 30, 2012 with a payment date of April 20, 2012; and

$0.101500 per share for April 2012 to holders of record on April 30, 2012 with a payment date of May 24, 2012.

Recent Investment Activity

On January 4, 2012, Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions") sold its gas gathering and processing assets ("Gas Solutions") for a sale price of $200.5 million, including a potential earnout of $28.0 million that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of $9.97 million paid to us, Energy Solutions received approximately $148.69 million in cash and an additional $10.0 million is being held in escrow. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions as a result of the sale transaction. The accounting for the sale of Gas Solutions has yet to be finalized, but will not result in any dividend income or realized gain recognition by us until cash payments are received from Energy Solutions.

On January 9, 2012, Arrowhead General Insurance Agency, Inc. repaid the $27.0 million loan receivable to us.

On January 12, 2012, we made a follow-on investment of $16.5 million to purchase 86.8% of the Class D Notes in CIFC Funding 2011-I, Ltd.

On January 17, 2012, we provided $18.33 million of secured second-lien financing to a financial services processing company purchased by a leading private equity sponsor.

On January 31, 2012, Aircraft Fasteners International, LLC repaid the $7.44 million loan receivable to us.

On February 2, 2012, NRG Manufacturing Inc. ("NRG") was sold to an outside buyer for $123.26 million. In conjunction with the sale, the $37.22 million loan that was outstanding was repaid. We also received a $26.94 million make-whole fee for early repayment of the outstanding loan, which will be recorded as interest income in the quarter ending March 31, 2012. Further, we received a $3.8 million advisory fee for the transaction, which will be recorded as other income in the quarter ending March 31, 2012. After expenses, including the make whole and advisory fees discussed above, $40.89 million was available to be distributed to stockholders. While our 408 shares of NRG common stock represented 67.1% of the ownership, we only received net proceeds of $25.99 million as our contribution to the escrow amount was proportionately higher than the other shareholders. In connection with the sales, we will recognize a realized gain of $24.81 million in the results for the quarter ended March 31, 2012. In total, we received proceeds of $93.98 million at closing. In addition, there is $11.13 million being held in escrow of which 80% is due to us upon release of the escrowed amounts. This will be recognized as additional gain when and if received.

On February 15, 2012, we provided $25 million of secured second-lien financing to a leading provider of Web security and wide area network (WAN) optimization solutions.

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Convertible Bonds Buyback

Between January 30, 2012 and February 2, 2012, we repurchased $5.0 million of our August 2016 convertible bonds at a price of 97.5% of par, including commissions. The transactions will result in our recognizing $10,000 of loss in the quarter ended March 31, 2012.

Prospect Capital InterNotes®

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

Stock Issuance in Connection with Dividend Reinvestment Plan

On January 25, 2012, we issued 85,252 shares of our common stock in connection with the dividend reinvestment plan.

On February 17, 2012, we issued 69,864 shares of our common stock in connection with the dividend reinvestment plan.

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The Offering

Common stock offered by us, excluding the underwriter's option to purchase additional shares	12,000,000 shares.
Common stock outstanding prior to this offering	109,846,167 shares.
Common stock outstanding after this offering, excluding the underwriter's option to purchase additional shares	121,846,167 shares.
Use of proceeds	We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See "Use of Proceeds" in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current distribution rate	On February 6, 2012, we announced that our Board of Directors declared monthly distributions in the following amounts and with the following dates: $0.101450 per share for February 2012 to holders of record on February 29, 2012 with a payment date of March 23, 2012; $0.101475 per share for March 2012 to holders of record on March 30, 2012 with a payment date of April 20, 2012; and $0.101500 per share for April 2012 to holders of record on April 30, 2012 with a payment date of May 24, 2012, representing an annualized yield (based on the February 2012 distribution) of approximately 10.81% based on our February 21, 2012 closing stock price of $11.26 per share. Such distributions are expected to be payable out of earnings. Our distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

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Fees and Expenses

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed $722.5 million. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)[1]	%
Offering expenses borne by us (as a percentage of offering price)[2]	%
Dividend reinvestment plan expenses[3]	None
Total stockholder transaction expenses (as a percentage of offering price)[4]	%
Annual expenses (as a percentage of net assets attributable to common stock)[4]:	
Management Fees[5]	3.33%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) [6]	2.74%
Interest payments on the credit facility	1.45%
Interest payments on the 2010 Notes[7]	0.80%
Interest payments on the 2011 Notes[8]	0.81%
Acquired Fund Fees and Expenses[9]	0.01%
Other expenses[10]	1.85%
Total annual expenses[6,10]	10.99%

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed all $722.5 million that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 129.33	$ 278.73	$ 418.04	$ 728.64

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

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

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greater or less than those shown.

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1 The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one time fee, is the only sales load paid in connection with this offering.

2 The offering expenses of this offering are estimated to be approximately $300,000.

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

4 The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.

5 Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed $1,072.5 million, the 2% management fee of gross assets equals approximately 3.33% of net assets. See "Business Management Services Investment Advisory Agreement" in the accompanying prospectus and footnote 6 below.

6 Based on an annualized level of incentive fee paid during our second fiscal quarter ended December 31, 2011, all of which consisted of an income incentive fee. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services Investment Advisory Agreement" in the accompanying prospectus.

7 On December 21, 2010, the Company issued $150 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the 2010 Notes. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2010 Notes.

8 On February 18, 2011, the Company issued $172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the 2011 Notes. Between January 30, 2012 and February 2, 2012, we repurchased $5.0 million of our 2011 Notes at a price of 97.5% of par, including commissions. The transactions will result in our recognizing $10,000 of loss in the quarter ended March 31, 2012. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2011 Notes. The 2011 Notes and the 2010 Notes are referred to collectively as the Senior Convertible Notes.

9 The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of December 31, 2011. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately $1,172 million as of December 31, 2011.

10 "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended December 31, 2011 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement" in the accompanying prospectus.

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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 years ended June 30, 2011, 2010, 2009, 2008 and 2007 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months and six months ended December 31, 2011 and 2010 has been derived from unaudited financial data. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-11 for more information.

	For the Three Months Ended December 31,		For the Six Months Ended December 31,		For the Year/Period Ended June 30,				
	2011	2010	2011	2010	2011	2010	2009	2008	2007
	(in thousands except data relating to shares, per share and number of portfolio companies)								
Performance Data:									
Interest income	$ 45,528	$ 27,362	$ 87,415	$ 56,283	$ 134,454	$ 86,518	$ 62,926	$ 59,033	$ 30,084
Dividend income	19,637	3,371	27,187	5,565	15,092	15,366	22,793	12,033	6,153
Other income	2,098	2,567	8,003	6,664	19,930	12,675	14,762	8,336	4,444
Total investment income	67,263	33,300	122,605	68,512	169,476	114,559	100,481	79,402	40,681
Interest and credit facility expenses	(9,759)	(2,261)	(18,719)	(4,522)	(17,598)	(8,382)	(6,161)	(6,318)	(1,903)
Investment advisory expense	(17,952)	(9,672)	(33,132)	(19,197)	(46,051)	(30,727)	(26,705)	(20,199)	(11,226)
Other expenses	(3,044)	(2,287)	(6,369)	(4,718)	(11,606)	(8,260)	(8,452)	(7,772)	(4,421)
Total expenses	(30,755)	(14,220)	(58,220)	(28,437)	(75,255)	(47,369)	(41,318)	(34,289)	(17,550)
Net investment income	36,508	19,080	64,385	40,075	94,221	67,190	59,163	45,113	23,131
Realized and unrealized gains (losses)	27,984	12,860	40,007	17,445	24,017	(47,565)	(24,059)	(17,522)	(6,403)
Net increase in net assets from operations	$ 64,492	$ 31,940	$ 104,392	$ 57,520	$ 118,238	$ 19,625	$ 35,104	$ 27,591	$ 16,728
Per Share Data:									
Net increase in net assets from operations(1)	$ 0.59	$ 0.38	$ 0.96	$ 0.73	$ 1.38	$ 0.33	$ 1.11	$ 1.17	$ 1.06
Distributions declared per share	$ (0.31)	$ (0.30)	$ (0.61)	$ (0.60)	$ (1.21)	$ (1.33)	$ (1.62)	$ (1.59)	$ (1.54)
Average weighted shares outstanding for the period	109,533,742	84,091,152	109,246,616	79,134,173	85,978,757	59,429,222	31,559,905	23,626,642	15,724,095
Assets and Liabilities Data:									
Investments	$ 1,716,603	$ 918,221	$ 1,716,603	$ 918,221	$ 1,463,010	$ 748,483	$ 547,168	$ 497,530	$ 328,222
Other assets	85,619	157,874	85,619	157,874	86,307	84,212	119,857	44,248	48,280
Total assets	1,802,222	1,076,095	1,802,222	1,076,095	1,549,317	832,695	667,025	541,778	376,502
Amount drawn on credit facility	252,000		252,000		84,200	100,300	124,800	91,167	
2010 Notes	150,000	150,000	150,000	150,000	150,000				
2011 Notes	172,500		172,500		172,500				
Amount owed to related parties	18,087	10,104	18,087	10,104	7,918	9,300	6,713	6,641	4,838
Other liabilities	37,151	12,801	37,151	12,801	20,342	11,671	2,916	14,347	71,616
Total liabilities	629,738	172,905	629,738	172,905	434,960	121,271	134,429	112,155	76,454
Net assets	$ 1,172,484	$ 903,190	$ 1,172,484	$ 903,190	$ 1,114,357	$ 711,424	$ 532,596	$ 429,623	$ 300,048

Investment Activity Data:									
No. of portfolio companies at period end	75	58	75	58	72	58	30	29(2)	24(2)
Acquisitions	$ 154,697	$ 140,933	$ 377,272	$ 281,884	$ 953,337	$ 364,788(3)	$ 98,305	$ 311,947	$ 167,255
Sales, repayments, and other disposals	$ 120,206	$ 62,915	$ 166,261	$ 131,063	$ 285,562	$ 136,221	$ 27,007	$ 127,212	$ 38,407
Annualized current yield at end of period for performing debt investments(4)	12.2%	15.3%	12.2%	15.3%	12.3%	16.2%	14.6%	15.5%	17.3%

(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 $207,126 of acquired portfolio investments from Patriot Acquisition.

(4) Excludes equity investments and non-performing loans.

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RISK FACTORS

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

Capital markets have recently been in a period of disruption and instability. These market conditions have materially and adversely affected debt and equity capital markets in the United States and abroad, which have had, and may in the future have, a negative impact on our business and operations.

The U.S. and foreign capital markets have recently been in a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While these conditions appear to be improving, they could continue for a prolonged period of time or worsen in the future. In addition, while these conditions persist, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our annual meeting of stockholders held on December 8, 2011, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. In addition, our ability to incur indebtedness or issue other senior securities (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness or issue other senior securities. The debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Moreover, recent market conditions have made, and may in the future make, it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the recent extreme volatility and dislocation in the capital markets, many business development companies have faced, and may in the future face, a challenging environment in which to raise capital. Recent significant changes in the capital markets affecting our ability to raise capital have affected the pace of our investment activity. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our

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investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

Our most recent NAV was calculated on December 31, 2011 and our NAV when calculated effective March 31, 2012 may be higher or lower.

Our most recently estimated NAV per share is $10.59 on an as adjusted basis solely to give effect to our distribution with a record date of January 31, 2012 and our issuance of common stock on January 25, 2012 and February 17, 2012 in connection with our dividend reinvestment plan, versus $10.69 determined by us as of December 31, 2011. NAV per share as of March 30, 2012, may be higher or lower than $10.59 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 December 31, 2011. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from an independent valuation firm, our Investment Advisor and the audit committee of our Board of Directors.

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

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending on December 9, 2012, as described in this prospectus supplement and in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the 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.

We may in the future choose to pay dividends in our own stock, in which case our stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock. Under IRS Revenue Procedure 2010-12, up to 90% of any such taxable dividend could be payable in our stock for dividends paid on or before December 31, 2012 with respect to any taxable year ending on or before December 31, 2011. The IRS has also issued private letter rulings on cash/stock dividends paid by regulated investment companies and real estate investment trusts if certain requirements are satisfied, and we have received such a ruling permitting us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2012 and August 31, 2013. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer

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agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock (whether pursuant to Revenue Procedure 2010-12, a private letter ruling, or otherwise).

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(All figures in this item are in thousands except share, per share and other data)

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

Overview

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the 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 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 reduce our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 13% of our investment portfolio.

The aggregate value of our portfolio investments was $1,716,603 and $1,463,010 as of December 31, 2011 and June 30, 2011, respectively. During the six months ended December 31, 2011, our net cost of investments increased by $212,477, or 14.8%, as a result of thirteen new investments, several follow-on investments and a revolver advance of $373,943, accrued payment-in-kind interest of $3,329 and accretion of purchase discount of $2,575, while we received full repayment on six investments, sold one investment, received several partial prepayments, amortization payments and a revolver repayment totaling $166,261 and recognized a net realized loss of $1,109. During the six months ended December 31, 2011, Deb Shops filed for bankruptcy and a plan for reorganization was proposed. The plan, which is expected to be approved by the bankruptcy court, will eliminate our debt position with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of $14,607 for the full amount of the amortized cost. This realized loss was primarily offset by our sale of 392 shares of NRG common stock in December 2011 for which we realized a gain of $12,131.

Compared to the end of last fiscal year (ended June 30, 2011), net assets increased by $58,127 or 5.2% during the six months ended December 31, 2011, from $1,114,357 to $1,172,484. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $14,895, dividend reinvestments of $5,393, and another $104,392 from operations. These increases, in turn, were offset by $66,553 in dividend distributions to our stockholders. The $104,392 increase in net assets resulting from operations is net of the following: net investment income of $64,385, net realized loss on investments of $1,109 and an increase in net assets due to changes in net unrealized appreciation of investments of $41,116.

Second Quarter Highlights

Investment Transactions

On October 13, 2011 and October 19, 2011, we made investments of $9,319 and $1,358, respectively, to purchase 32.9% of the unrated subordinated notes to Apidos CLO VIII ("Apidos").

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On October 24, 2011, we made a senior secured investment of $6,000 in Renaissance Learning, Inc. ("Renaissance"), a leading provider of technology based school improvement and student assessment programs. The second lien loan bears interest in cash at the greater of 12.0% or Libor plus 10.50% and has a final maturity on October 19, 2018.

On October 28, 2011, we made a follow-on investment of $8,200 in Empire Today, LLC ("Empire"). The follow-on first lien note bears interest in cash at 11.375% and has a final maturity on February 1, 2017.

On October 31, 2011, IEC-Systems, LP and Advanced Rig Services, LLC ("IEC/ARS") repaid the $20,909 loan receivable to us.

On November 4, 2011, we made a secured second lien investment of $15,000 to support the acquisition of Injured Workers Pharmacy LLC ("IWP"), a specialty pharmacy services company, in a private equity backed transaction. The secured loan bears interest in cash at the greater of 12.0% or Libor plus 7.50% and has a final maturity on November 4, 2017.

On November 21, 2011, we received an equity distribution from the sale of our shares of Fairchild Industrial Products, Co. ("Fairchild") common and preferred stock, realizing $1,549 of gross proceeds and a total gain of $960 on settlement of the investment.

On December 2, 2011, we made a secured second-lien follow-on investment of $7,500 to American Gilsonite Company ("American Gilsonite") for a dividend recapitalization. After the financing, we received a $1,383 dividend as a result of our equity holdings in American Gilsonite. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 2.5% and has a final maturity on March 10, 2016.

On December 22, 2011, we made a secured first lien investment of $31,083 to VanDeMark Chemical, Inc. ("VanDeMark"), a specialty chemical manufacturer. The secured loan bears interest in cash at the greater of 12.2% or Libor plus 10.2% and has a final maturity on December 31, 2014.

On December 22, 2011, we made an investment of $17,900 to purchase 13.2% of the secured Class D Notes and 86.0% of the unsecured Class E Notes in CIFC Funding 2011-I, Ltd ("CIFC"). The $2,500 secured Class D Notes bear interest in cash at Libor plus 5.0% and has a final maturity date on January 19, 2023. The $15,400 unsecured Class E Notes bear interest in cash at Libor plus 7.0% and has a final maturity on January 19, 2023.

On December 28, 2011, we made a secured first-lien follow-on investment of $4,750 in Energy Solutions in order to facilitate the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine Holdings, LLC ("Freedom Marine"). We invested $1,250 of equity in Energy Solutions and $3,500 of debt to Vessel Holdings LLC. The first lien note bears interest in cash at 18.0% and has a final maturity of December 12, 2016.

On December 28, 2011, we made a secured debt investment of $10,000 to support the acquisition of Hoffmaster Group, Inc. ("Hoffmaster"). After the financing we received a repayment of the loan that was previously outstanding. The $10,000 second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.50% and has a final maturity date of January 3, 2019.

On December 28, 2011, we made a secured debt investment of $37,218 to support the recapitalization of NRG. After the financing, we received repayment of the $13,080 loan that was previously outstanding and a dividend of $6,711 as a result of our equity holdings. In addition, we sold 392 shares of NRG common stock for $13,266, realizing a gain of $12,131. Our remaining 408 shares of NRG common stock held by us back to NRG were sold on February 2, 2012. (See *Recent Developments*.) The secured first lien note bears interest at 15.0% and has a final maturity on December 27, 2016.

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On December 29, 2011, Iron Horse Coiled Tubing, Inc. ("Iron Horse") repaid the $11,338 loan receivable to us.

On December 30, 2011, we provided $8,000 of senior secured debt to Hi-Tech Testing Inc. ("Hi-Tech"), a provider of non-destructive testing services to detect leaks and other defects in pipes, vessels, and related equipment for the oil and gas pipeline, chemical and paper and pulp industries. The secured note bears interest in cash at 11.0% and has a final maturity of September 26, 2016.

On December 30, 2011, we exited our investment in Mac & Massey Holdings, LLC ("Mac & Massey") and received $10,239 for repayment of the $9,323 loan receivable to us and monetization of our equity position, resulting in a realized gain of $820. We recognized $694 of accelerated purchase discount accretion in the quarter ended December 31, 2011.

Equity Issuance

On October 21, 2011, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $750,000 of additional debt and equity securities in the public market.

On October 25, 2011, November 22, 2011 and December 22, 2011, we issued shares of our common stock in connection with the dividend reinvestment plan of 89,078, 94,213 and 90,677, respectively.

Dividend

On November 7, 2011, we announced the declaration of monthly dividends in the following amounts and with the following dates:

$0.101375 per share for November 2011 to holders of record on November 30, 2011 with a payment date of December 22, 2011;

$0.101400 per share for December 2011 to holders of record on December 30, 2011 with a payment date of January 25, 2012; and

$0.101425 per share for January 2012 to holders of record on January 31, 2012 with a payment date of February 17, 2012.

Investment Holdings

As of December 31, 2011, we continue to pursue our investment strategy and continue to diversify the portfolio. In May 2007, we changed our name to "Prospect Capital Corporation" and terminated our policy to invest at least 80% of our net assets in energy companies. Since that time, we have reduced our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 13% of our investment portfolio.

At December 31 2011, approximately $1,716,603 or 146.4% of our net assets are invested in 75 long-term portfolio investments and 5.2% of our net assets are invested in money market funds.

During the six months ended December 31, 2011, we originated $377,272 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our performing loan portfolio's annualized current yield decreased from 12.3% as of June 30, 2011 to 12.2% as of December 31, 2011 across all long-term debt investments. We

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expect Prospect's current asset yield may continue to decline modestly as we continue to reduce credit risk. Generally, we have seen a decrease in interest rates on loans issued during our fiscal year ended June 30, 2011 and the six months ending December 31, 2011 in comparison to the rates in effect prior to June 30, 2010 as we continue to reduce the risk profile of the portfolio. Monetization of other equity positions that we hold is not included in this yield calculation. In many of our portfolio companies, we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of December 31, 2011, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., C&J Cladding LLC, Energy Solutions, Integrated Contract Services, Inc. ("ICS"), Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), NRG, Nupla Corporation and R-V Industries, Inc. ("R-V"). We also own an affiliated interest in BNN Holdings Corp. f/k/a Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft"), Smart, LLC, and Sport Helmets Holdings, LLC ("Sport Helmets").

The following is a summary of our investment portfolio by level of control at December 31, 2011 and June 30, 2011, respectively:

	December 31, 2011				June 30, 2011			
Level of Control	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	$ 273,496	16.6%	$ 386,552	22.5%	$ 262,301	18.3%	$ 310,072	21.2%
Affiliate	59,488	3.6%	67,872	4.0%	56,833	4.0%	72,337	4.9%
Non-control/Non-affiliate	1,315,227	79.8%	1,262,179	73.5%	1,116,600	77.7%	1,080,601	73.9%
Total Portfolio	$ 1,648,211	100.0%	$ 1,716,603	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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

	December 31, 2011				June 30, 2011			
Type of Investment	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Revolving Line of Credit	$ 1,991	0.1%	$ 2,093	0.1%	$ 7,144	0.5%	$ 7,278	0.5%
Senior Secured Debt	929,526	56.4%	886,130	51.7%	822,582	57.3%	789,981	54.0%
Subordinated Secured Debt	529,715	32.1%	480,700	28.0%	491,188	34.2%	448,675	30.7%
Subordinated Unsecured Debt	70,165	4.3%	70,251	4.1%	54,687	3.8%	55,336	3.8%
CLO Debt	14,334	0.9%	14,334	0.8%		%		%
CLO Residual Interest	42,793	2.6%	39,362	2.3%		%		%
Preferred Stock	31,602	1.9%	22,471	1.3%	31,979	2.2%	25,454	1.7%
Common Stock	19,907	1.2%	179,993	10.5%	19,865	1.4%	116,076	7.9%
Membership Interests	6,017	0.4%	15,303	0.9%	6,128	0.4%	15,392	1.1%
Overriding Royalty Interests		%	2,210	0.1%		%	2,168	0.1%
Warrants	2,161	0.1%	3,756	0.2%	2,161	0.2%	2,650	0.2%
Total Portfolio	$ 1,648,211	100.0%	$ 1,716,603	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

The following is our investments in debt securities presented by type of security at December 31, 2011 and June 30, 2011, respectively:

	December 31, 2011				June 30, 2011			
Level of Control	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	$ 950,276	61.5%	$ 907,781	62.5%	$ 902,031	65.6%	$ 854,975	65.7%
Second Lien	510,956	33.1%	461,142	31.7%	418,883	30.5%	390,959	30.0%
Unsecured	70,165	4.5%	70,251	4.8%	54,687	4.0%	55,336	4.3%
CLO Debt	14,334	0.9%	14,334	1.0%		%		%
Total Debt Securities	$ 1,545,731	100.0%	$ 1,453,508	100.0%	$ 1,375,601	100.0%	$ 1,301,270	100.0%

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

	December 31, 2011				June 30, 2011			
Geographic Location	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Canada	$ 60,127	3.6%	$ 61,915	3.6%	$ 74,239	5.2%	$ 75,207	5.1%
Cayman Islands	57,127	3.5%	53,696	3.1%		%		%
Ireland	14,914	0.9%	15,000	0.9%	14,908	1.0%	15,000	1.0%
Midwest US	423,169	25.7%	375,594	21.9%	358,540	25.0%	340,251	23.4%
Northeast US	274,349	16.6%	286,070	16.7%	242,039	16.9%	234,628	16.0%
Southeast US	276,311	16.8%	254,583	14.8%	234,528	16.3%	208,226	14.2%
Southwest US	200,276	12.2%	333,736	19.4%	189,436	13.2%	266,004	18.2%
Western US	341,938	20.7%	336,009	19.6%	322,044	22.4%	323,694	22.1%
Total Portfolio	$ 1,648,211	100.0%	$ 1,716,603	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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

	December 31, 2011				June 30, 2011			
Industry	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Aerospace and Defense	$ 56	%	$ 32	%	$ 56	%	$ 35	%
Automobile / Auto Finance	56,570	3.4%	56,491	3.3%	41,924	2.9%	42,444	2.9%
Biomass Power(1)		%		%	2,540	0.2%		%
Business Services	6,633	0.4%	6,788	0.4%	6,604	0.5%	6,787	0.5%
Chemicals	56,618	3.4%	56,618	3.3%	25,277	1.8%	25,277	1.7%
Commercial Services	80,652	4.9%	80,652	4.7%	34,625	2.4%	34,625	2.4%
Consumer Services	88,692	5.4%	88,928	5.2%	68,286	4.8%	68,286	4.7%
Contracting	18,199	1.1%	1,106	0.0%	18,220	1.3%	1,767	0.1%
Diversified Financial Services	57,127	3.5%	53,696	3.1%		%		%
Diversified / Conglomerate Service		%	37	0.0%		%		%
Durable Consumer Products	159,556	9.7%	159,197	9.3%	141,779	9.9%	144,362	9.9%
Ecological	141	%	233	%	141	%	194	%
Electronics		%		%	588	%	1,374	0.1%
Energy(1)	63,246	3.8%	153,467	8.9%		%		%
Food Products	136,759	8.3%	133,074	7.8%	144,503	10.1%	146,498	10.0%
Gas Gathering and Processing(1)		%		%	42,003	2.9%	105,406	7.2%
Healthcare	168,059	10.2%	167,448	9.8%	156,396	10.9%	163,657	11.2%
Home and Office Furnishings, Housewares and Durable	1,683	0.1%	5,046	0.3%	1,916	0.1%	6,109	0.4%
Insurance	86,550	5.3%	87,865	5.1%	86,850	6.0%	87,448	6.0%
Machinery	12,091	0.7%	12,714	0.7%	13,179	0.9%	13,171	0.9%
Manufacturing	136,599	8.3%	188,411	11.0%	114,113	7.9%	136,039	9.3%
Media	118,009	7.2%	115,409	6.7%	121,302	8.4%	121,300	8.3%
Metal Services and Minerals	580	%	5,191	0.3%	580	%	4,699	0.3%
Mining, Steel, Iron and Non-Precious Metals and Coal Production(1)		%		%	1,448	0.1%		%
Oil and Gas Equipment Services	7,760	0.5%	7,760	0.5%		%		%
Oil and Gas Production	126,749	7.7%	52,821	3.1%	124,662	8.7%	70,923	4.8%
Oilfield Fabrication		%		%	23,076	1.6%	23,076	1.6%
Personal and Nondurable Consumer Products	54,550	3.3%	62,169	3.6%	15,147	1.1%	23,403	1.6%
Production Services	268	0.0%	2,040	0.1%	14,387	1.0%	15,357	1.0%
Property Management	52,070	3.2%	53,145	3.1%	52,420	3.7%	51,726	3.5%
Retail	63	%	124	0.0%	14,669	1.0%	145	0.0%
Shipping Vessels(1)		%		%	11,303	0.8%	3,079	0.2%
Software & Computer Services	37,897	2.3%	38,000	2.3%	37,890	2.7%	38,000	2.7%
Specialty Minerals	37,732	2.3%	41,955	2.4%	30,169	2.1%	34,327	2.3%
Textiles and Leather	15,183	0.9%	18,613	1.1%	12,931	0.9%	15,632	1.1%
Transportation	68,119	4.1%	67,573	3.9%	76,750	5.3%	77,864	5.3%
Total Portfolio	$ 1,648,211	100.0%	$ 1,716,603	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

(1) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, Inc. ("CCEHI") and Change Clean Energy, Inc. ("CCEI"), Freedom Marine and Yatesville Coal Holdings, Inc. ("Yatesville") was transferred to Energy Solutions to consolidate all of our energy holdings under one management team.

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Portfolio Investment Activity

During the six months ended December 31, 2011, we acquired $336,000 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately $36,943, funded $1,000 of revolver advances, and recorded PIK interest of $3,329, resulting in gross investment originations of $377,272. The more significant of these investments are described briefly in the following:

On July 1, 2011, we made a senior secured follow-on investment of $2,300 in Boxercraft to support the acquisition of Jones & Mitchell, a supplier of college-licensed apparel. The first lien note bears interest in cash at Libor plus 7.50% and has a final maturity on September 16, 2013.

On July 8, 2011, we made a senior secured investment of $39,000 to support the recapitalization of Totes Isotoner Corporation ("Totes"). The second lien note bears interest in cash at the greater of 10.75% or Libor plus 9.25% and has a final maturity on January 8, 2018.

On August 5, 2011 and September 7, 2011, we made senior secured follow-on investments of $3,850 and $11,800, respectively, in ROM Acquisition Corporation to support the acquisitions of Havis Lighting Solutions, a supplier of products primarily used by emergency response and police vehicles, and the acquisition of a leading manufacturer of personal safety products for the transportation and industrial markets. The first lien notes bear interest in cash at the greater of 10.50% or Libor plus 9.50% and has a final maturity on May 8, 2013.

On August 9, 2011, we provided a $15,000 term loan to support the acquisition of Nobel Learning Communities, Inc., a leading national operator of private schools. The unsecured note bears interest in cash at 11.50% and interest in kind of 1.50% and has a final maturity on August 9, 2017.

On August 9, 2011, we made an investment of $32,116 to purchase 66% of the unrated subordinated notes in Babson CLO Ltd 2011-I ("Babson").

On September 16, 2011, we acted as the facility agent and lead lender of a syndication of lenders that collectively provided $132,000 in senior secured financing to support the financing of Capstone Logistics, LLC ("Capstone"), a leading logistics company. This company provides a broad array of logistics services to a diverse group of blue chip customers in the grocery, food service, retail, and specialty automotive industries. As of December 31, 2011 our investment is $75,652 structured as $34,027 of Term Loan A and $41,625 of Term Loan B first lien notes. After the financing, we received repayment of the loan that was outstanding for Progressive Logistics Services, LLC ("PLS"). The Term Loan A notes bear interest in cash at the greater of 7.50% or Libor plus 5.50% and has a final maturity on September 16, 2016. The Term Loan B notes bear interest in cash at the greater of 13.50% or Libor plus 11.50% and has a final maturity on September 16, 2016.

On September 30, 2011, we provided a $23,000 senior secured loan to support the recapitalization of Anchor Hocking, LLC ("Anchor Hocking"), a leading designer, manufacturer, and marketer of high quality glass products for the retail, food service, and OEM channels. The second lien note bears interest in cash at the greater of 10.50% or Libor plus 9.00% and has a final maturity on September 27, 2016.

On October 13, 2011 and October 19, 2011, we made investments of $9,319 and $1,358, respectively, to purchase 32.9% of the unrated subordinated notes to Apidos.

On October 24, 2011, we made a senior secured investment of $6,000 in Renaissance, a leading provider of technology based school improvement and student assessment programs. The second lien loan bears interest in cash at the greater of 12.0% or Libor plus 10.50% and has a final maturity on October 19, 2018.

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On October 28, 2011, we made a follow-on investment of $8,200 in Empire. The follow-on first lien note bears interest in cash at 11.375% and has a final maturity on February 1, 2017.

On November 4, 2011, we made a secured second lien investment of $15,000 to support the acquisition of IWP, a specialty pharmacy services company, in a private equity backed transaction. The secured loan bears interest in cash at the greater of 12.0% or Libor plus 7.50% and has a final maturity on November 4, 2017.

On December 2, 2011, we made a secured second-lien follow-on investment of $7,500 to American Gilsonite for a dividend recapitalization. After the financing, we received a $1,383 dividend as a result of our equity holdings in American Gilsonite. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 2.5% and has a final maturity on March 10, 2016.

On December 22, 2011, we made a secured first lien investment of $31,083 to VanDeMark, a specialty chemical manufacturer. The secured loan bears interest in cash at the greater of 12.2% or Libor plus 10.2% and has a final maturity on December 31, 2014.

On December 22, 2011, we made an investment of $17,900 to purchase 13.2% of the secured Class D Notes and 86.0% of the unsecured Class E Notes in CIFC. The $2,500 secured Class D Notes bear interest in cash at Libor plus 5.0% and has a final maturity date on January 19, 2023. The $15,400 unsecured Class E Notes bear interest in cash at Libor plus 7.0% and has a final maturity on January 19, 2023.

On December 28, 2011, we made a secured first-lien follow-on investment of $4,750 in Energy Solutions in order to facilitate the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine. We invested $1,250 of equity in Energy Solutions and $3,500 of debt to Vessel Holdings LLC. The first lien note bears interest in cash at 18.0% and has a final maturity of December 12, 2016.

On December 28, 2011, we made a secured debt investment of $10,000 to support the acquisition of Hoffmaster. After the financing we received a repayment of the loan that was previously outstanding. The $10,000 second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.50% and has a final maturity date of January 3, 2019.

On December 28, 2011, we made a secured debt investment of $37,218 to support the recapitalization of NRG. After the financing, we received repayment of the $13,080 loan that was previously outstanding and a dividend of $6,711 as a result of our equity holdings. In addition, we sold 392 shares of NRG common stock for $13,266, realizing a gain of $12,131. Our remaining 408 shares of NRG common stock held by us back to NRG were sold on February 2, 2012. (See *Recent Developments*.) The secured first lien note bears interest at 15.0% and has a final maturity on December 27, 2016.

On December 30, 2011, we provided $8,000 of senior secured debt to Hi-Tech, a provider of non-destructive testing services to detect leaks and other defects in pipes, vessels, and related equipment for the oil and gas pipeline, chemical and paper and pulp industries. The secured note bears interest in cash at 11.0% and has a final maturity of September 26, 2016.

During the six months ended December 31, 2011, we closed-out four positions which are briefly described below.

On October 31, 2011, IEC/ARS repaid the $20,909 loan receivable to us.

On November 21, 2011, we received an equity distribution from the sale of our shares of Fairchild common and preferred stock, realizing $1,549 of gross proceeds and a total gain of $960 on settlement of the investment.

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On December 29, 2011, Iron Horse repaid the $11,338 loan receivable to us.

On December 30, 2011, we exited our investment in Mac & Massey and received $10,239 for repayment of the $9,323 loan receivable to us and monetization of our equity position, resulting in a realized gain of $820. We recognized $694 of accelerated purchase discount accretion in the quarter ended December 31, 2011.

In addition to the repayments noted above, during the six months ended December 31, 2011 we received principal amortization payments of $12,520 on several loans, and $17,291 of partial prepayments related to Aircraft Fasteners International, LLC ("AFI"), Anchor Hocking, Cargo Airport Services USA, LLC, Iron Horse, LHC Holdings Corp. ("LHC"), NMMB and Pinnacle Treatment Centers, Inc.

During the six months ended December 31, 2010, we also received principal amortization payments of $8,932 on several loans, and $10,290 of partial prepayments related to AIRMALL, AFI, Ajax, EXL Acquisition Corporation, Fischbein, LLC ("Fischbein"), Iron Horse, LHC and Progrexion Holdings, Inc ("Progrexion").

During the three and six months ended December 31, 2011, we recognized $1,548 and $2,385 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. Included in the $1,548 recorded during the three months ended December 31, 2011 is $854 of normal accretion and $694 of accelerated accretion resulting from the repayment of Mac & Massey. Included in the $2,385 recorded during the six months ended December 31, 2011 is $1,691 of normal accretion and $694 of accelerated accretion resulting from the repayment of Mac & Massey.

During the three and six months ended December 31, 2010, we recognized $1,305 and $5,353, respectively, of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the $5,353 for the six months ended December 31, 2010, is $1,116 of accelerated accretion resulting from the repayment of Impact Products, LLC. We also recapitalized our debt investment in Northwestern Management Services, LLC. The $20,000 loan was issued at market terms comparable to other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loan was recorded at par value, which precipitated the acceleration of $1,612 of original purchase discount from the loan repayment which was recognized as interest income. There was no accelerated accretion recorded during the quarter ended December 31, 2010.

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

Quarter-End	Acquisitions(1)	Dispositions(2)
December 31, 2011	$ 154,697	$ 120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	62,367
March 31, 2011	359,152	76,494
December 31, 2010	140,933	62,915
September 30, 2010	140,951	67,621
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	$ 2,505,926	$ 806,521

(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.

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Investment Valuation

In determining the fair value of our portfolio investments at December 31, 2011 the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of $1,659,592 to $1,825,520, excluding money market investments.

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

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of $1,716,603, excluding money market investments.

Our portfolio companies are generally 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.

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

Ajax Rolled Ring & Machine, Inc.

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded $22,000 of senior secured term debt, $11,500 of subordinated term debt and $6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional $3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid $3,461 of this secured subordinated debt during the quarter ended September 30, 2010. As of December 31, 2011, we control 77.68% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was $20,387 and new debt was $15,035 as of December 31, 2011.

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 rebound in 2010 and 2011 following the decline in 2009 due to the global macroeconomic crisis. Ajax's EBITDA has experienced a 133% and 82% year-over-year improvement in 2010 and 2011, respectively.

The Board of Directors increased the fair value of our investment in Ajax to $40,428 as of December 31, 2011, a reduction of $1,051 from its amortized cost, compared to the $7,822 unrealized depreciation recorded at June 30, 2011.

*Energy Solutions Holdings In*c. *(f/k/a Gas Solutions Holdings, Inc.)*

Gas Solutions Holdings, Inc. ("Gas Solutions") is an investment that we completed in September 2004 in which we own 100% of the equity. Gas Solutions is a midstream gathering and

processing business located in east Texas. We have provided additional capital for growth initiatives, acquisitions and other capital needs subsequent to our initial investment.

In December 2011, we completed a reorganization of Gas Solutions renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry with the intent of strategically expanding Energy Solutions operations across energy sectors. As part of the reorganization, we transferred our equity interests in CCEHI, CCEI, Freedom Marine and Yatesville to Energy Solutions. On December 28, 2011, we made a follow-on investment of $4,750 to support the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine.

On January 4, 2012, Energy Solutions sold Gas Solutions, its gas gathering and processing assets, for a sale price of $200,502, including a potential earnout of $28,000 that will be paid based on the future performance of Gas Solutions. (See *Recent Developments*.) Our loans to and investment in Energy Solutions remain outstanding as Energy Solutions and will continue as a portfolio company of Prospect managing other energy-related subsidiaries. The cash balances of Energy Solutions continue to collateralize our loan positions.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be $153,467 for our debt and equity positions at December 31, 2011 based upon a combination of an asset purchase analysis for Gas Solutions and a liquidation analysis for our interests in Freedom Marine. At December 31, 2011 and June 30, 2011, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at $90,221 and $51,491 above its amortized cost, respectively.

Integrated Contract Services, Inc.

ICS is an investment that we entered into 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. THS provides outsourced medical staffing and security staffing services to governmental and commercial enterprises. In November 2009, THS was informed that the U.S. Air Force would not exercise its option to renew its contract. THS continues to solicit new contracts to replace the revenue lost when the Air Force contract ended. As part of its strategy to recovery from the loss of the Air Force contract, in 2010 THS started a new business, Vets Securing America, Inc. ("VSA"), to provide out-sourced security guards staffed primarily using retired military veterans. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of $1,708 and $874, respectively, to support the ongoing operations of THS and VSA. In October 2011, we sold a building acquired from ESA for $894. The proceeds were used to reduce the outstanding loan balance due to us.

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Based upon an analysis of the liquidation value of the ESA assets and the enterprise value of THS/VSA, our Board of Directors determined the fair value of our investment in ICS to be $1,106 at December 31, 2011, a reduction of $17,093 from its amortized cost, compared to the $16,453 unrealized loss recorded at June 30, 2011.

Manx Energy, Inc.

On January 19, 2010, we modified the terms of our senior secured debt in Appalachian Energy Holdings LLC ("AEH") and Coalbed LLC ("Coalbed") in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were combined under new common management. We funded $2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of $750 in Manx to support ongoing operations.

The Board of Directors decreased the fair value of our investment in Manx to $436 as of December 31, 2011, a reduction of $18,583 from its amortized cost, compared to the $17,707 unrealized loss recorded at June 30, 2011.

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. Two of our portfolio companies have experienced such volatility due to improved operating results Energy Solutions and NRG. As a result of improved operations and the resulting significant increase in valuation during the six months ended December 31, 2011, Energy Solutions sold its equity interests in the underlying Gas Solutions entities and we exited our investment in NRG in February 2012. (See *Recent Developments*.) The pending sale prices assisted in the determination of fair value for our equity interests as of December 31, 2011. The value of our equity position in Energy Solutions, including our equity positions in the underlying portfolio companies affected by the reorganization, has increased to $109,536 as of December 31, 2011, a premium of $100,743 to its cost, compared to the $60,863 unrealized gain recorded at June 30, 2011. The value of our equity position in NRG has increased to $50,257 as of December 31, 2011, a premium of $49,077 to its cost, compared to the $30,086 unrealized gain recorded at June 30, 2011. Two other portfolio companies with equity investments also experienced volatility due to improved operating results and experienced meaningful increases in valuation during the six months ended December 31, 2011 Ajax and R-V. The valuation of Ajax increased due to improved operating results and emergent customer base. R-V experienced improved operating results. The value of our equity position in Ajax has increased to $5,006 as of December 31, 2011, a discount of $1,051 to its cost, compared to the $6,057 unrealized loss recorded at June 30, 2011. The value of our equity position in R-V has increased to $12,806 as of December 31, 2011, a premium of $6,037 to its cost, compared to the $1,348 unrealized gain recorded at June 30, 2011. Five of the other controlled investments have been valued at discounts to the original investment. Seven of the control investments are valued at premiums to the original investment amounts. Overall, at December 31, 2011, the control investments are valued at $113,056 above their amortized cost.

We hold four affiliate investments at December 31, 2011. The affiliate investments reported strong operating results with valuations remaining relatively consistent from June 30, 2011. Our equity investment in Biotronic experienced the most meaningful decrease in valuation as prior to June 30, 2011 we anticipated that the company would be sold at a substantial premium to our cost basis. This sales process was discontinued during the six months ended December 31, 2011 as the buyer and Biotronic could not agree to terms acceptable to each party. The value of our equity position in Biotronic has decreased to $388 as of December 31, 2011, a discount of $2,491 to its amortized cost, compared to the $4,127 unrealized gain recorded at June 30, 2011. The other three affiliate investments

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are valued at amortized cost or higher. Overall, at December 31, 2011, affiliate investments are valued $8,384 above their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. The exception to this categorization relates to investments which were acquired in the Patriot Acquisition, many of which were acquired at significant discounts to par value, and any changes in operating results or interest rates can have a significant effect on the value of such investments. During the six months ended December 31, 2011, our investment in Stryker experienced the most meaningful decrease in valuation due to declining operating results and a reduction in current natural gas prices. The value of our investment in Stryker Energy, LLC ("Stryker") has decreased to $7,662 as of December 31, 2011, a discount of $25,049 to its amortized cost, compared to the $6,706 unrealized loss recorded at June 30, 2011. The decrease was due primarily to a drop in natural gas prices during the quarter ended December 31, 2011 and continuing to January 2012. Our other Non-control/Non-affiliate investments did not experience significant changes in operations. A few portfolio companies experienced decreases in valuations due to the general economic decline and increased market rates for middle market loans ICON Health & Fitness, Inc. and New Meatco Provisions, LLC. The remaining investments did not experience significant changes in valuation. Overall, at December 31, 2011, Non-control/Non-affiliate investments are valued $53,048 below their amortized cost.

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, Senior Convertible Notes, which we issued in December 2010 and February 2011 and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility and Senior Convertible Notes amounts and outstanding borrowings at December 31, 2011 and June 30, 2011:

	As of December 31, 2011		As of June 30, 2011	
	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Revolving Credit Facility	$ 400,000	$ 252,000	$ 325,000	$ 84,200
Senior Convertible Notes	$ 322,500	$ 322,500	$ 322,500	$ 322,500

The following table shows the contractual maturity of our Revolving Credit Facility and Senior Convertible Notes at December 31, 2011:

	Payments Due By Period		
	Less Than 1 Year	1 - 3 Years	More Than 3 Years
Revolving Credit Facility	$	$ 252,000	$
Senior Convertible Notes	$	$	$ 322,500

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities and preferred stock, or issuances of common equity. For flexibility, we maintain a universal shelf

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registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock and warrants to purchase such securities in an amount up to $750,000. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

Revolving Credit Facility

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

On June 11, 2010, we closed an extension and expansion of our revolving credit facility with a syndicate of lenders (the "Syndicated Facility") through PCF. The lenders have extended current commitments of $400,000 under the Syndicated Facility. As additional investments that are eligible, transferred to PCF and pledged under the Syndicated Facility, PCF will generate additional availability up to the $400,000 commitment limit. The revolving period of the Syndicated Facility extends through June 2012, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due if required by the lenders.

As of December 31, 2011 and June 30, 2011, PCF had the ability to borrow up to $371,378 and $255,673, respectively, under its Syndicated Facility based on the assets pledged as collateral at that time, of which $252,000 and $84,200 was drawn, respectively. The Syndicated Facility requires us to transfer investments to PCF and pledge assets as collateral in order to borrow under the credit facility. At December 31, 2011, the investments used as collateral for the Syndicated Facility had an aggregate market value of $966,553, which represents 82.4% of net assets. These assets have been sold to Prospect Capital Funding, LLC, a bankruptcy remote entity, which owns the assets and as such, these assets are not available to the general creditors of us. PCF, our wholly-owned subsidiary, holds $857,017 of these investments at market value as of December 31, 2011. The release of any assets from PCF requires the approval of Rabobank as facility agent.

The Syndicated Facility bears interest at one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. The maintenance of this facility requires us to pay a fee for the amount not drawn upon. The lenders charge a fee on the unused portion of the credit facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

Senior Convertible Notes

On December 21, 2010, we issued $150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds following underwriting expenses of approximately $145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at December 31, 2011 of 88.0902 and 88.1056 shares of common stock, respectively, per $1,000 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately $11.35 per share of common stock, subject to adjustment in certain

circumstances. The conversion rate for the 2015 Notes will be increased if monthly cash dividends paid to common shares exceed the rate of $0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued $172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately $167,325. Interest on the 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at December 31, 2011 of 78.3699 and 78.3814 shares, respectively, of common stock per $1,000 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately $12.76 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2016 Notes will be increased when monthly cash dividends paid to common shares exceed the rate of $0.101150 per share.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per $1,000 principal amount of the 2015 Notes (the "conversion rate cap"), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the "Guidance") permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

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

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the Notes surrendered for conversion representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the 2015 Notes and 2016 Notes (collectively, "Senior Convertible Notes").

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

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

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In connection with the issuance of the Senior Convertible Notes, we incurred $10,562 of fees which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments,* of which $8,883 remains to be amortized at December 31, 2011.

During the three and six months ended December 31, 2011, we recorded $9,759 and $18,719 of interest costs and amortization of financing costs as interest expense, respectively.

Net Asset Value

During the six months ended December 31, 2011, we raised $14,895 of additional equity, net of offering costs, by issuing 1,500,000 shares of our common stock. The following table shows the calculation of net asset value per share as of December 31, 2011 and June 30, 2011:

	As of December 31, 2011	As of June 30, 2011
Net Assets	$ 1,172,484	$ 1,114,357
Shares of common stock outstanding	109,691,051	107,606,690
Net asset value per share	$ 10.69	$ 10.36

At December 31, 2011, we had 109,691,051 of our common stock issued and outstanding.

Results of Operations

Net increase in net assets resulting from operations for the three months ended December 31, 2011 and 2010 was $64,492 and $31,940, respectively, representing $0.59 and $0.38 per weighted average share, respectively. During the three months ended December 31, 2011, we experienced net unrealized and realized gains of $27,984 or approximately $0.26 per weighted average share primarily from significant write-ups of our investments in Energy Solutions and NRG, and our sale of NRG common stock for which we realized a gain of $12,131. These instances of appreciation were partially offset by unrealized depreciation in Babson, Biotronic, NMMB and Stryker. Net investment income increased on a weighted average per share basis from $0.23 to $0.33 for the three months ended December 31, 2010 and 2011, respectively. This increase is primarily due to an increase in dividend income received from Energy Solutions and NRG. During the three months ended December 31, 2010, we experienced net unrealized and realized gains of $12,860 or approximately $0.15 per weighted average share primarily from significant write-ups of our investments in Biotronic, Fischbein, Iron Horse, Maverick Healthcare, LLC ("Maverick"), NRG and R-V, and our sale of Miller Petroleum, Inc. ("Miller") common stock, for which we realized a gain of $5,415. These instances of appreciation were partially offset by unrealized depreciation in H&M, ICS, Stryker and Wind River.

Net increase in net assets resulting from operations for the six months ended December 31, 2011 and 2010 was $104,392 and $57,520, respectively, representing $0.96 and $0.73 per weighted average share, respectively. During the six months ended December 31, 2011, we experienced net unrealized and realized gains of $40,007 or approximately $0.37 per weighted average share primarily from significant write-ups of our investments in Ajax, Energy Solutions, NRG and R-V, and our sale of NRG common stock for which we realized a gain of $12,131. These instances of unrealized appreciation were partially offset by unrealized depreciation in Biotronic and Stryker, and the impairment of Deb Shops due to bankruptcy for which we recorded a realized loss for the full amount of the amortized cost. Net investment income increased on a weighted average per share basis from $0.51 to $0.59 for the six months ended December 31, 2010 and 2011, respectively. This increase is primarily due to an increase in dividend income received from Energy Solutions and NRG. This increase is partially offset by a decline in our annualized current yield on portfolio investments. During the six months ended December 31, 2010, we experienced net unrealized and realized gains of $17,445 or approximately $0.22 per weighted average share primarily from significant write-ups of our investments in AIRMALL, Ajax, The Copernicus Group, Inc., Fischbein, Iron Horse and Maverick, and our sale of Miller common

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stock for which we realized a gain of $5,415. These instances of unrealized appreciation were partially offset by unrealized depreciation in H&M, ICS, NRG, Stryker and Wind River.

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was $67,293 and $33,300 for the three months ended December 31, 2011 and December 31, 2010, respectively. Investment income was $122,605 and $68,512 for the six months ended, December 31, 2011 and December 31, 2010, respectively. During the three and six months ended December 31, 2011, the increase in investment income is primarily the result of a larger income producing portfolio and the deployment of additional capital in revenue-producing assets through increased origination and increased dividends received from Energy Solutions and NRG. The following table describes the various components of investment income and the related levels of debt investments:

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2011	2010	2011	2010
Interest income	$ 45,528	$ 27,362	$ 87,415	$ 56,283
Dividend income	19,637	3,371	27,187	5,565
Other income	2,098	2,567	8,003	6,664
Total investment income	$ 67,263	$ 33,300	$ 122,605	$ 68,512
Average debt principal of performing investments	$ 1,376,917	$ 734,204	$ 1,346,000	$ 729,744
Weighted-average interest rate earned	13.23%	14.91%	12.99%	15.43%

Average interest income producing assets have increased from $734,204 for the three months ended December 31, 2010 to $1,376,917 for the three months ended December 31, 2011. The average yield on interest bearing assets decreased from 14.91% for the three months ended December 31, 2010 to 13.23% for the three months ended December 31, 2011. Average interest income producing assets have increased from $729,744 for the six months ended December 31, 2010 to $1,346,000 for the six months ended December 31, 2011. The average yield on interest bearing assets decreased from 15.43%

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for the six months ended December 31, 2010 to 12.99% for the six months ended December 31, 2011. The decrease in annual returns is primarily the result of accretion on the assets acquired from Patriot on which we recognized $5,960 and $2,575 during the six months ended December 31, 2011 and December 31, 2010, respectively. Without these adjustments, the weighted average interest rates earned on debt investments would have been 12.61% and 13.79% for the six months ended December 31, 2011 and 2010, respectively. Generally, we have seen a decrease in interest rates on loans issued during our fiscal year 2011 and the three and six months ending December 31, 2011 in comparison to the rates in effect prior to December 30, 2010 as we continue to reduce the risk profile of the portfolio. The average yield on interest bearing assets increased from 12.76% for the three months ended September 30, 2011 to 13.23% for the three months ended December 31, 2011. The increase is the result of $694 of accelerated accretion resulting from the repayment of Mac & Massey. Without this adjustment, the weighted average interest rates earned on debt investments would have been 12.76% for three months ended September 30, 2011 and 13.02% for the three months ended December 31, 2011.

Investment income is also generated from dividends and other income. Dividend income increased from $3,371 for the three months ended December 31, 2010 to $19,637 for the three months ended December 31, 2011. Dividend income increased from $5,565 for the six months ended December 31, 2010 to $27,187 for the six months ended December 31, 2011. The increase in dividend income is primarily attributed to an increase in the level of dividends received during the respective three and six month periods from our investments in Energy Solutions and NRG due to increased profits generated by the portfolio companies. We received dividends from Energy Solutions of $10,800 and $2,100 during the three months ended December 31, 2011 and 2010, respectively. We received dividends from Energy Solutions of $14,300 and $3,850 during the six months ended December 31, 2011 and 2010, respectively. We received dividends from NRG of $6,711 and $200 during the three months ended December 31, 2011 and 2010, respectively. We received dividends from NRG of $9,911 and $200 during the six months ended December 31, 2011 and 2010, respectively.

Other income is generated primarily from structuring fees. Comparing the six months ended December 31, 2010 to the six months ended December 31, 2011, income from other sources increased from $6,664 to $8,003. This $1,339 increase is primarily due to $7,356 of structuring fees recognized during the six months ended December 31, 2011 primarily from the Capstone, Totes and VanDeMark originations, in comparison to $5,675 of structuring fees recognized during the six months ended December 31, 2010 primarily related to AIRMALL, American Gilsonite, JHH Holdings, Inc., Progrexion, Royal, Snacks Holding Corporation, and VPSI.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate our Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions in accordance with our Administration Agreement with Prospect Administration. Operating expenses were $30,755 and $14,220 for the three months ended December 31, 2011 and December 31, 2010, respectively. Operating expenses were $58,220 and $28,437 for the six months ended December 31, 2011 and December 31, 2010, respectively.

The base investment advisory expenses were $8,825 and $4,903 for the three months ended December 31, 2011 and December 31, 2010, respectively. The base investment advisory expenses were $17,036 and $9,179 for the six months ended December 31, 2011 and December 31, 2010, respectively. This increase is directly related to our growth in total assets. For the three months ended

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December 31, 2011 and December 31, 2010, we incurred $9,127 and $4,769, respectively, of income incentive fees. For the six months ended December 31, 2011 and December 31, 2010, we incurred $16,096 and $10,018, respectively, of income incentive fees. The $4,358 and $6,078 increase in the income incentive fee for the respective three-month and six-month periods are driven by an increase in pre-incentive fee net investment income of $21,786 and $30,388 for the respective three-month and six-month periods primarily due to an increase in interest income from a larger asset base and increased dividend income generated by our investments in Energy Solutions and NRG. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three and six months ended December 31, 2011, we incurred $9,759 and $18,719, respectively, of expenses related to our Syndicated Facility and Senior Convertible Notes. This compares with expenses of $2,261 and $4,522 incurred during the three and six months ended December 31, 2010, respectively. These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken during those quarters. The table below describes the various expenses of our Syndicated Facility and Senior Convertible Notes and the related indicators of leveraging capacity and indebtedness during these periods.

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
Interest on borrowings	$ 7,029	$ 512	$ 13,248	$ 1,461
Amortization of deferred financing costs	2,406	1,144	4,494	2,134
Commitment and other fees	324	605	977	927
Total	$ 9,759	$ 2,261	$ 18,719	$ 4,522
Weighted-average debt outstanding	$ 547,558	$ 41,139	$ 496,998	$ 64,249
Weighted-average interest rate on borrowings	5.02%	4.87%	5.22%	4.45%
Facility amount at beginning of period	$ 400,000	$ 240,000	$ 325,000	$ 210,000

The increase in interest expense for the three and six months ended December 31, 2011 is primarily due to the issuance of Senior Convertible Notes on December 21, 2010 and February 18, 2011 for which we incurred $4,585 and $9,458 of interest expense, respectively.

As our asset base has grown and we have added complexity to our capital raising activities, 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 increased staffing levels along with costs passed through. The allocation of overhead expense from Prospect Administration was $1,117 and $840 for the three months ended December 31, 2011 and 2010. The allocation of overhead expense from Prospect Administration was $2,233 and $1,640 for the six months ended December 31, 2011 and 2010. 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. Other allocated expenses from Prospect Administration will continue to increase along with the increase in staffing and asset base.

Total operating expenses, net of investment advisory fees and interest costs ("Other Operating Expenses"), were $3,044 and $2,287 for the three months ended December 31, 2011 and 2010, respectively. Other Operating Expenses were $6,369 and $4,718 for the six months ended December 31, 2011 and 2010, respectively. The $1,651 increase in Other Operating Expenses for the respective six-month period is primarily due to increased size of our portfolio, for which we have incurred higher costs for legal and valuation services and administrative expenses.

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Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Our net investment income ("NII") was $36,508 and $19,080 for the three months ended December 31, 2011 and December 31, 2010, respectively, or $0.33 per share and $0.23 per share, respectively. The $17,428 increase for the three months ended December 31, 2011 is primarily due to increases of $18,166 and $16,266 in interest income and dividend income, respectively, due to the increased size of our portfolio for which we have recognized additional interest income and an increased level of dividends received primarily from our investments in Energy Solutions and NRG. The $33,963 increase in investment income is offset by an increase in operating expenses of $16,535, primarily due to a $8,280 increase in advisory fees due to the growing size of our portfolio and related income, and $7,498 of additional interest and credit facility expenses.

Our NII was $64,385 and $40,075 for the six months ended December 31, 2011 and December 31, 2010, respectively, or $0.59 per share and $0.51 per share, respectively. The $24,310 increase for the six months ended December 31, 2011 is primarily due to increases of $31,132 and $21,622 in interest income and dividend income, respectively, due to the increased size of our portfolio for which we have recognized additional interest income and an increased level of dividends received primarily from our investments in GSHI and NRG. The $54,093 increase in investment income is offset by an increase in operating expenses of $29,783, primarily due to a $13,935 increase in advisory fees due to the growing size of our portfolio and related income, and $14,197 of additional interest and credit facility expenses. We anticipate NII per share will continue to increase as we utilize prudent term leverage to finance our growth.

Net Realized Gain (Loss), Increase in Net Assets from Net Changes in Unrealized Appreciation

Net realized gain was $13,498 and $4,489 for the three months ended December 31, 2011 and December 31, 2010, respectively. Net realized (loss) gain was ($1,109) and $5,016 for the six months ended December 31, 2011 and December 31, 2010, respectively. The net realized gain for the three months ended December 31, 2011 was due primarily to the sale of NRG common stock for which we realized a gain of $12,131. For the six months ended December 31, 2011 this gain was offset by our impairment of Deb Shops. During the six months ended December 31, 2011, Deb Shops filed for bankruptcy and a plan for reorganization was proposed. The plan, which is expected to be approved by the bankruptcy court, will eliminate our debt position with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of $14,607 for the full amount of the amortized cost. The net realized gain for the three and six months ended December 31, 2010 was due primarily to the sale of our common stock in Miller.

Net increase in net assets from changes in unrealized appreciation was $14,486 and $8,371 for the three months ended December 31, 2011 and December 31, 2010, respectively. For the three months ended December 31, 2011, the $14,486 increase in net assets from the net change in unrealized appreciation was driven by significant write-ups of our investments in Energy Solutions and NRG. These instances of appreciation were partially offset by unrealized depreciation in Babson, Biotronic, NMMB and Stryker. For the three months ended December 31, 2010, the $8,371 increase in net assets from the net change in unrealized appreciation was driven by significant write-ups of our investments in Biotronic, Fischbein, Iron Horse, Maverick, Miller, NRG and R-V. These instances of unrealized appreciation were partially offset by unrealized depreciation in H&M, ICS, Stryker and Wind River.

Net increase in net assets from changes in unrealized appreciation was $41,116 and $12,429 for the six months ended December 31, 2011 and December 31, 2010, respectively. For the six months ended December 31, 2011, the $41,116 increase in net assets from the net change in unrealized appreciation was driven by significant write-ups of our investments in Ajax, Energy Solutions, NRG and R-V. These instances of unrealized appreciation were partially offset by unrealized depreciation in Biotronic and

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Stryker. For the six months ended December 31, 2010, the $12,429 increase in net assets from the net change in unrealized appreciation was driven by significant write-ups of our investments in Airmall, Ajax, Copernicus, Fischbein, Iron Horse, Maverick and Miller. These instances of unrealized appreciation were partially offset by unrealized depreciation in H&M, ICS, NRG, Stryker and Wind River.

Financial Condition, Liquidity and Capital Resources

For the six months ended December 31, 2011 and December 31, 2010, our operating activities used $119,765 and $176,337 of cash, respectively. Financing activities provided $120,134 and $179,275 of cash during the six months ended December 31, 2011 and December 31, 2010, respectively, which included the payments of dividends of $60,932 and $41,483, during the six months ended December 31, 2011 and December 31, 2010, respectively.

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

Our primary sources of funds have been issuances of debt and equity. 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. During the six months ended December 31, 2011, we borrowed $442,300 and made repayments totaling $274,500 under our revolving credit facility. As of December 31, 2011, we had $252,000 outstanding borrowings on our revolving credit facility and $322,500 outstanding on our Senior Convertible notes (See Note 5 to our consolidated financial statements).

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of December 31, 2011 and June 30, 2011, we have $33,890 and $35,822 of undrawn revolver commitments to our portfolio companies, respectively.

On October 21, 2011, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $750,000 of additional equity securities.

We also continue to generate liquidity through public and private stock offerings.

On July 18, 2011, we issued 1,500,000 shares in connection with the exercise of an overallotment option granted with the June 21, 2011 offering of 10,000,000 shares which were delivered June 24, 2011, raising an additional $15,225 of gross proceeds and $14,895 of net proceeds.

Off-Balance Sheet Arrangements

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

Recent Developments

On January 4, 2012, Energy Solutions sold Gas Solutions, its gas gathering and processing assets, for a sale price of $200,502, including a potential earnout of $28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of $9,966 paid to us, Energy Solutions received approximately $148,687 in cash and an additional $10,000 is being held in escrow. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions as a result of the sale transaction. The accounting for the sale of Gas

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Solutions has yet to be finalized, but will not result in any dividend income or realized gain recognition by us until cash payments are received from Energy Solutions.

On January 9, 2012, Arrowhead General Insurance Agency, Inc. repaid the $27,000 loan receivable to us.

On January 12, 2012, we made a follow-on investment of $16,500 to purchase 86.8% of the Class D Notes in CIFC Funding 2011-I, Ltd.

On January 17, 2012, we provided $18,332 of secured second-lien financing to a financial services processing company purchased by a leading private equity sponsor.

On January 25, 2012, we issued 85,252 shares of our common stock in connection with the dividend reinvestment plan.

On January 31, 2012, Aircraft Fasteners International, LLC repaid the $7,441 loan receivable to us.

On February 2, 2012, NRG was sold to an outside buyer for $123,258. In conjunction with the sale, the $37,218 loan that was outstanding was repaid. We also received a $26,936 make-whole fee for early repayment of the outstanding loan, which will be recorded as interest income in the quarter ending March 31, 2012. Further, we received a $3,800 advisory fee for the transaction, which will be recorded as other income in the quarter ending March 31, 2012. After expenses, including the make whole and advisory fees discussed above, $40,886 was available to be distributed to stockholders. While our 408 shares of NRG common stock represented 67.1% of the ownership, we only received net proceeds of $25,991 as our contribution to the escrow amount was proportionately higher than the other shareholders. In connection with the sales, we will recognize a realized gain of $24,810 in the results for the quarter ended March 31, 2012. In total, we received proceeds of $93,977 at closing. In addition, there is $11,125 being held in escrow of which 80% is due to us upon release of the escrowed amounts. This will be recognized as additional gain when and if received.

Between January 30, 2012 and February 2, 2012, we repurchased $5,000 of our August 2016 convertible bonds at a price of 97.5, including commissions. The transactions will result in our recognizing $10 of loss in the quarter ended March 31, 2012.

On February 6, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

$0.101450 per share for February 2012 to holders of record on February 29, 2012 with a payment date of March 23, 2012;

$0.101475 per share for March 2012 to holders of record on March 30, 2012 with a payment date of April 20, 2012; and

$0.101500 per share for April 2012 to holders of record on April 30, 2012 with a payment date of May 24, 2012.

On February 15, 2012, we provided $25 million of secured second-lien financing to a leading provider of Web security and wide area network (WAN) optimization solutions.

On February 17, 2012, we issued 69,864 shares of our common stock, in connection with the dividend reinvestment plan.

Critical Accounting Policies and Estimates

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

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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 December 31, 2011 and June 30, 2011 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.

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Effective July 1, 2008, we adopted the Financial Accounting Standards Board ("FASB") 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.

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.

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 did not have any effect on our net asset value, financial position or results of operations for the three and six months ended December 31, 2011, as there was no change to the fair value measurement principles set forth in ASC 820.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASC 2010-06"). ASC 2010-06 amends ASC 820-10 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers' disclosures about postretirement benefit plan assets. ASC 2010-06 is effective December 15, 2009, except for the disclosure about purchase, sales, issuances and settlements in the roll forward of activity in level 3 fair value measurements. The adoption of ASC 2010-06 for the three and six months ended December 31, 2011, did not have any 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 at least 98% of our annual income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceeds the distributions

from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

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

We 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 December 31, 2011 and for the three and six 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.

Valuation of Other Financial Assets and Financial Liabilities

In February 2007, FASB issued ASC Subtopic 820-10-05-1, *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 820-10-05-1"). ASC 820-10-05-1 permits an entity to elect fair value as the initial and subsequent measurement attribute for many of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. We adopted this statement on July 1, 2008 and have elected not to value other assets and liabilities at fair value as would be permitted by ASC 820-10-05-1.

Senior Convertible Notes

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

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Revenue Recognition

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. ("Patriot") was determined based on the difference between par value and fair market value as of December 2, 2009, and will continue to accrete until maturity or repayment of the respective loans.

Dividend income is recorded on the ex-dividend date.

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

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

Dividends and Distributions

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

Financing Costs

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

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

Guarantees and Indemnification Agreements

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

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Per Share Information

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

Recent Accounting Pronouncements

In February 2011, the FASB issued Accounting Standards Update 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* ("ASU 2011-02"). ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 provides guidance to clarify whether the creditor has granted a concession and whether a debtor is experiencing financial difficulties. The adoption of ASC 2010-06 for the three and six months ended December 31, 2011, did not have any effect on our financial statements.

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

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. Some of the loans in our portfolio have floating interest rates.

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 higher interest rates with respect to our portfolio of investments. During the three months ended December 31, 2011, we did not engage in hedging activities.

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USE OF PROCEEDS

The net proceeds from the sale of 12,000,000 shares of our common stock in this offering will be $ (or $ if the option to purchase additional shares is exercised in full) after deducting offering expenses of approximately $300,000 payable by us.

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

As of February 21, 2012, we had $172.0 million outstanding under our credit facility and, based on the assets currently pledged as collateral on the facility, an additional approximately $214.8 million was available to us for borrowing under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

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CAPITALIZATION

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

on an actual basis;

on an as adjusted basis giving effect to our distribution with a record date of January 31, 2012, our issuance of common stock on January 25, 2012 and February 17, 2012 in connection with our dividend reinvestment plan, repayments of our credit facility and repurchases of 2011 notes; and

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of 12,000,000 shares of our common stock at a price of $ per share less commissions and expenses.

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

	As of December 31, 2011		
	Actual	As Adjusted for Stock Issuances and Borrowings After December 31, 2011	As Further Adjusted for this Offering[2]
	(In thousands, except shares and per share data)		
		(Unaudited)	
Long-term debt, including current maturities:			
Borrowings under senior credit facility[1]	$ 252,000	$ 172,000	$ 172,000
2010 Notes	150,000	150,000	150,000
2011 Notes	172,500	167,500	167,500
Amount owed to affiliates	18,087	18,087	18,087
Total long-term debt	592,587	507,587	507,587
Stockholders' equity:			
Common stock, par value $0.001 per share (200,000,000 common shares authorized; 109,691,051 shares outstanding actual, 109,691,051 shares outstanding as adjusted and 124,691,051 shares outstanding as further adjusted for this offering)	110	110	122
Paid-in capital in excess of par value	1,217,027	1,218,694	
Distributions in excess of net investment income	(23,806)	(34,940)	(34,940)
Accumulated realized losses on investments	(89,239)	(89,239)	(89,239)
Net unrealized appreciation on investments	68,392	68,392	68,392
Total stockholders' equity	1,172,484	1,163,017	
Total capitalization	$ 1,765,071	$ 1,670,604	$

1 As of December 31, 2011, we had $252.0 million of borrowings under our recently completed extended credit facility. As of February 21, 2012, we had $172.0 million of borrowings under our credit facility, representing an $80.0 million decrease in borrowing subsequent to December 31, 2011.

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

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RECENT SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2008, 2009, 2010 and 2011 annual meeting of stockholders, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount to NAV per share during the twelve-month period following such approval. Accordingly, we may make offerings of our common stock without any limitation on the total amount of dilution to stockholders. See "Sales of Common Stock Below Net Asset Value" in this prospectus supplement and in the accompanying prospectus. Pursuant to this authority and the approval of our Board of Directors, we have made the following offerings:

Date of Offering	Price Per Share to Investors	Shares Issued	Estimated Net Asset Value per Share[1]	Percentage Dilution
March 18, 2009	$8.20	1,500,000	$14.43	2.20%
April 22, 2009	$7.75	3,680,000	$14.15	5.05%
May 19, 2009	$8.25	7,762,500	$13.44	7.59%
July 7, 2009	$9.00	5,175,000	$12.40	3.37%
August 20, 2009	$8.50	3,449,686	$11.57	1.78%
September 24, 2009	$9.00	2,807,111	$11.36	1.20%
June 21, 2010 to June 25, 2010[2]	$10.01-$10.67	1,072,500	$10.39-10.40	0.06%
June 28, 2010 to July 16, 2010[3]	$9.47-$10.04	2,748,600	$10.31-10.34	0.29%
July 19, 2010 to August 19, 2010[4]	$9.28-$10.04	3,814,528	$10.26-10.36	0.39%
September 7, 2010 to September 23, 2010[5]	$9.47-$9.98	2,185,472	$10.22-10.25	0.18%
September 24, 2010 to September 27, 2010[6]	$9.74-$9.92	302,400	$10.25-10.26	0.02%
September 28, 2010 to October 29, 2010[7]	$9.65-$10.09	4,929,556	$10.13-10.27	0.32%
November 11, 2010 to December 10, 2010[8]	$9.70-$10.54	4,513,920	$10.18-10.28	0.22%
June 24, 2011[9]	$10.15	10,000,000	$10.48	0.41%
July 18, 2011	$10.15	1,500,000	$10.41	0.05%

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

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

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

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

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

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

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

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

9 On July 18, 2011, the underwriter exercised its option to purchase an additional 1,500,000 shares at $10.15.

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SENIOR SECURITIES

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

Credit Facility	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
Fiscal 2012 (as of December 31, 2011, unaudited)	$ 252,000	$ 6,932		
Fiscal 2011 (as of June 30, 2011)	84,200	18,065		
Fiscal 2010 (as of June 30, 2010)	100,300	8,093		
Fiscal 2009 (as of June 30, 2009)	124,800	5,268		
Fiscal 2008 (as of June 30, 2008)	91,167	5,712		
Fiscal 2007 (as of June 30, 2007)		N/A		
Fiscal 2006 (as of June 30, 2006)	28,500	4,799		
Fiscal 2005 (as of June 30, 2005)		N/A		
Fiscal 2004 (as of June 30, 2004)		N/A		
2010 Notes				
Fiscal 2012 (as of December 31, 2011, unaudited)	$ 150,000	$ 11,647		
Fiscal 2011 (as of June 30, 2011)	150,000	10,140		
2011 Notes				
Fiscal 2012 (as of December 31, 2011, unaudited)	$ 172,500	$ 10,127		
Fiscal 2011 (as of June 30, 2011)	172,500	8,818		