

PROSPECT CAPITAL CORP

Form 497

November 25, 2009

Table of Contents

Filed pursuant to Rule 497(e)
Registration No. 333-143819

**PROSPECTUS SUPPLEMENT
(To Prospectus dated November 9, 2009)**

6,256,797 Shares

Common Stock

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

On August 20, 2009 and September 24, 2009, we issued 3,449,686 and 2,807,111 shares at \$8.50 and \$9.00 per share in private stock offerings. Concurrent with the sale of these shares, we entered into registration rights agreements (Registration Rights Agreements) in which we granted the purchasers certain registration rights with respect to these shares. Pursuant to the Registration Rights Agreements, certain selling stockholders (the selling stockholders) may offer up to 6,256,797 shares of our common stock from time to time. The sale by selling stockholders of these shares may depress the current market price of our shares. See Selling Stockholders and Plan of Distribution in this prospectus supplement and the accompanying prospectus.

This prospectus supplement relates to the offer and sale from time to time by the selling stockholders identified in this prospectus supplement of up to 6,256,797 shares of our common stock. The selling stockholders will receive all of the proceeds from any sales of common stock offered pursuant to this prospectus supplement. The selling stockholders may sell the common stock at various times and in various types of transactions, including, but not limited to, sales in the open market, sales in negotiated transactions and sales by a combination of these methods. See Plan of Distribution in this prospectus supplement.

At our annual meeting of stockholders held on February 12, 2009, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from net asset value per share during the twelve month period following such approval. We are currently seeking stockholder approval at our upcoming 2009 annual meeting, which is scheduled to be held on December 11, 2009, to continue for an additional year our ability to issue shares below net asset value. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See Risk Factors beginning on page S-6 and Sales of Common Stock Below Net Asset Value beginning on page S-36 of this prospectus supplement and on page 87 of the accompanying prospectus.

Our common stock is traded on the NASDAQ Global Select Market under the symbol PSEC. The last reported closing sales price for our common stock on November 24, 2009 was \$11.15 per share and our most recently determined net asset value per share was \$11.11 as of September 30, 2009 (\$10.70 on an as adjusted basis solely to give effect to dividends paid on October 19, 2009 and our issuances of common shares on October 19, 2009 in connection with our dividend reinvestment plan).

On August 3, 2009, we entered into an Agreement and Plan of Merger (the merger agreement) with Patriot Capital Funding, Inc., a Delaware corporation (PCAP or Patriot). The merger agreement contemplates the merger of PCAP with and into Prospect, with Prospect as the surviving entity. Consummation of the merger, which is currently anticipated to occur in December 2009, is subject to certain conditions, including, among others, PCAP stockholder approval, governmental filings, accuracy of the representations and warranties of the other party and compliance by the other party with its obligations under the merger agreement. See Prospectus Summary Proposed Merger and Risk Factors in the accompanying prospectus.

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

Investing in our common stock involves risks. See Risk Factors beginning on page S-6 of this prospectus supplement and on page 16 of the accompanying prospectus.

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

Prospectus Supplement dated November 25, 2009

Table of Contents

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

TABLE OF CONTENTS**PROSPECTUS SUPPLEMENT**

<u>Prospectus Summary</u>	S-1
<u>Risk Factors</u>	S-6
<u>Use Of Proceeds</u>	S-7
<u>Selling Stockholders</u>	S-8
<u>Capitalization</u>	S-12
<u>Recent Sales Of Common Stock Below Net Asset Value</u>	S-13
<u>Distributions And Price Range Of Common Stock</u>	S-13
<u>Selected Condensed Financial Data</u>	S-16
<u>Unaudited Selected Pro Forma Consolidated Financial Data</u>	S-19
<u>Unaudited Pro Forma Per Share Data</u>	S-20
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	S-21
<u>Sales Of Common Stock Below Net Asset Value</u>	S-36
<u>Plan Of Distribution</u>	S-41
<u>Legal Matters</u>	S-42
<u>Independent Registered Public Accounting Firm</u>	S-42
<u>Available Information</u>	S-43
<u>Index to Financial Statements</u>	F-i

PROSPECTUS

<u>About this Prospectus</u>	ii
<u>Prospectus Summary</u>	1
<u>Selected Condensed Financial Data</u>	11
<u>Risk Factors</u>	16
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>Report of Management on Internal Control over Financial Reporting</u>	53
<u>Use of Proceeds</u>	54
<u>Forward-Looking Statements</u>	55
<u>Distributions</u>	57
<u>Price Range of Common Stock</u>	59
<u>Business</u>	60
<u>Management</u>	66
<u>Certain Relationships and Transactions</u>	82
<u>Control Persons and Principal Stockholders</u>	82

<u>Portfolio Companies</u>	83
<u>Determination of Net Asset Value</u>	86
<u>Sales of Common Stock Below Net Asset Value</u>	87
<u>Dividend Reinvestment Plan</u>	91
<u>Material U.S. Federal Income Tax Considerations</u>	94
<u>Description of our Capital Stock</u>	101
<u>Description of our Preferred Stock</u>	107

Table of Contents

<u>Description of our Debt Securities</u>	108
<u>Description of our Warrants</u>	109
<u>Regulation</u>	110
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	115
<u>Brokerage Allocation and Other Practices</u>	116
<u>Plan of Distribution</u>	117
<u>Legal Matters</u>	119
<u>Independent Registered Public Accounting Firm</u>	119
<u>Available Information</u>	119
<u>Index to Financial Statements</u>	F-1

Table of Contents

PROSPECTUS SUMMARY

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

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

The Company

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

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

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

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

As of September 30, 2009, we held investments in 29 portfolio companies. The aggregate fair value as of September 30, 2009 of investments in these portfolio companies held on that date is approximately \$510.8 million. Our portfolio across all our long-term debt and certain equity investments had an annualized current yield of 15.7% as

of September 30, 2009. The yield includes interest as well as dividends.

S-1

Table of Contents

Recent Developments

In addition to the other information set forth in this prospectus supplement, you should carefully consider the risk and other factors discussed below, and those set forth under the caption **Risk Factors** in the accompanying prospectus, which could materially affect our business, financial condition and/or operating results. The risks described below and in the accompanying prospectus are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition, operating results dividend payments, revolving credit facility, access to capital and valuation of our assets.

During the three months ended September 30, 2009, we completed follow-on investments in existing portfolio companies, totaling approximately \$4.599 million and recorded payment in kind interest of \$1.467 million, resulting in gross investment originations of \$6.066 million. The more significant of these follow-on investments are described briefly in the following:

On July 1, 2009, we made a follow-on secured debt investment of \$1.093 million in Iron Horse Coiled Tubing, Inc. in support of the build out of additional equipment.

During the three months ended September 30, 2009, we provided additional fundings of \$2.961 million to Yatesville Coal Holdings, Inc. to fund ongoing operations.

During the three months ended September 30, 2009, we closed-out two positions which are briefly described below.

On August 31, 2009, C&J Cladding, LLC repaid the \$3.150 million loan receivable to us and we received an additional 5% prepayment penalty totaling \$158,000. We continue to hold warrants for common units in this investment.

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

During the three months ended September 30, 2009, we also received principal amortization payments of \$1.091 million on several loans.

On October 19, 2009, we issued 233,523 shares of our common stock in connection with the dividend reinvestment plan.

Litigation Relating to the Merger

On or about August 6, 2009, Bruce Belodoff filed a putative class action complaint against Patriot, Patriot's directors and certain of Patriot's officers in the Stamford Superior Court of the State of Connecticut. The lawsuit alleges that the proposed merger between Patriot and Prospect is the product of a flawed sales process and that Patriot's directors and officers breached their fiduciary duty by agreeing to a structure that was not designed to maximize the value of Patriot's shares. In addition, the lawsuit asserts that Patriot aided and abetted its officers' and directors' breach of fiduciary duty. Finally, the lawsuit alleges that the proposed merger was designed to benefit certain of Patriot's officers.

On or about August 11, 2009, Thomas Webster filed a putative class action lawsuit against Patriot, its directors and certain of its officers in the Superior Court of the State of Connecticut. This lawsuit is essentially identical to the class action lawsuit filed by Bruce Belodoff against Patriot on August 4, 2009, which is described above, and was filed by two of the same law firms that filed such lawsuit.

On or about August 13, 2009, Brian Killion filed a putative class action complaint against Patriot, its directors and certain of its officers and Prospect in the Bridgeport Superior Court of the State of Connecticut. The lawsuit alleges that the consideration to be paid in the proposed merger between Patriot and Prospect is unfair and is the result of an unfair process. The lawsuit further alleges that Patriot's directors and officers breached their fiduciary duty by agreeing to a structure that is designed to deter higher offers from other bidders and for failing to obtain the highest and best price for Patriot's stockholders. In addition, the lawsuit asserts that Patriot and Prospect aided and abetted the alleged breaches of fiduciary duty.

S-2

Table of Contents

All three complaints seek to enjoin consummation of the merger or, in the event that the merger has been consummated prior to the entry of a judgment, to rescind the transaction and/or award rescissory damages.

On October 9, 2009, Patriot filed motions to strike the complaints in all three lawsuits on the basis that the plaintiffs allegations failed to state any claims upon which relief may be granted as a matter of law. On the same day, Prospect filed a motion to strike the lawsuit filed by Brian Killion.

At this time, Prospect is unable to determine whether an unfavorable outcome from these claims is probable or remote or to estimate the amount or range of potential loss, if any. However, Prospect believes that these claims are without merit and intends to vigorously defend against them.

S-3

Table of Contents**The Offering**

Common stock offered by the selling stockholders	Up to 6,256,797 shares.
Use of proceeds	We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See Risk Factors in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current distribution rate	For our first fiscal quarter of 2010, our Board of Directors declared a quarterly dividend of \$0.4075 per share, representing an annualized dividend yield of approximately 14.62% based on our November 24, 2009 closing stock price of \$11.15 per share. Such dividend was payable out of earnings. Our dividend is subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

Fees and Expenses

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. In these tables, we assume that we have borrowed \$195 million under our recently completed extended credit facility, which is the maximum amount currently available under the credit facility. As of September 30, 2009, we had no borrowings outstanding under our credit facility. As of September 30, 2009, \$89.391 million was available to us for borrowing under our credit facility. Except where the context suggests otherwise, whenever this prospectus supplement contains a reference to fees or expenses paid by you, us or Prospect Capital, or that we will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:

Offering expenses borne by us (as a percentage of offering price) ⁽¹⁾	None
Dividend reinvestment plan expenses ⁽²⁾	None
Total stockholder transaction expenses (as a percentage of offering price)	None

Annual expenses (as a percentage of net assets attributable to common stock)⁽³⁾:

Combined base management fee (2.67%) ⁽⁴⁾ and incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) (2.03%) ⁽⁵⁾	4.70%
Interest payments on borrowed funds	1.93% ⁽⁶⁾
Other expenses	1.44% ⁽⁷⁾
Total annual expenses	8.07% ⁽⁵⁾⁽⁷⁾

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our annual

S-4

Table of Contents

operating expenses would remain at the levels set forth in the table above and that we pay the stockholder transaction costs shown in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 60.38	\$ 179.27	\$ 295.70	\$ 576.37

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The income incentive fee under our Investment Advisory Agreement with Prospect Capital Management would be zero at the 5% annual return assumption required by the SEC for this table, since no incentive fee is paid until the annual return exceeds 7%. This illustration assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors after such expenses, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at NAV per share, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See [Dividend Reinvestment Plan](#) in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

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

- (1) The offering expenses of this offering were reported as a cost of the original issuance of the shares by the Company. The portion thereof attributable to registration of shares being sold by the selling stockholders will or has been paid by the Company on behalf of the stockholders as a whole and not by the selling stockholders.
- (2) The expenses of the dividend reinvestment plan are included in [other expenses](#).
- (3) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at September 30, 2009. See [Capitalization](#) in this prospectus supplement.
- (4) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Assuming that we have borrowed \$195 million (the size of our credit facility), the 2% management fee of gross assets equals 2.67% of net assets. See [Management Services Investment Advisory Agreement](#) in the accompanying prospectus and footnote 7 below.
- (5) Based on an annualized level of incentive fee paid during our quarter ended September 30, 2009, 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.
- (6) We may borrow additional money before and after the proceeds of this offering are substantially invested. After this offering, we will have an increased amount available for us under our \$195 million extended credit facility and we will continue to seek additional lenders to upsize the facility to up to \$250 million. For more information,

see Risk Factors Risks Relating To Our Business Changes in interest rates may affect our cost of capital and net investment income and Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Expenses Financial Condition, Liquidity and Capital Resources in the accompanying prospectus. The table above assumes that we have borrowed \$195 million under our credit facility, which is the maximum amount currently available under the credit facility. If we do not borrow amounts following this offering, our base management fee, as a percentage of net assets attributable to common stock, will decrease from the percentage shown in the table above, as borrowings will not represent a portion of our overall assets.

- (7) Other expense is based on our annualized expenses during our quarter ended September 30, 2009, as adjusted for the increased costs anticipated in connection with the extended credit facility. See Management Management Services Administration Agreement in the accompanying prospectus.

Table of Contents

RISK FACTORS

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

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

The U.S. financial markets have been experiencing a high level of volatility, disruption and distress, which was exacerbated by the failure of several major financial institutions in the last few months of 2008. In addition, the U.S. economy has entered a recession, which is likely to be severe and prolonged. Similar conditions have occurred in the financial markets and economies of numerous other countries and could worsen, both in the U.S. and globally. These conditions have raised the level of many of the risks described in the accompanying prospectus and could have an adverse effect on our portfolio companies as well as on our business, financial condition, results of operations, dividend payments, credit facility, access to capital, valuation of our assets (including our NAV) and our stock price.

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 February 12, 2010 as described in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares 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 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 are currently seeking shareholder approval at our upcoming 2009 annual meeting, which is scheduled to be held on December 11, 2009 to continue for an additional year our ability to issue shares below net asset value.

Table of Contents

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

S-7

Table of Contents**SELLING STOCKHOLDERS**

On August 20, 2009 and September 24, 2009, we issued 3,449,686 and 2,807,111 shares at \$8.50 and \$9.00 per share, respectively, in private stock offerings. After giving effect to both offerings, the number of shares issued in the August 20, 2009 and September 24, 2009 offerings represented 6.31% and 5.13% of the total number of shares outstanding, respectively. Concurrent with the sale of these shares, we entered into registration rights agreements (Registration Rights Agreements) in which we granted the purchasers certain registration rights with respect to these shares. The prospectus and this prospectus supplement are part of a registration statement that we filed with the SEC utilizing a shelf or delayed offering process. Under this offering process, and pursuant to the terms of the Registration Rights Agreements, such purchasers may from time to time resell these shares in one or more offerings. However, as to any selling stockholder who is not an affiliate of the Company, any registration rights granted pursuant to the Registration Rights Agreements will expire six months after the date the selling stockholder purchased such shares. Accordingly, after February 17, 2010 and March 21, 2010, respectively, any selling stockholder who is not an affiliate of the Company will not be entitled to sell shares pursuant to the registration statement and instead will be able to sell shares pursuant to Rule 144 under the Securities Act of 1933, which provides a safe harbor to enable affiliates and holders of unregistered shares of a public company to sell such shares publicly subject to specified conditions and limitations. As applied to the Company, Rule 144 permits nonaffiliates to sell an unlimited number of shares held by them for at least six months.

The term selling stockholder refers to purchasers in the private stock offerings referred to above who wish to be able to sell shares under this prospectus supplement and includes donees, pledges, transferees, or other successors-in-interest selling securities received from the named selling stockholder as a gift, pledge, stockholder distribution or other non-sale related transfer after the date of the prospectus. Under the rules of the SEC, beneficial ownership includes shares over which the indicated beneficial owner exercises voting or investment power. The inclusion of any securities in the following table does not constitute an admission of beneficial ownership by the persons named below.

The following table provides certain information with respect to the selling stockholders, including their beneficial ownership of our common stock as of October 5, 2009. The amounts set forth below are based upon information provided to us by representatives of such selling stockholders as of October 5, 2009 and are accurate to the best of our knowledge as of such date.

Name	Common Stock Beneficially Owned Before the Offering	Shares That May Be Offered Hereby	Common Stock	
			Beneficially Owned After the Offering*	Number Percent
Jonathan M. Glaser and Nancy Ellen Glaser, TTEES of the Jonathan and Nancy Glaser Family Trust, DTD 12-16-98 ⁽¹⁾	111,111	111,111		
Kingsbrook Opportunities Master Fund LP ⁽²⁾	40,000	40,000		
ADAR Investment Fund Ltd ⁽³⁾	350,000	350,000		
	150,000	150,000		

UBS O Connor LLC FBO O Connor PIPES Corporate Strategies Master Limited ⁽⁴⁾ Daybreak Special Situations Master Fund, Ltd. ⁽⁵⁾	30,000	30,000
Cranshire Capital, L.P. ⁽⁶⁾	50,000	50,000
Midsummer Investment, Ltd. ⁽⁷⁾	100,000	100,000
Visium Equity Global Master Fund, Ltd. ⁽⁸⁾	250,000	250,000
RL Capital Partners ⁽⁹⁾⁽¹⁰⁾	11,000	11,000
Rockwood Partners, LP ⁽¹¹⁾	250,000	250,000
Highbridge International LLC ⁽⁹⁾⁽¹²⁾	500,000	500,000
Hudson Bay Fund LP ⁽¹³⁾	72,000	72,000

S-8

Table of Contents

Name	Common Stock Beneficially Owned Before the Offering	Shares That May Be Offered Hereby	Common Stock Beneficially Owned	
			After the Offering* Number	Percent
Hudson Bay Overseas Fund Ltd. ⁽¹³⁾	128,000	128,000		
Sutter Health Master Retirement Trust ⁽¹⁴⁾	143,000	143,000		
Sutter Health ⁽¹⁴⁾	237,000	237,000		
Burnham Investors Trust Burnham Financial Industries Fund ⁽¹⁵⁾	700,000	700,000		
Burnham Investors Trust Burnham Financial Services Fund ⁽¹⁵⁾	150,000	150,000		
Moors and Mendon Master Fund LP ⁽¹⁶⁾	150,000	150,000		
Thornburg Investment Income Builder ⁽¹⁷⁾	2,538,415	677,686 ⁽¹⁸⁾	1,860,729	3.4%
Thornburg Strategic Income Fund ⁽¹⁷⁾	131,433	70,000 ⁽¹⁹⁾	61,433	
Thornburg Global Opportunities Fund ⁽¹⁷⁾	878,216	387,200 ⁽²⁰⁾	491,016	
Scotia Global Opportunities Fund ⁽¹⁷⁾	219,900	201,000 ⁽²¹⁾	18,900	
ALPS/Red Rocks Listed Private Equity Fund ⁽²²⁾	121,000	121,000		
AVS Listed Private Equity Portfolio ⁽²²⁾	9,900	8,800 ⁽²³⁾	1,100	
JNL/Red Rocks Listed Private Equity Fund ⁽²²⁾	225,000	184,000 ⁽²⁴⁾	41,000	
Capital Ventures International ⁽⁹⁾⁽²⁵⁾	150,000	150,000		
KBW Financial Services Master Fund, Ltd. ⁽⁹⁾⁽²⁶⁾	325,000	325,000		
Iroquois Master Fund Ltd. ⁽²⁷⁾	50,000	50,000		
First Trust Specialty Finance & Financial Opportunities Fund ⁽⁹⁾⁽²⁸⁾	640,827	300,000 ⁽²⁹⁾	340,877	
Sunsuper Barwon Private Equity Opp ⁽³⁰⁾	260,000	260,000		
Cogent Select Private Equity Fund ⁽³⁰⁾	13,000	13,000		
Barwon Global Listed Private Equity Fund ⁽³⁰⁾	107,000	87,000 ⁽³¹⁾	20,000	

* We do not know when or in what amounts a selling stockholder may offer shares for sale. The selling stockholders may choose not to sell any or all of the shares offered by this prospectus supplement. Because the selling stockholders may offer all or some of the shares pursuant to this offering, and because there are currently no agreements, arrangements or understanding with respect to the sale of any of the shares, we cannot estimate the number of the shares that will be held by the selling stockholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares covered by

this prospectus supplement will be held by the selling stockholders.

As of November 24, 2009, the Company had 54,905,678 shares of common stock outstanding.

Represents less than 1.0%

- (1) Jonathan M. Glaser, Trustee of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.
- (2) Kingsbrook Partners LP (Kingsbrook Partners), as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to

S-9

Table of Contents

direct the disposition, of such shares. Kingsbrook Opportunities GP LLC (Opportunities GP) is the general partner of selling stockholder any may be considered the beneficial owner of any securities deemed to be beneficially owned by the selling stockholder. KB GP LLC (GP LLC) is the general partner of Kingsbrook Partners and may be considered the beneficial owner of any securities deemed to be beneficially owned by Kingsbrook Partners. Ari J. Storch, Adam J. Chill and Scott M. Wallace are the sole managing members of Opportunities GP and GP LLC and as a result may be considered beneficial owners of any securities deemed beneficially owned by Opportunities GP and GP LLC. Each of Kingsbrook Partners, Opportunities GP, GP LLC, and Messrs. Storch, Chill and Wallace disclaim beneficial ownership of such shares.

- (3) ADAR Investment Management LLC, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. ADAR Investment Management LLC is controlled by Yehuda Blinder.
- (4) UBS O Connor LLC, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Jeff Putnam as portfolio manager of the investment manager, disclaims any beneficial ownership of such shares.
- (5) Daybreak Capital Management LLC, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Mr. Lawrence J. Butz and Mr. John Prinz are the managers of Daybreak Capital Management LLC. Each of Daybreak Capital Management LLC and Messrs. Butz and Prinz may be deemed to have beneficial ownership of the shares of common stock beneficially held by the selling stockholder. Daybreak Capital Management LLC and Messrs. Butz and Prinz each disclaims beneficial ownership of such shares.
- (6) Downsvie Capital, Inc. (Downsvie) is the general partner of Cranshire Capital, L.P. (Cranshire) and consequently has voting control and investment discretion over securities held by Cranshire. Mitchell P. Kopin (Mr. Kopin), President of Downsvie, has voting control over Downsvie. As a result of the foregoing, each of Mr. Kopin and Downsvie may be deemed to have beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended) of the shares of common stock beneficially owned by Cranshire.
- (7) Michel A. Amsalem and Joshua Thomas have investment power of over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.
- (8) Visium Asset Management, LP, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. JG Asset, LLC is the general partner of the Visium Asset Management, LP and Jacob Gottlieb is the managing member of JG Asset, LLC. Each of Visium Asset Management, LP, JG Asset, LLC and Mr. Gottlieb may be deemed to have beneficial ownership of the shares of common stock beneficially held by the selling stockholder.
- (9) The selling stockholder has identified itself to us as an affiliate of a broker-dealer(s) and that it did not receive the shares of common stock outside of the ordinary course of business nor, at the time of issuance or purchase of the common stock, did it have any view to or arrangements or understandings, directly or indirectly, with any person to distribute the shares of common stock.
- (10) RL Capital Management LLC has investment parent over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition of such shares. Messrs. Ronald Lazar and Anthony Polak are the managing members of RL Capital Management LLC.

- (11) Rockwood Asset Management, Inc., as general partner of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Jay Buck is the President and sole stockholder of Rockwood Asset Management, Inc.
- (12) Highbridge Capital Management, LLC, as trading manager of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Glen Dubin is the Chief Executive Officer of Highbridge Capital Management, LLC. Each of Highbridge Capital Management, LLC and Mr. Dubin disclaims any beneficial ownership of such shares.

S-10

Table of Contents

- (13) Sander Gerber has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Mr. Gerber disclaims any beneficial ownership of the securities held by the selling stockholder.
- (14) DePrince, Race & Zollo, Inc., as investment advisor of the selling stockholders, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.
- (15) Mendon Capital Advisors Corporation, as sub-investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.
- (16) Mendon Capital Advisors Corporation, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.
- (17) Thornburg Investment Management has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.
- (18) Thornburg Investment Income Builder owns a total of 2,538,415 shares of the Company's common stock, of which 677,686 shares were purchased subject to the Registration Rights Agreements.
- (19) Thornburg Strategic Income Fund owns a total of 131,433 shares of the Company's common stock, of which 70,000 shares were purchased subject to the Registration Rights Agreements.
- (20) Thornburg Global Opportunities Fund owns a total of 878,216 shares of the Company's common stock, of which 387,200 shares were purchased subject to the Registration Rights Agreements.
- (21) Scotia Global Opportunities Fund owns a total of 219,900 shares of the Company's common stock, of which 201,000 shares were purchased subject to the Registration Rights Agreements.
- (22) Red Rock Capital LLC has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Adam Goldman and Mark Sunderhuse control Red Rock Capital LLC.
- (23) AVS Listed Private Equity Portfolio owns a total of 9,900 shares of the Company's common stock, of which 8,800 were purchased subject to the Registration Rights Agreements.
- (24) JNL/Red Rocks Listed Private Equity Fund owns a total of 225,000 shares of the Company's common stock, of which 184,000 were purchased subject to the Registration Rights Agreements.
- (25) Heights Capital Management, Inc., as authorized agent of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares and may be deemed to be the beneficial owner of these shares. Martin Kobinger, as investment manager of Heights Capital Management, Inc., may be deemed to have beneficial ownership of the shares of common stock beneficially held by the selling stockholder and disclaims any beneficial ownership of such shares.
- (26)

KBW Asset Management, Inc. has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. KBW Asset Management, Inc. is controlled by KBW, Inc., a publicly traded company.

- (27) Jonathan Silverman has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Mr. Silverman disclaims beneficial ownership of such shares.
- (28) Confluence Investment Management, LLC has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.
- (29) First Trust Specialty Finance & Financial Opportunities Fund owns a total of 640,827 shares of the Company's common stock, of which 300,000 shares were purchased subject to the Registration Rights Agreements.
- (30) Barwon Investment Partners has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.
- (31) Barwon Global Listed Private Equity Fund owns a total of 107,000 shares of the Company's common stock, of which 87,000 were purchased pursuant to the Registration Rights Agreements.

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2009:

on an actual basis;

on an as adjusted basis giving effect to our dividend paid and the distribution of shares in connection with our dividend reinvestment plan on October 19, 2009, and the sale of shares in connection with this offering (for which there is no effect on capitalization as they are reflected in the previous column); and

on an as further adjusted basis giving effect to the transactions noted in the prior column and the merger with Patriot.

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

	As of September 30, 2009		
	As Adjusted for Stock Issuances and Dividends Paid After September 30, 2009 and this offering		As Further Adjusted for the Merger⁽³⁾
	Actual (In thousands, except shares and per share data)	(Unaudited)	
Long-term debt, including current maturities:			
Borrowings under senior credit facility	\$ 6,031	\$ (1) 6,031	\$ 106,138
Amount owed to affiliates	6,031	6,031	6,031
Total long-term debt	6,031	6,031	112,169
Stockholders' equity:			
Common stock, par value \$0.001 per share (100,000,000 common shares authorized; 54,672,155 shares outstanding actual, 54,905,678 ⁽²⁾ shares outstanding as adjusted for stock issuances in connection with our dividend reinvestment plan completed after September 30, 2009 and 63,440,289 shares outstanding as further adjusted for the merger)	55	55	63
Paid-in capital in excess of par value	646,271	648,728	734,237
Undistributed (distributions in excess of) net investment income	16,922	(5,357)	(5,357)
Accumulated realized losses on investments	(53,050)	(53,050)	(53,050)

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Net unrealized depreciation on investments	(2,952)	(2,952)	(2,952)
Total stockholders' equity	607,246	587,424	672,941
Total capitalization	\$ 613,277	\$ 593,455	\$ 785,110

- (1) As of November 24, 2009, we had no borrowings outstanding under our credit facility, representing no change in borrowings subsequent to September 30, 2009.
- (2) Includes 233,524 shares of our common stock issued on October 19, 2009 in connection with our dividend reinvestment plan, and the sale of shares in connection with this offering (which had no effect on capitalization).
- (3) On August 3, 2009, we entered into a merger agreement with Patriot Capital Funding, Inc. (Patriot). The merger agreement contemplates the merger of Patriot with and into the Company, with the Company as the surviving entity. In the merger, each outstanding share of Patriot common stock will be converted into the right to receive approximately 0.3992 shares of common stock of Prospect, subject to the payment of cash in lieu of fractional shares of Prospect common stock resulting from the application of the foregoing exchange ratio. See Prospectus Summary Proposed Merger in the accompanying prospectus. However, the numbers in the Capitalization Table for the merger are estimated based on a closing stock price of our stock of \$10.02. These numbers are merely estimates and the actual amounts may differ.

S-12

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

At our annual meeting of stockholders held on February 12, 2009, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount to NAV per share during the twelve-month period following such approval. Accordingly, we may make additional offerings of our common stock without any limitation on the total amount of dilution to stockholders. See *Sales of Common Stock Below Net Asset Value* in this supplement and in the base prospectus. Pursuant to this authority, we have made the following offerings:

Date of Offering	Price Per Share to Investors	Shares Issued	Estimated Net Asset Value Per Share	Percentage Dilution
March 18, 2009	\$ 8.20	1,500,000	\$ 14.43	2.20 %
April 27, 2009	\$ 7.75	3,680,000	\$ 14.15	5.05 %
May 26, 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 %

DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

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

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

98% of our ordinary income for the calendar year,

98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and

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

In December 2008, our Board of Directors elected to retain excess profits generated in the quarter ended September 30, 2008 and pay a 4% excise tax on such retained earnings. We paid \$533,000 for the excise tax with the filing of our tax return in March 2009.

In addition, although we currently intend to distribute realized net capital gains (which we define as net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may decide in the future to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under *Material U.S. Federal Income Tax Considerations* in the

accompanying prospectus. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock are subject to the same U.S. Federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan in the accompanying prospectus. The tax consequences of distributions to

Table of Contents

stockholders are described in the accompanying prospectus under the label "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus. To the extent prudent and practicable, we intend to declare and pay dividends on a quarterly basis.

With respect to the dividends paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies were treated as taxable income and accordingly, distributed to stockholders. During the fiscal year ended June 30, 2009, we paid total dividends of approximately \$56.1 million. For the first quarter of the fiscal year ending June 30, 2010, we paid total distributions of approximately \$22.3 million.

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

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

	NAV ⁽¹⁾	Stock Price High ⁽²⁾	Low ⁽²⁾	Premium (Discount) of High to NAV	Premium (Discount) of Low to NAV	Dividend Declared
Twelve Months Ending June 30, 2005						
First quarter	\$ 13.67	\$ 15.45	\$ 14.42	13.0%	5.5%	
Second quarter	13.74	15.15	11.63	10.3%	(15.4)%	\$ 0.100
Third quarter	13.74	13.72	10.61	(0.1)%	(22.8)%	0.125
Fourth quarter	14.59	13.47	12.27	(7.7)%	(15.9)%	0.150
Twelve Months Ending June 30, 2006						
First quarter	\$ 14.60	\$ 13.60	\$ 11.06	(6.8)%	(24.2)%	\$ 0.200
Second quarter	14.69	15.46	12.84	5.2%	(12.6)%	0.280
Third quarter	14.81	16.64	15.00	12.4%	1.3%	0.300
Fourth quarter	15.31	17.07	15.83	11.5%	3.4%	0.340
Twelve Months Ending June 30, 2007						
First quarter	\$ 14.86	\$ 16.77	\$ 15.30	12.9%	3.0%	\$ 0.380
Second quarter	15.24	18.79	15.60	23.3%	(2.4)%	0.385
Third quarter	15.18	17.68	16.40	16.5%	8.0%	0.3875
Fourth quarter	15.04	18.68	16.91	24.2%	12.4%	0.390

**Twelve Months Ending
June 30, 2008**

First quarter	\$ 15.08	\$ 18.68	\$ 14.16	23.9%	(6.1)%	\$ 0.3925
Second quarter	14.58	17.17	11.22	17.8%	(23.0)%	0.395
Third quarter	14.15	16.00	13.55	13.1%	(4.2)%	0.400
Fourth quarter	14.55	16.12	13.18	10.8%	(9.4)%	0.40125

**Twelve Months Ending
June 30, 2009**

First quarter	\$ 14.63	\$ 14.24	\$ 11.12	(2.7)%	(24.0)%	\$ 0.4025
Second quarter	14.43	13.08	6.29	(9.4)%	(56.4)%	0.40375
Third quarter	14.19	12.89	6.38	(9.2)%	(55.0)%	0.405
Fourth Quarter	12.40	10.48	7.95	(15.5)%	(35.9)%	0.40625

**Twelve Months Ending
June 30, 2010**

First Quarter	\$ 11.11	\$ 10.99	\$ 8.82	(1.1)%	(20.6)%	\$ 0.4075
Second Quarter (to 11/24/09)	(3)(4)	\$ 11.30	\$ 9.93	(4)	(4)	(5)

- (1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high or low sales price. The NAVs shown are based on outstanding shares at the end of each period.
- (2) The High/Low Stock Price is calculated as of the last reported sales price on a given day in the applicable quarter.

Table of Contents

- (3) Our most recently determined NAV per share was \$11.11 as of September 30, 2009 (\$10.70 on an as adjusted basis solely to give effect to dividends paid on October 19, 2009 and our issuances of common shares on October 19, 2009 in connection with our dividend reinvestment plan). NAV as of December 31, 2009 may be higher or lower than \$10.70 based on potential changes in valuations as of December 31, 2009.
- (4) NAV has not yet been finally determined for any day after September 30, 2009.
- (5) The dividend for the second quarter of 2010 will be declared in December 2009.

On November 24, 2009, the last reported sales price of our common stock was \$11.15 per share.

As of September 30, 2009, we had approximately 77 stockholders of record.

The below table sets forth each class of our outstanding securities as of September 30, 2009.

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Registrant or for its Account	(4) Amount Outstanding Exclusive of Amount Shown Under(3)
Common Stock	100,000,000	0	54,672,155
	S-15		

Table of Contents**SELECTED CONDENSED FINANCIAL DATA OF PROSPECT**

You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus supplement. Financial information for the twelve months ended June 30, 2009, 2008, 2007, 2006 and 2005 has been derived from the audited financial statements for that period. The selected consolidated financial data at and for the three months ended September 30, 2009 and 2008 have been derived from unaudited financial data, but in the opinion of our management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results for such interim periods. Interim results at and for the three months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See Management's Discussion and Analysis of Financial Condition and Results of Operations starting on page S-21 for more information.

	For the Three Months Ended September 30			For the Year/Period Ended June 30,			2005
	2009	2008	2009	2008	2007	2006	
	(In thousands except data relating to shares, per share and number of portfolio companies)						
Income Data:							
Income	\$ 14,835	\$ 17,556	\$ 62,926	\$ 59,033	\$ 30,084	\$ 13,268	\$ 4,338
and income	6,218	4,723	22,793	12,033	6,153	3,601	3,601
Income	464	13,520	14,762	8,336	4,444		
Investment	21,517	35,799	100,481	79,402	40,681	16,869	8,336
and credit							
expenses	(1,374)	(1,508)	(6,161)	(6,318)	(1,903)	(642)	
ment advisory	(6,289)	(8,698)	(26,705)	(20,199)	(11,226)	(3,868)	(1,374)
expenses	(1,536)	(2,091)	(8,452)	(7,772)	(4,421)	(3,801)	(3,801)
expenses	(9,199)	(12,297)	(41,318)	(34,289)	(17,550)	(8,311)	(5,000)
Investment	12,318	23,502	59,163	45,113	23,131	8,558	2,000
and							
zed gains	(18,696)	(9,504)	(24,059)	(17,522)	(6,403)	4,338	6,153
increase in net							
rom							
ons	\$ (6,378)	\$ 13,998	\$ 35,104	\$ 27,591	\$ 16,728	\$ 12,896	\$ 8,336
Share Data:							
increase in net	\$ (0.13)	\$ 0.47	\$ 1.11	\$ 1.17	\$ 1.06	\$ 1.83	\$ 1.83
rom							

ons ⁽¹⁾								
utions								
d per share	\$ (0.41)	\$ (0.40)	\$ (1.62)	\$ (1.59)	\$ (1.54)	\$ (1.12)	\$ (
e weighted								
outstanding								
period	49,804,906	29,520,379	31,559,905	23,626,642	15,724,095	7,056,846	7,055	
and								
ities Data:								
ments	\$ 510,798	\$ 549,303	\$ 547,168	\$ 497,530	\$ 328,222	\$ 133,969	\$ 55	
ssets	104,697	38,415	119,857	44,248	48,280	4,511	48	
ssets	615,495	587,718	667,025	541,778	376,502	138,480	103	
t drawn on								
acity		131,667	124,800	91,167		28,500		
t owed to								
parties	7,321	9,669	6,713	6,641	4,838	745		
abilities	928	14,643	2,916	14,347	71,616	965		
abilities	8,249	155,979	134,429	112,155	76,454	30,210		
ets	\$ 607,246	\$ 431,739	\$ 532,596	\$ 429,623	\$ 300,048	\$ 108,270	102	
ment Activity								
portfolio								
ies at period								
	29	31 ⁽²⁾	30	29 ⁽²⁾	24 ⁽²⁾	15		
itions	\$ 6,066	\$ 70,456	\$ 98,305	\$ 311,947	\$ 167,255	\$ 83,625	\$ 79	
epayments,								
er disposals	\$ 24,241	\$ 10,949	\$ 27,007	\$ 127,212	\$ 38,407	\$ 9,954	\$ 32	
ed-Average								
t end of								
³⁾	15.7%	15.5%	13.7%	15.5%	17.1%	17.0%		

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

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

(3) Includes dividends from certain equity investments.

Table of Contents**SELECTED FINANCIAL DATA OF PATRIOT**

You should read this selected consolidated financial data in conjunction with the consolidated financial statements and notes thereto of Patriot included elsewhere in this document. The selected consolidated financial data at and for the fiscal years ended December 31, 2008, 2007, 2006, 2005 and 2004 have been derived from Patriot's audited financial statements. The selected consolidated financial data at and for the nine months ended September 30, 2009 and 2008 have been derived from unaudited financial data, but in the opinion of Patriot's management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results for such interim periods. Interim results at and for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation.

	For the Nine Months Ended		Year Ended December 31,			
	September 30,					
	2009	2008	2008	2007	2006	2005
Revenue	\$ 23,928,878	\$ 30,562,567	\$ 40,140,087	\$ 37,147,275	\$ 25,387,709	\$ 13,035,673
Cost of sales	592,680	816,253	1,409,613	1,280,361	270,176	366,830
Gross profit	121,161	749,704	749,704	534,901	848,449	46,839
Operating expense	24,642,719	32,128,524	42,299,404	38,962,537	26,506,334	13,449,342
Operating income	2,508,241	3,440,278	3,973,030	5,410,075	3,877,525	2,481,761
Interest expense						554,796
Interest expense ⁽¹⁾						
Interest expense ⁽²⁾	6,768,583	5,774,508	8,158,473	7,421,596	4,332,582	3,517,989
Interest expense	4,169,297	1,011,119	1,635,519	887,021	1,045,613	730,550
Interest expense ⁽³⁾						3,395,335
Interest expense	2,427,985	2,140,238	2,807,113	2,498,724	2,229,970	1,041,030
Interest expense	15,874,106	12,366,143	16,574,135	16,217,416	11,485,690	11,721,461
Operating income	8,768,613	19,762,381	25,725,269	22,745,121	15,020,644	1,727,881
Gain (loss)	(32,919,325)	22,138	(882,588)	91,601	(3,262,966)	
Gain (loss)						
Gain (loss)	(4,082,847)	(20,367,281)	(39,992,921)	(3,637,706)	3,817,931	(2,965,175)
Gain (loss)						
Gain (loss)	3,097,384	34,772	(2,335,019)	(775,326)	12,961	

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

(loss)	\$ (33,904,788)	\$ (20,310,371)	\$ (17,485,259)	\$ 18,423,690	\$ 15,588,570	\$ (1,237,294)	\$
(s) per	\$ (1.20)	\$ (0.03)	\$ (0.84)	\$ 0.99	\$ 1.10	\$ (0.17)	\$
(s) per	\$ (1.20)	\$ (0.03)	\$ (0.84)	\$ 0.98	\$ 1.10	\$ (0.17)	\$
verage nding,	20,943,734	20,682,167	20,713,540	18,670,904	14,145,200	7,253,632	
verage nding,	20,943,734	20,682,167	20,713,540	18,830,213	14,237,952	7,253,632	
et Data:							
ents	\$ 257,432,323	\$ 331,073,227	\$ 322,370,748	\$ 384,725,753	\$ 257,812,235	\$ 138,302,852	\$ 6
	272,914,882	366,277,459	354,262,646	398,378,808	271,086,364	151,007,186	7
tstanding	112,706,453	154,200,000	162,600,000	164,900,000	98,380,000	21,650,000	4
s equity	155,930,479	201,589,072	180,117,170	221,597,684	164,108,629	127,152,365	2
ne per e	\$ 7.44	\$ 9.74	\$ 8.65	\$ 10.73	\$ 10.37	\$ 10.48	\$
verage yield tments ⁽⁴⁾ portfolio	11.1%	12.4%	12.1%	12.4%	13.4%	13.5%	
employees	29 11	36 14	35 13	36 14	26 11	15 9	

S-17

Table of Contents

- (1) On July 27, 2005, Patriot terminated the consulting agreements pursuant to which these fees were incurred.
- (2) Patriot's capital structure at December 31, 2004 reflected a higher percentage of leverage than it is permitted to incur as a business development company. Patriot used a portion of the net proceeds it received from its initial public offering to repay all of its outstanding indebtedness, including the \$3.4 million prepayment penalty, at the time of its initial public offering. Patriot is generally only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.
- (3) The prepayment penalty was incurred in connection with the repayment in full and termination of our \$120.0 million financing agreement.
- (4) Computed using actual interest income earned for the fiscal year, including amortization of deferred financing fees and original issue discount, divided by the weighted average fair value of debt investments.

S-18

Table of Contents**UNAUDITED SELECTED PRO FORMA CONSOLIDATED FINANCIAL DATA**

The following tables set forth unaudited pro forma condensed consolidated financial data for Prospect and Patriot as a consolidated entity, giving effect to the merger as if it had occurred on the dates indicated and after giving effect to certain transactions that occurred subsequent to September 30, 2009. The unaudited pro forma condensed consolidated operating data are presented as if the merger had been completed on July 1, 2008. The unaudited pro forma condensed consolidated balance sheet data at September 30, 2009 is presented as if the merger had occurred as of that date. In the opinion of management, all adjustments necessary to reflect the effect of these transactions have been made. The merger will be accounted for under the acquisition method of accounting as provided by Statement of Financial Accounting Standard No. 141(R), Business Combinations.

The unaudited pro forma condensed consolidated financial data should be read together with the respective historical audited and unaudited consolidated financial statements and financial statement notes of Patriot and Prospect in this document. The unaudited pro forma condensed consolidated financial data are presented for comparative purposes only and do not necessarily indicate what the future operating results or financial position of Prospect will be following completion of the merger. The unaudited pro forma condensed consolidated financial data does not include adjustments to reflect any cost savings or other operational efficiencies that may be realized as a result of the merger of Patriot and Prospect or any future merger related restructuring or integration expenses.

	For the Three Months Ended September 30, 2009 (In thousands except data relating to earnings per share)	
Performance Data:		
Interest and dividend income	\$	28,853
Fee income		138
Other income		576
Total investment income		29,567
Interest expense		(2,971)
Base management and income incentive fees		(7,916)
General and administrative expenses		(5,483)
Total expenses		(16,370)
Net investment income		13,197
Realized and unrealized gains (losses)		(24,579)
Net income	\$	(11,382)
Per Share Data:		
Earnings per share	\$	(0.20)
Average weighted shares outstanding for the period		58,340

At Sept. 30, 2009

Assets and Liabilities Data:

Investment securities	\$	705,953
Cash		72,341
Other assets		14,929
Total assets		793,223
Borrowings		106,138
Other liabilities		14,144
Total liabilities		120,282
Net assets	\$	672,941

S-19

Table of Contents**UNAUDITED PRO FORMA PER SHARE DATA**

The following selected unaudited pro forma per share information for the year ended June 30, 2009 and the three months ended September 30, 2009 reflects the merger and related transactions as if they had occurred on July 1, 2008. The unaudited pro forma combined net asset value per common share outstanding reflects the merger and related transactions as if they had occurred on September 30, 2009 and certain other transactions that occurred subsequent to September 30, 2009.

Such unaudited pro forma combined per share information is based on the historical financial statements of Prospect and Patriot and on publicly available information and certain assumptions and adjustments as discussed in the section entitled Unaudited Pro Forma Condensed Consolidated Financial Statements. This unaudited pro forma combined per share information is provided for illustrative purposes only and is not necessarily indicative of what the operating results or financial position of Prospect or Patriot would have been had the merger and related transactions been completed at the beginning of the periods or on the dates indicated, nor are they necessarily indicative of any future operating results or financial position. The following should be read in connection with the section entitled Unaudited Pro Forma Condensed Consolidated Financial Statements and other information included in or incorporated by reference into this document.

	Comparative Per Share Data			Per Equivalent Patriot Share⁽³⁾
	Prospect	Patriot	Pro Forma Combined-Prospect	
Year ended June 30, 2009:				
Income from continuing operations per share	\$ 1.11	\$ (1.81)	\$ (0.09)	\$ (0.04)
Distributions per share declared to date ⁽¹⁾	\$ 1.6175	\$ 0.58	\$ 1.6175	\$ 0.65
Average weighted shares outstanding for the period (in thousands)	31,560	20,847	53,530	
Three months ended September 30, 2009:				
Income from continuing operations per share	\$ (0.13)	\$ (0.23)	\$ (0.20)	\$ (0.08)
Distributions per share declared to date ⁽¹⁾	\$ 0.4075	\$ 0.00	\$ 0.4075	\$ 0.16
Net asset value per share ⁽²⁾	\$ 11.11	\$ 7.44	\$ 10.61	\$ 4.23
Average weighted shares outstanding for the period (in thousands)	49,805	20,950	58,340	

- (1) The historical distributions declared per share for Prospect and Patriot is computed by dividing the distributions declared for the year ended June 30, 2009 by their respective historical weighted average shares outstanding. The pro forma combined distributions declared is the distributions per share as declared by Prospect.
- (2) The historical net asset value per share for Prospect and Patriot as of September 30, 2009 are as previously reported by the companies. The pro forma combined net asset value per share as of September 30, 2009 is computed by dividing the pro forma combined net assets by the pro forma combined number of shares outstanding. In addition, the pro forma combined net asset value per share as of September 30, 2009 reflects the write down of the fair value of Patriot's investments at September 30, 2009 to Prospect's determination of the fair value of these investments, Prospect, in conjunction with an independent valuation agent, has determined that a fair value of Patriot's investments at September 30, 2009 that approximates the total purchase price to be paid by

Prospect to acquire Patriot in connection with the proposed merger transaction, which is approximately \$61.0 million lower than the fair value of those investments as previously determined by Patriot, is appropriate.

- (3) The Patriot equivalent pro forma per share amount is calculated by multiplying the combined pro forma share amounts by the common stock exchange ratio of 0.3992.

S-20

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

References herein to we, us or our refer to Prospect Capital Corporation and its subsidiary unless the context specifically requires otherwise.

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

Note on Forward Looking Statements

Some of the statements in this report constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein involve risks and uncertainties, including statements as to:

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;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

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

We generally use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in Risk Factors and elsewhere in this prospectus supplement.

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. 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 may make directly to you or through reports that we in the future may file with the Securities and Exchange Commission (SEC), including any annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

General

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

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

S-21

Table of Contents

Pending Acquisition

On August 3, 2009, we announced that we had entered into a definitive agreement to acquire Patriot Capital Funding, Inc. (NASDAQ: PCAP) (Patriot) for approximately \$197,000 comprised of our common stock and cash to repay all Patriot debt, anticipated to be \$110,500 when the acquisition closes. Our common shares will be exchanged at a ratio of approximately 0.3992 for each Patriot share, or 8,616,467 shares of our common stock for 21,584,251 Patriot shares, with such exchange ratio decreased for any tax distributions Patriot may declare before closing. In return, we will acquire assets with an amortized cost of approximately \$311,000 for approximately \$197,000, based on an estimate of our common stock price of \$10 per share and the anticipated debt outstanding at the closing, the value of either may change prior to the closing. We, in conjunction with an independent valuation agent, have determined that the fair value of the assets is approximate to the anticipated purchase price and do not anticipate recording any material gain on the consummation of the transaction.

Patriot has reduced its debt balance to \$112,706 at September 30, 2009.

On November 3, 2009, Patriot announced that it would be making a final dividend equal to its undistributed net ordinary income and capital gains. Patriot has estimated that this final dividend will be \$0.38 per share and the actual amount of the final dividend may be more or less than the estimated amount and will be determined immediately prior to the date on which the final dividend is paid to Patriot shareholders. In accordance with a recent IRS revenue procedure, the dividend will be payable up to 10% in cash and at least 90% in newly issued shares of Patriot's common stock. If \$0.038 per share of the dividend is distributed as cash, the total number of shares to be issued by us in the acquisition of Patriot will be reduced to 8,534,111 shares.

Market Conditions

In 2008 and 2009, the financial services industry has been negatively affected by turmoil in the global capital markets. What began in 2007 as a deterioration of credit quality in subprime residential mortgages has spread rapidly to other credit markets. Market liquidity and credit quality conditions are significantly weaker today than two years ago.

We believe that Prospect Capital is well positioned to navigate through these adverse market conditions. As a business development company, we are limited to a maximum 1 to 1 debt to equity ratio, and as of September 30, 2009, we had \$89,391 available under our credit facility, of which zero was outstanding. As we make additional investments that are eligible to be pledged under the credit facility, we will generate additional availability. The revolving period for the extended credit facility continues until June 25, 2010, with an amortization running to June 25, 2011.

We also continue to generate liquidity through public and private stock offerings. On July 7, 2009 we completed a public stock offering for 5,175,000 shares of our common stock at \$9.00 per share, raising \$46,575 of gross proceeds. On August 20, 2009 and September 24, 2009, we issued 3,449,686 shares and 2,807,111 shares, respectively, of our common stock at \$8.50 and \$9.00 per share, respectively, in private stock offerings, raising \$29,322, and \$25,264 of gross proceeds, respectively. Concurrent with the sale of these shares, we entered into a registration rights agreement in which we granted the purchasers certain registration rights with respect to the shares. Under the terms and conditions of the registration rights agreement, we will use our reasonable best efforts to file with the SEC within sixty (60) days a post-effective amendment to the registration statement on Form N-2 and will also use our reasonable best efforts to cause such post-effective amendment to be declared effective by the SEC within one hundred twenty (120) days. Under the registration rights agreement, we may be obligated to make liquidated damages payments to holders upon certain events.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts

of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

S-22

Table of Contents

Critical Accounting Policies and Estimates

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

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X, and the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our September 30, 2009 and June 30, 2009 financial statements include our accounts and the accounts of Prospect Capital Funding, LLC, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

Investment Classification

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

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

Investment Valuation

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

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

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

- 1) Each portfolio company or investment is reviewed by our investment professionals with the independent valuation firm engaged by our Board of Directors;
- 2) the independent valuation firm conducts independent appraisals and makes their own independent assessment;
- 3) the audit committee of our Board of Directors reviews and discusses the preliminary valuation of our Investment Adviser and that of the independent valuation firm; and

S-23

Table of Contents

4) the Board of Directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the independent valuation firm and the audit committee.

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

ASC 820 classifies the inputs used to measure these fair values into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by the Company at the measurement date.

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

In April 2009, the FASB issued ASC 820-10-65, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC 820-10-65). This update provides further clarification for ASC 820 in markets that are not active and provides additional guidance for determining when the volume of trading level of activity for an asset or liability has significantly decreased and for identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 820-10-65 for the three months ended September 30, 2009, did not have any effect on our net asset value, financial position or results of operations as there was no change to the fair value measurement principles set forth in ASC 820.

Federal and State Income Taxes

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

paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual taxable income in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual taxable income exceeds the distributions from such taxable income for the year. To

S-24

Table of Contents

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

We adopted FASB ASC 740, *Income Taxes* (ASC 740). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Adoption of ASC 740 was applied to all open tax years as of July 1, 2007. The adoption of ASC 740 did not have an effect on our net asset value, financial condition or results of operations as there was no liability for unrecognized tax benefits and no change to our beginning net asset value. As of September 30, 2009 and for the three months then ended, we did not have a liability for any unrecognized tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

Revenue Recognition

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

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

Loans are placed on non-accrual status when principal or interest payments are past due 90 days or more or when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of September 30, 2009, approximately 5.7% of our net assets are in non-accrual status.

Dividend income is recorded on the ex-dividend date.

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

Statement of Assets and Liabilities Overview

During the three months ended September 30, 2009, net assets have increased by \$74,650 from \$532,596 as of June 30, 2009 to \$607,246 as of September 30, 2009. This net increase in assets primarily resulted from \$97,675 of capital share transactions, offset by \$19,548 in dividends declared to our stockholders. During this three month period we recognized net investment income of \$12,318 and a decrease in net assets due to changes in unrealized depreciation of investments of \$18,696. The result was the \$6,378 decrease in net assets resulting from operations.

The aggregate fair value of our portfolio investments was \$510,798 and \$547,168 as of September 30, 2009 and June 30, 2009, respectively. During the three months ended September 30, 2009, our net cost of investments decreased by \$17,674, or 3.3%, primarily from the repayment of two investments. At September 30, 2009, we were

invested in 29 long-term portfolio investments.

S-25

Table of Contents**Investment Activity**

During the three months ended September 30, 2009, we completed follow-on investments in existing portfolio companies, totaling approximately \$4,599 and recorded PIK interest of \$1,467, resulting in gross investment originations of \$6,066. The more significant of these follow-on investments are described briefly in the following:

On July 1, 2009, we made a follow-on secured debt investment of \$1,093 in Iron Horse Coiled Tubing, Inc. (Iron Horse) in support of the build out of additional equipment.

During the three months ended September 30, 2009, we provided additional fundings of \$2,961 to Yatesville Coal Holdings, Inc. (Yatesville) to fund ongoing operations.

During the three months ended September 30, 2009, we closed-out two positions which are briefly described below.

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

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

During the three months ended September 30, 2009, we also received principal amortization payments of \$1,091 on several loans.

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

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

Quarter-End	Acquisitions(1)	Dispositions(2)
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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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	\$ 816,595	\$ 258,883

S-26

Table of Contents

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

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

Investment Holdings

As of September 30, 2009, we continue to pursue our investment strategy. Despite our name change to Prospect Capital Corporation and the termination of our policy to invest at least 80% of our net assets in energy companies in May 2007, we currently have a concentration of investments in companies in the energy and energy related industries. Some of the companies in which we invest have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their investment objective or the value of our investment in them may decline substantially or fall to zero.

Our portfolio had an annualized current yield of 15.7% and 15.5% across all our long-term debt and certain equity investments as of September 30, 2009 and September 30, 2008, respectively. At September 30, 2009, this yield includes interest from all of our long-term investments as well as dividends from Gas Solutions Holdings, Inc. (GSHI) and NRG Manufacturing, Inc. (NRG). We expect the current yield to decline over time as we increase the size of the portfolio. Monetization of other equity positions that we hold is not included in this yield calculation. In each of our portfolio companies, we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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 September 30, 2009, we own controlling interests in Ajax Rolled Ring & Machine (Ajax), C&J, Change Clean Energy Holdings, Inc. (CCEHI), GSHI, Integrated Contract Services, Inc. (ICS), Iron Horse, NRG, R-V Industries, Inc. (R-V), and Yatesville. We also own affiliated interests in Appalachian Energy Holdings, LLC (AEH) and Biotronic NeuroNetwork (Biotronic).

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

Level of Control	Cost	September 30, 2009		June 30, 2009				
		Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 188,886	31.5%	\$ 198,043	33.2%	\$ 187,105	29.7%	\$ 206,332	31.9%
Affiliate	33,555	5.6%	31,790	5.3%	33,544	5.3%	32,254	5.0%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Non-control/Non-affiliate	291,309	48.7%	280,965	47.2%	310,775	49.3%	308,582	47.8%
Money Market Funds	85,143	14.2%	85,143	14.3%	98,735	15.7%	98,735	15.3%
Total Portfolio	\$ 598,893	100.0%	\$ 595,941	100.0%	\$ 630,159	100.0%	\$ 645,903	100.0%

S-27

Table of Contents

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

Level of Control	Cost	September 30, 2009			June 30, 2009			
		Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Money Market Funds	\$ 85,143	14.2%	\$ 85,143	14.3%	\$ 98,735	15.7%	\$ 98,735	15.3%
Senior Secured Debt	230,158	38.4%	213,394	35.8%	232,534	36.9%	220,993	34.2%
Subordinated Secured Debt	235,638	39.4%	167,839	28.2%	251,292	39.9%	194,547	30.1%
Subordinated Unsecured Debt	15,125	2.5%	16,410	2.8%	15,065	2.4%	16,331	2.5%
Preferred Stock	10,432	1.7%	5,202	0.9%	10,432	1.6%	4,139	0.7%
Common Stock	16,606	2.8%	88,234	14.8%	16,310	2.6%	89,278	13.8%
Membership Interests	3,031	0.5%	6,846	1.1%	3,031	0.5%	7,270	1.1%
Overriding Royalty Interests		0.0%	3,187	0.5%		0.0%	3,483	0.5%
Net Profit Interests		0.0%	2,087	0.3%		0.0%	2,561	0.4%
Warrants	2,760	0.5%	7,599	1.3%	2,760	0.4%	8,566	1.4%
Total Portfolio	\$ 598,893	100.0%	\$ 595,941	100.0%	\$ 630,159	100.0%	\$ 645,903	100.0%

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

Level of Control	Cost	September 30, 2009			June 30, 2009			
		Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	\$ 20,521	3.4%	\$ 12,908	2.2%	\$ 19,344	3.1%	\$ 12,606	2.0%
Midwest US	77,712	13.0%	84,082	14.1%	77,681	12.3%	84,097	13.0%
Northeast US	45,999	7.7%	43,968	7.4%	44,875	7.1%	47,049	7.3%
Southeast US	168,156	28.1%	94,812	15.9%	164,652	26.1%	101,710	15.7%
Southwest US	155,423	25.9%	227,608	38.2%	178,993	28.4%	253,615	39.3%
Western US	45,939	7.7%	47,420	7.9%	45,879	7.3%	48,091	7.4%
Money Market Funds	85,143	14.2%	85,143	14.3%	98,735	15.7%	98,735	15.3%
Total Portfolio	\$ 598,893	100.0%	\$ 595,941	100.0%	\$ 630,159	100.0%	\$ 645,903	100.0%

Table of Contents

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

Level of Control	Cost	September 30, 2009		Percent of Portfolio	Cost	June 30, 2009		Percent of Portfolio
		Percent of Portfolio	Fair Value			Percent of Portfolio	Fair Value	
Biomass Power	\$ 2,826	0.5%	\$ 2,530	0.4%	\$ 2,530	0.4%	\$ 2,530	0.4%
Construction Services	5,028	0.8%	1,123	0.2%	5,017	0.8%	2,408	0.4%
Contracting	16,652	2.8%	5,971	1.0%	16,652	2.6%	5,000	0.8%
Financial Services	25,554	4.3%	23,365	3.9%	25,424	4.0%	23,073	3.6%
Food Products	27,459	4.6%	29,730	5.0%	27,413	4.4%	29,416	4.6%
Gas Gathering and Processing	35,003	5.8%	85,187	14.3%	35,003	5.6%	85,187	13.2%
Healthcare	57,683	9.6%	61,530	10.3%	57,535	9.1%	60,293	9.3%
Manufacturing	71,053	11.9%	87,136	14.6%	90,978	14.4%	110,929	17.2%
Metal Services	580	0.1%	3,067	0.5%	3,302	0.5%	7,133	1.1%
Mining and Coal Production	51,850	8.7%	10,994	1.8%	48,890	7.8%	13,097	2.0%
Oil and Gas Production	104,437	17.4%	101,019	17.0%	104,183	16.5%	104,806	16.2%
Oilfield Fabrication	33,292	5.6%	33,957	5.7%	34,247	5.4%	34,931	5.4%
Pharmaceuticals	11,951	2.0%	11,684	2.0%	11,949	2.0%	11,452	1.8%
Production Services	20,521	3.4%	12,908	2.2%	19,344	3.1%	12,606	1.9%
Retail	15,440	2.6%	4,236	0.7%	14,623	2.3%	6,272	1.0%
Shipping Vessels	7,241	1.2%	6,469	1.1%	7,160	1.1%	7,381	1.1%
Specialty Minerals	15,814	2.6%	18,162	3.0%	15,814	2.5%	18,924	2.9%
Technical Services	11,366	1.9%	11,730	2.0%	11,360	1.8%	11,730	1.8%
Money Market Funds	85,143	14.2%	85,143	14.3%	98,735	15.7%	98,735	15.3%
Total Portfolio	\$ 598,893	100.0%	\$ 595,941	100.0%	\$ 630,159	100.0%	\$ 645,903	100.0%

Investment Valuation

In determining the fair value of our portfolio investments at September 30, 2009, the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of \$485,934 to \$532,023, 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 \$510,798, excluding money market investments.

Our investments are generally lower middle market companies, outside of the financial sector, with less than \$30,000 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. In addition, the middle market relies on less leverage than the large capitalization marketplace, which we believe will result in less financial distress.

During the three months ended September 30, 2009, there has been a general improvement in the markets in which we operate and market rates of interest demanded for middle market loans have decreased. As a result, many of our debt investments have seen an increase in value. The fair value is limited on the high side to the loans par value, plus any prepayment penalties that would be imposed. Many of the debt investments in this

Table of Contents

category have not seen a significant change in value as they were previously valued at or near par value. These investments include: American Gilsonite Company, Biotronic, Castro Cheese Company, Inc., H&M Oil & Gas, LLC, IEC/ARS, Maverick Healthcare, LLC, NRG Manufacturing, Inc., Qualitest Pharmaceuticals, Inc., Regional Management Corp., Resco, Shearer's Foods, Inc., Stryker Energy, LLC, TriZetto Group and Unitek.

Six debt investments were made to companies that are not performing in line with budget expectations as of September 30, 2009 and have seen a diminution of value since June 30, 2009 (Ajax, AEH, Conquest Cherokee, LLC, Deb Shops, Inc., Freedom Marine Services LLC, and Iron Horse). For these assets, we have increased the market interest rates to take into account the increased credit risk and general changes in current interest rates for similar assets to determine their fair value.

Four portfolio companies (C&J, Diamondback, Miller and R-V) are equity investments for which the previously outstanding debt has been repaid.

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.

Gas Solutions Holdings, Inc.

GSHI is an investment that we made in September 2004 in which we own 100% of the equity. GSHI is a midstream gathering and processing business located in East Texas. GSHI has improved its operations and we have experienced an increase in revenue, gross margin, and EBITDA (the later two metrics on both an absolute and a percentage of revenues basis) over the past five years.

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

In early May 2008, Gas Solutions II Ltd purchased a series of propane puts at \$0.10 out of the money and at prices of \$1.53 per gallon and \$1.394 per gallon covering the periods May 1, 2008, through April 30, 2009, and May 1, 2009, through April 30, 2010, respectively. These hedges were executed at close to the highest market propane prices ever achieved on an historical basis; such hedges preserve the upside of Gas Solutions II Ltd to benefit from potential future increases in commodity prices. GSHI generated approximately \$26,172 of EBITDA for the fiscal year ending December 31, 2008, an increase of 67% from 2007 results. Despite the volatility in commodity prices over the last year, GSHI generated approximately \$26,955 of EBITDA for the twelve months ending September 30, 2009.

In determining the value of GSHI, we have utilized several valuation techniques to determine the value of the investment. These techniques offer a wide range of values. Our Board of Directors has determined the value to be \$85,187 for our debt and equity positions at September 30, 2009 based upon a combination of a discounted cash flow analysis, a public comparables analysis and review of recent indications of interest. At September 30, 2009 and June 30, 2009, GSHI was valued \$50,184 above its amortized cost.

Integrated Contract Services, Inc.

ICS is an investment that we made 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

S-30

Table of Contents

U.S. Bankruptcy Court approved a Section 363 Asset Sale from ESA to us. To complete this transaction, we contributed our ESA debt to a newly-formed entity, ICS, and provided funds for working capital on October 9, 2007. In return for the ESA debt, we received senior secured debt in ICS of equal amount to our ESA debt, preferred stock of ICS, and 49% of the ICS common stock. ICS subsequently ceased operations and assigned the collateral back to us. ICS is in default of both payment and financial covenants. During September and October 2007, we provided \$1,170 to THS for working capital.

In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS and certain ESA assets. Based upon an analysis of the liquidation value of the ESA assets and the enterprise value of THS, our Board of Directors affirmed the fair value of our investment in ICS at \$5,971 at September 30, 2009, a reduction of \$10,681 from its amortized cost, compared to the \$11,652 unrealized loss recorded at June 30, 2009.

Yatesville Coal Holdings, Inc.

All of our coal holdings have been consolidated under common management in Yatesville. Yatesville began to show improvement after the consolidation of the coal holdings, but the company exhausted its permitted reserves in December 2008 and has not had any meaningful revenue stream since. Yatesville's management continues to pursue additional mine permits and received its first new permit in March 2009 for approximately 650,000 tons. Yatesville has elected not to begin production from its new permit and is investigating alternative revenue streams. These actions have been complicated and impacted by an environment where coal prices are depressed from historical norms. We continue to evaluate strategies for Yatesville such as partnering with and investing in other coal operators in Central Appalachia in order to increase the scale, scope and efficiency of Yatesville's reserve development activities. During the three months ended September 30, 2009, we provided additional funding of \$2,961 to Yatesville to fund ongoing operations including new permitting. Our Board of Directors, upon recommendation from senior management, has set the value of the Yatesville investment at \$10,994 at September 30, 2009, a reduction of \$40,856 from its amortized cost, compared to the \$35,793 unrealized loss recorded at June 30, 2009.

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

Change Clean Energy, Inc. (CCEI) is an investment that we originated in September 2005 which owns and operated a bio-mass energy plant. In March 2009 CCEI ceased operations temporarily as it was not economically feasible to make a profit based on the cost of materials and the price being paid for electricity. During that quarter, we determined that it was appropriate to institute foreclosure proceedings against the co-borrowers of our debt to take full control of the assets. In anticipation of such proceedings CCEHI was established and on March 11, 2009, the foreclosure was completed and the assets were assigned to a wholly owned subsidiary of CCEHI. During the three months ended September 30, 2009, we provided additional funding of \$296 to CCEHI to fund ongoing operations. CCEI currently has no material operations. At June 30, 2009 we determined that the impairment at both CCEI and CCEHI was other than temporary and recognized a realized loss of \$41,134, which was the amount by which the amortized cost exceeded the fair value. At September 30, 2009, our Board of Directors, under recommendation from senior management, has reaffirmed the value of the CCEHI investment at \$2,530, a reduction of \$296 from its 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 is currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and our equity capital is currently comprised entirely of common equity.

On June 25, 2009, we completed a first closing on an expanded \$250,000 syndicated revolving credit facility (the Facility). The new Facility, for which five lenders have closed on \$195,000 to date, includes an accordion feature which allows the Facility to accept up to an aggregate total of \$250,000 of commitments for which we continue to solicit additional commitments from other lenders for the additional \$55,000. The

S-31

Table of Contents

revolving period of the Facility extends through June 2010, with an additional one year amortization period after the completion of the revolving period. As of September 30, 2009 and June 30, 2009, we had zero and \$124,800 of borrowings outstanding under our credit facility, respectively.

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

	As of September 30, 2009		As of June 30, 2009	
	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Revolving Credit Facility	\$ 195,000	\$	\$ 175,000	\$ 124,800

The following table shows the contractual maturity of our revolving credit facility at September 30, 2009:

	Payments Due by Period		
	Less Than 1 Year	1 - 3 Years	More Than 3 Years
Credit Facility Payable	\$	\$	\$

During the quarter ended September 30, 2009, we completed public and private offerings and raised \$97,675 of additional equity by issuing 11,431,797 shares of our common stock below net asset value diluting shareholder value by \$0.75 per share. The following table shows the calculation of net asset value per share as of September 30, 2009 and June 30, 2009:

	As of September 30, 2009		As of June 30, 2009	
Net Assets	\$	607,246	\$	532,596
Shares of common stock outstanding		54,672,155		42,943,084
Net asset value per share	\$	11.11	\$	12.40

At September 30, 2009, we had 54,672,155 of our common stock issued and outstanding.

Results of Operations

For the three months ended September 30, 2009 and September 30, 2008, the net (decrease) increase in net assets resulting from operations was (\$6,378) and \$13,998, respectively, representing (\$0.13) and \$0.47 per share, respectively. We experienced a net realized and unrealized loss of (\$18,696) or approximately (\$0.38) per share in the

three months ended September 30, 2009. This compares with the net realized and unrealized loss of (\$9,504) during the three months ended September 30, 2008 or approximately (\$0.33) per share.

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

Investment Income

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

Table of Contents

penalties and possibly consulting fees. Any such fees generated in connection with our investments are recognized as earned.

Investment income consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including net profits interest, overriding royalties interest and structuring fees. The following table details the various components of investment income and the related levels of debt investments for the three months ended September 30, 2009 and September 30, 2008:

	For the Three Months Ended September 30	
	2009	2008
Interest income	\$ 14,835	\$ 17,556
Dividend income	6,218	4,723
Other income	464	13,520
Total investment income	\$ 21,517	\$ 35,799
Average debt principal of investments	\$ 497,161	\$ 493,487
Weighted-average interest rate earned	11.84%	14.11%

Total investment income has decreased for the three months ended September 30, 2009 from the amount reported for the three months ended September 30, 2008 primarily due to a decrease in other income.

Income from other sources decrease from \$13,520 for the three months ended September 30, 2008 to \$464 for the three months ended September 30, 2009. This \$12,899 decrease is primarily due to the settlement of our net profit interests in IEC/ARS for \$12,576 during the three months ended September 30, 2008.

While average principal balances of debt investments have increased from \$493,487 for the three months ended September 30, 2008 to \$497,161 for the three months ended September 30, 2009, the weighted-average interest rate earned decreased from 14.11% to 11.84%. During the three month period ended September 30, 2009, interest of \$4,448 was foregone on non-accrual debt investments compared to \$1,989 of forgone interest for the three months ended September 30, 2008. Without these adjustments, the weighted average interest rates earned on debt investments would have been 15.39% and 15.71% for the three months ended September 30, 2009 and 2008, respectively.

Dividend income has grown from \$4,723 to \$6,218 for the three months ended September 30, 2008 and September 30, 2009, respectively. The increase in dividend income is attributable to dividends received from our investment in GSHI. We received dividends from GSHI of \$4,000 and \$6,000 during the three months ended September 30, 2008 and September 30, 2009, respectively.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), credit facility costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees

compensate our Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions in accordance with our Administration Agreement with Prospect Administration. Operating expenses were \$9,199 and \$12,297 for the three months ended September 30, 2009 and September 30, 2008, respectively.

The base management fee was \$3,209 and \$2,823 for the three months ended September 30, 2009 and September 30, 2008, respectively. The increase in this expense for the three months ended September 30, 2009 is directly related to our growth in total assets. For the three months ended September 30, 2009 and September 30, 2008, we incurred \$3,080 and \$5,875, respectively, of income incentive fees. The \$2,795 decrease in the income incentive fee for the respective three-month period is driven by a decrease in pre-

Table of Contents

management fee net investment income from \$29,377 for the three months ended September 30, 2008 to \$15,398 for the three months ended September 30, 2009, primarily the result of the settlement of net profits interest in IEC/ARS in the 2008 period. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended September 30, 2009, we incurred \$1,374 of expenses related to our credit facility. This compares with expenses of \$1,518 incurred during the three months ended September 30, 2008. These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken during those quarters. The table below describes the various credit facility expenses and the related indicators of leveraging capacity and indebtedness during these periods.

	For the Three Months Ended September 30,	
	2009	2008
Interest expense	\$ 127	\$ 1,230
Amortization of deferred financing costs	824	180
Commitment and other fees	423	108
Total	\$ 1,374	\$ 1,518
Weighted-average debt outstanding	\$ 8,398	\$ 115,419
Weighted-average interest rate incurred	6.00%	4.27%
Facility amount at beginning of period	\$ 195,000	\$ 200,000

The increase in our interest rate incurred is primarily due to an increase of 150 basis points in our current borrowing rate effective June 25, 2009.

As our asset base has grown and we have added complexity to our capital raising activities, due, in part, to our assumption of the sub-administration role from Vastardis, we have commensurately increased the size of our administrative and financial staff, accounting for a significant increase in the overhead allocation from Prospect Administration. Over the last year, Prospect Administration has added several additional staff members, including a senior finance professional, a controller, two corporate counsels and other finance professionals. As our portfolio continues to grow, we expect to continue to increase the size of our administrative and financial staff on a basis that provides increasing returns to scale. However, initial investments in administrative and financial staff may not provide returns to scale immediately, perhaps not until the portfolio increases to a greater size. Other allocated expenses from Prospect Administration have, as expected, increased alongside with the increase in staffing and asset base.

Legal costs decreased significantly from \$597 for the three months ended September 30, 2008 to zero for the three months ended September 30, 2009 as there were legal matters in the prior year that are no longer active.

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

Net realized (loss) gains were zero and \$1,645 for the three months ended September 30, 2009 and September 30, 2008, respectively. The net realized gain of \$1,645 for the three months ended September 30, 2008 was due primarily

to the sale of the warrants related to Deep Down, Inc.

Net decrease in net assets from changes in unrealized appreciation/depreciation was \$18,696 and \$11,149 for the three months ended September 30, 2009 and September 30, 2008, respectively. For the three months ended September 30, 2009, the \$18,696 decrease in net assets from the net change in unrealized appreciation/depreciation was driven primarily by write-downs of our investments in Ajax, AEH, C&J, Conquest, Deb Shops, and Yatesville. For the three months ended September 30, 2008, the \$11,149 decrease in net assets from the net change in unrealized appreciation/depreciation was driven by significant write-downs in our

S-34

Table of Contents

investments in CCEI, Deb Shops, Iron Horse and by the disposition of Deep Down, Inc. which had been previously valued above cost. These instances of unrealized depreciation were partially offset by unrealized appreciation in C&J, GSHI, and Yatesville.

Financial Condition, Liquidity and Capital Resources

For the three months ended September 30, 2009 and September 30, 2008, our operating activities provided (used) \$41,503 and (\$27,785) of cash, respectively. Financing activities (used) provided (\$44,425) and \$28,499 of cash during the three months ended September 30, 2009 and September 30, 2008, respectively, which included the payments of dividends of \$16,647 and \$11,845, during the three months ended September 30, 2009 and September 30, 2008, respectively.

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

We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. At September 30, 2009, we had zero outstanding borrowings on our \$195,000 revolving credit facility.

On September 6, 2007, our Registration Statement on Form N-2 was declared effective by the SEC. At September 30, 2009, under the Registration Statement, we had remaining availability to issue up to approximately \$147,500 of our equity securities over the next 11 months.

We also continue to generate liquidity through public and private stock offerings. On July 7, 2009 we completed a public stock offering for 5,175,000 shares of our common stock at \$9.00 per share, raising \$46,575 of gross proceeds. On August 20, 2009 and September 24, 2009, we issued 3,449,686 shares and 2,807,111 shares, respectively, of our common stock at \$8.50 and \$9.00 per share, respectively, in private stock offerings, raising \$29,322, and \$25,264 of gross proceeds, respectively. Concurrent with the sale of these shares, we entered into a registration rights agreement in which we granted the purchasers certain registration rights with respect to the shares. Under the terms and conditions of the registration rights agreement, we will use our reasonable best efforts to file with the SEC within sixty (60) days a post-effective amendment to the registration statement on Form N-2 and will also use our reasonable best efforts to cause such post-effective amendment to be declared effective by the SEC within one hundred twenty (120) days. Under the registration rights agreement, we may be obligated to make liquidated damages payments to holders upon certain events.

On August 3, 2009, we announced that we had entered into a definitive agreement to acquire Patriot, for which will issue stock, draw down on our revolving credit facility and use available cash and cash equivalents on hand, \$92,163 as of September 30, 2009, to repay all Patriot debt outstanding, anticipated to be \$110,500 when the acquisition closes.

Off-Balance Sheet Arrangements

At September 30, 2009, 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.

Developments Since the End of the Fiscal Quarter

On October 19, 2009, we issued 233,523 shares of our common stock in connection with the dividend reinvestment plan.

S-35

Table of Contents

SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our annual meeting of stockholders held on February 12, 2009, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from net asset value (NAV) per share during the twelve-month period following such approval. In order to sell shares pursuant to this authorization a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount. We are permitted to sell shares of common stock below NAV per share in rights offerings although we will not do so under this prospectus. Any offering of common stock below NAV per share will be designed to raise capital for investment in accordance with our investment objective. We are currently seeking shareholder approval at our upcoming 2009 annual meeting, which is scheduled to be held on December 11, 2009, to continue for an additional year our ability to issue shares below net asset value. See [Renewing our Authorization to Sell Shares Below NAV](#).

In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our Board of Directors would consider a variety of factors including:

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

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

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

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

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

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

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

The leverage available to us.

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

We will not sell shares under a prospectus supplement to the post-effective amendment to the registration statement of which this prospectus forms a part (the [current amendment](#)) if the cumulative dilution to our NAV per share from offerings under the current amendment exceeds 15%. This limit would be measured separately for each offering

pursuant to the current amendment by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV at the time of the first offering is \$10.70 and we have 55 million shares outstanding, sale of 13 million shares at net proceeds to us of \$5.35 per share (a 50% discount) would produce dilution of 9.56%. If we subsequently determined that our NAV per share increased to \$12.00 on the then 68 million shares outstanding and then made an additional offering, we could, for example, sell approximately an additional 8.3 million shares at net proceeds to us of \$6.00 per share, which would produce dilution of 5.44%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

S-36

Table of Contents

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

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

existing shareholders who do not purchase any shares in the offering

existing shareholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering

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

Impact On Existing Stockholders Who Do Not Participate in the Offering

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

The following chart illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share. It is not possible to predict the level of market price decline that may occur.

The examples assume that the issuer has 55,000,000 common shares outstanding, \$600,000,000 in total assets and \$11,500,000 in total liabilities. The current NAV and NAV per share are thus \$588,500,000 and \$10.70. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 2,750,000 shares (5% of the outstanding shares) at \$10.17 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 5,500,000 shares (10% of the outstanding shares) at \$9.63 per share after offering expenses and commissions (a 10% discount from NAV) and (3) an offering of 11,000,000 shares (20% of the outstanding shares) at \$8.56 per share after offering expenses and commissions (a 20% discount from NAV).

Table of Contents

		Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price							
Price per Share to Public		\$ 10.70		\$ 10.14		\$ 9.01	
Net Proceeds per Share to Investor		\$ 10.17		\$ 9.63		\$ 8.56	
Impact to NAV							
Total Shares Outstanding	55,000,000	57,750,000	5.00%	60,500,000	10.00%	66,000,000	20.00%
NAV per Share	\$ 10.70	\$ 10.67	(0.24)%	\$ 10.60	(0.91)%	\$ 10.34	(3.33)%
Impact to Nonparticipating Stockholder							
Shares Held by Stockholder A	55,000	55,000	0.00%	55,000	0.00%	55,000	0.00%
Percentage Held by Stockholder A	0.10%	0.10%	(4.76)%	0.09%	(9.09)%	0.08%	(16.67)%
Total NAV Held by Stockholder A	\$ 588,500	\$ 587,099	(0.24)%	\$ 583,150	(0.91)%	\$ 568,883	(3.33)%
Total Investment by Stockholder A (Assumed to be \$10.70 per Share)	\$ 588,500	\$ 588,500		\$ 588,500		\$ 588,500	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (1,401)		\$ (5,350)		\$ (19,617)	
NAV per Share Held by Stockholder A		\$ 10.67		\$ 10.60		\$ 10.34	
Investment per Share Held by Stockholder A (Assumed to be \$10.70 per Share on Shares Held Prior to Sale)	\$ 10.70	\$ 10.70		\$ 10.70		\$ 10.70	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.03)		\$ (0.10)		\$ (0.36)	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(0.24)%		(0.91)%		(3.33)%

Impact On Existing Stockholders Who Do Participate in the Offering

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

The following chart illustrates the level of dilution and accretion in the hypothetical 20% discount offering from the prior chart (Example 3) for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 5,500 shares, which is 0.05% of an offering of 11,000,000 shares) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e. 16,500 shares, which is 0.15%

S-38

Table of Contents

of an offering of 11,000,000 shares rather than its 0.10% proportionate share). It is not possible to predict the level of market price decline that may occur.

	Prior to Sale Below NAV	50% Participation Following Sale	% Change	150% Participation Following Sale	% Change
Offering Price					
Price per Share to Public		\$ 9.01		\$ 9.01	
Net Proceeds per Share to Issuer		\$ 8.56		\$ 8.56	
Decrease/Increase to NAV					
Total Shares Outstanding	55,000,000	66,000,000	20%	66,000,000	20%
NAV per Share	\$ 10.70	\$ 10.34	(3.33)%	\$ 10.34	(3.33)%
Dilution/Accretion to Participating Stockholder					
Shares Held by Stockholder A	55,000	60,500	10.00%	71,500	30.00%
Percentage Held by Stockholder A	0.10%	0.09%	(8.33)%	0.11%	8.33%
Total NAV Held by Stockholder A	\$ 588,500	\$ 625,772	6.33%	\$ 739,548	25.67%
Total Investment by Stockholder A (Assumed to be \$10.70 per Share on Shares held Prior to Sale)		\$ 638,058		\$ 737,174	
Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment)		\$ (12,286)		\$ 2,375	
NAV per Share Held by Stockholder A		\$ 10.34		\$ 10.34	
Investment per Share Held by Stockholder A (Assumed to Be \$10.70 on Shares Held Prior to Sale)	\$ 10.70	\$ 10.55	(1.44)%	\$ 10.31	(3.64)%
Dilution/Accretion per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.21)		\$ 0.03	
Percentage Dilution/Accretion to Stockholder A (Dilution/Accretion per Share Divided by Investment per Share)			(1.93)%		0.32%

Impact On New Investors

Investors who are not currently stockholders and who participate in an offering below NAV but whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by the issuer will experience an immediate decrease, albeit small, in the NAV of their shares and their NAV per share compared to the price they pay for their shares. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share due to selling compensation and expenses paid by the issuer being significantly less than the discount per share will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their

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

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

S-39

Table of Contents

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	% Change	Example 2 10% Offering at 10% Discount Following Sale	% Change	Example 3 20% Offering at 20% Discount Following Sale	% Change
Offering Price							
Price per Share to Public		\$ 10.70		\$ 10.14		\$ 9.01	
Net Proceeds per Share to Issuer		\$ 10.17		\$ 9.63		\$ 8.56	
Decrease/Increase to NAV							
Total Shares Outstanding	55,000,000	57,750,000	5%	60,500,000	10%	66,000,000	20%
NAV per Share	\$ 10.70	\$ 10.67	(0.24)%	\$ 10.60	(0.91)%	\$ 10.34	(3.33)%
Dilution/Accretion to New Investor A							
Shares Held by Investor	0	2,750		5,500		11,000	
Percentage Held by Investor A	0.00%	0.00%		0.01%		0.02%	
Total NAV Held by Investor A	\$ 0	\$ 29,355		\$ 58,315		\$ 113,777	
Total Investment by Investor A (At Price to Public)		\$ 29,425		\$ 55,753		\$ 99,116	
Total Dilution/Accretion Investor A (Total NAV Less Total Investment)		\$ (70)		\$ 2,562		\$ 14,661	
NAV per Share Held by Investor A		\$ 10.67		\$ 10.60		\$ 10.34	
Investment per Share Held by Investor A	\$ 0	\$ 10.70		\$ 10.14		\$ 9.01	
Dilution/Accretion per Share Held by Investor A (NAV per Share Less Investment per Share)		\$ (0.03)		\$ 0.46		\$ 1.33	
Percentage Dilution/Accretion to Investor A (Dilution/Accretion per Share Divided by Investment per Share)			(0.24)%		4.60%		14.79%

Renewing our Authorization to Sell Shares Below NAV

As mentioned above, our authorization to issue shares below NAV expires on the one year anniversary of the completion of our 2008 annual meeting of shareholders. We are currently seeking shareholder approval to continue for an additional year our ability to issue shares below NAV at our upcoming 2009 annual meeting.

The 1940 Act prohibits business development companies from selling shares of common stock at a price below the current NAV per share of such stock, unless such a sale is approved by shareholders and, in certain cases, the board of directors makes certain determinations. Pursuant to the 1940 Act, our shareholders may approve the proposal to issue shares below net asset value at our upcoming annual meeting in either of two ways.

First, the proposal will be approved if we obtain the affirmative vote of: (a) a majority of the outstanding shares of common stock entitled to vote at the annual meeting; and (b) a majority of the outstanding shares of common stock entitled to vote at the annual meeting that are not held by affiliated persons. For purposes of this alternative, the 1940 Act defines a majority of the outstanding shares as: (1) 67% or more of the voting securities present at the annual meeting if the holders of more than 50% of our outstanding voting securities are present or represented by proxy; or (2) 50% of our outstanding voting securities, whichever is the less. In order to sell shares pursuant to this authorization, the 1940 Act requires that a majority of our directors who have no financial interest in the sale and a majority of our independent directors (i) find that the sale is in our best interests and in the best interests of our shareholders, and (ii) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount. In addition, in

S-40

Table of Contents

accordance with the 1940 Act, this authorization would only be valid during the twelve month period following its approval.

Second, the proposal will also be approved if we receive approval from a majority of the number of the beneficial holders of our common stock entitled to vote at the annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal. If the second method of authorization is obtained, our independent directors will not be required by the 1940 Act to make certain of the determinations outlined under method one above nor will the 1940 Act by its terms impose a one-year authorization limitation. However, if we obtain this second method of authorization at our 2009 annual meeting, we will nonetheless only make sales pursuant to such authority for a twelve month period.

PLAN OF DISTRIBUTION

We previously issued shares representing 6,256,797 shares of our common stock to the selling stockholders in connection with private stock offerings. This prospectus supplement relates to the offer and sale of up to all such 6,256,797 shares of our common stock. The registration of the common stock does not necessarily mean that any or all of the shares will be offered or sold by the selling stockholders under this prospectus supplement.

We will bear all of the expenses that we incur in connection with the offering of our shares of common stock under this prospectus supplement. Total expenses payable by us in connection with the offering were reported as a cost of the original issuance of the shares by us; provided, however, that a selling stockholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act of 1933, in accordance with the Registration Rights Agreements, or the selling stockholders will be entitled to contribution. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act of 1933, that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related Registration Rights Agreement, or we may be entitled to contribution. In addition, if, among other things, the registration statement, of which the prospectus and this prospectus supplement forms a part, is not declared effective by a certain date or does not remain continuously effective as required by the Registration Rights Agreements, we may be obligated to make liquidated damages payments to selling stockholders.

Pursuant to the terms of the Registration Rights Agreements entered into by the Company, the selling stockholders may resell shares of our common stock under this prospectus supplement. The selling stockholders may sell common stock from time to time in one or more of the following types of transactions (including block transactions): (i) on any national exchange on which the shares may be listed or any automatic quotation system through which the shares may be quoted, (ii) in the over-the-counter market, (iii) in privately negotiated transactions, (iv) through put and call transactions, (v) through short sales, (vi) by pledge to secure debts and other obligations, (vii) to cover hedging transactions, (viii) through the issuance of derivative securities, including warrants, exchangeable securities, (ix) forward delivery contracts and the writing of options, underwritten offerings, (x) a combination of such methods of sale, and (xi) any other legally available means. The sales may be made at prevailing market prices at the time of sale or at privately negotiated prices. The selling stockholders may use brokers, dealers or agents to sell their respective shares. The persons acting as agents may receive compensation in the form of commissions, discounts or concessions. This compensation may be paid by the selling stockholders or the purchasers of the shares for whom the selling stockholders may act as agent, or to whom the selling stockholders may sell as a principal, or both.

The selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions. In connection with these transactions, broker-dealers or other financial institutions may engage in short sales of the shares in the course of hedging positions they assume with the selling stockholders. The selling stockholders may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to

these broker-dealers or other financial institutions of shares, which such broker-dealer or other financial institution may resell under this prospectus supplement (as amended or supplemented to reflect such transaction). The selling stockholders may also engage in short sales of shares

S-41

Table of Contents

and, in those instances, the prospectus supplement may be delivered in connection with the short sales and the shares offered pursuant to the prospectus supplement may be used to cover the short sales. The selling stockholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be underwriters within the meaning of the Securities Act of 1933, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act of 1933. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers.

The selling stockholders may choose not to sell any or may choose to sell less than all of the shares of common stock registered pursuant to the registration statement, of which this prospectus supplement forms a part. Once sold under the registration statement, of which this prospectus supplement forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

In order to comply with the securities laws of most states, if applicable, the selling stockholders may only sell shares of common stock in those jurisdictions through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

The selling stockholders and any other person participating in a distribution of the securities covered by the prospectus supplement will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of any of the securities by the selling stockholders and any other such person. Furthermore, under Regulation M, any person engaged in the distribution of the securities may not simultaneously engage in market-making activities with respect to the particular securities being distributed for certain periods prior to the commencement of or during such distribution. Regulation M's prohibition on purchases may include purchases to cover short positions by the selling stockholders, and a selling stockholder's failure to cover a short position at a lender's request and subsequent purchases by the lender in the open market of shares to cover such short positions, may be deemed to constitute an inducement to buy shares, which is prohibited by Regulation M. All of the above may affect the marketability of the securities and the ability of any person or entity to engage in market-making activities with respect to the securities.

Certain selling stockholders have identified themselves to us as affiliates of broker-dealers. The selling stockholders who are affiliates of broker-dealers have each informed us that that they did not receive the shares of common stock outside of the ordinary course of business nor, at the time of issuance or purchase of the common stock, did they have any view to or arrangements or understandings, directly or indirectly, with any person to distribute the shares of common stock.

Our common stock is listed on the NASDAQ Global Select Market under the symbol PSEC.

LEGAL MATTERS

Certain legal matters regarding the common stock offered hereby have been passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, and Venable LLP as special Maryland counsel.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO Seidman LLP is the independent registered public accounting firm for the Company.

Table of Contents

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act of 1933, with respect to our common stock offered by this prospectus supplement. The registration statement contains additional information about us and the common stock being registered by this prospectus supplement. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2009, are available free of charge by contacting us at 10 East 40th Street, 44th floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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

Table of Contents**INDEX TO FINANCIAL STATEMENTS**

	Page
UNAUDITED FINANCIAL STATEMENTS OF PROSPECT	
<u>Consolidated Statements of Assets and Liabilities – September 30, 2009 (Unaudited) and June 30, 2009 (Audited)</u>	F-1
<u>Consolidated Statements of Operations (Unaudited) – For the Three Months Ended September 30, 2009 and 2008</u>	F-2
<u>Consolidated Statements of Changes in Net Assets (Unaudited) – For the Three Months Ended September 30, 2009 and 2008</u>	F-3
<u>Consolidated Statements of Cash Flows (Unaudited) – For the Three Months Ended September 30, 2009 and 2008</u>	F-4
<u>Consolidated Schedule of Investments – September 30, 2009 (Unaudited) and June 30, 2009 (Audited)</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-20
UNAUDITED FINANCIAL STATEMENTS OF PATRIOT CAPITAL FUNDING, INC.	
<u>Consolidated Balance Sheets at September 30, 2009 and December 31, 2008</u>	F-36
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2008</u>	F-37
<u>Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2009 and 2008</u>	F-38
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and 2008</u>	F-39
<u>Consolidated Schedule of Investments as of September 30, 2009</u>	F-40
<u>Consolidated Schedule of Investments as of December 31, 2008</u>	F-46
<u>Notes to Consolidated Financial Statements</u>	F-52
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
<u>Pro Forma Condensed Consolidated Balance Sheet – September 30, 2009</u>	F-71
<u>Pro Forma Condensed Consolidated Income Statements – For the Three Months Ended September 30, 2009</u>	F-72
<u>Pro Forma Consolidated Income Statements – For the Year Ended June 30, 2009</u>	F-73
<u>Pro Forma Schedule of Investments September 30, 2009</u>	F-74
<u>Notes to Pro Forma Condensed Consolidated Financial Statements</u>	F-80

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
September 30, 2009 and June 30, 2009

	September 30, 2009 (Unaudited) (In thousands, except share and per share data)	June 30, 2009 (Audited)
Assets (Note 9)		
Investments at fair value (cost of \$513,750 and \$531,424, respectively, Note 3)		
Control investments (cost of \$188,886 and \$187,105, respectively)	\$ 198,043	\$ 206,332
Affiliate investments (cost of \$33,555 and \$33,544, respectively)	31,790	32,254
Non-control/Non-affiliate investments (cost of \$291,309 and \$310,775, respectively)	280,965	308,582
Total investments at fair value	510,798	547,168
Investments in money market funds	85,143	98,735
Cash	7,020	9,942
Receivables for:		
Interest, net	4,652	3,562
Dividends	7	28
Other	314	571
Prepaid expenses	780	68
Deferred financing costs, net	6,781	6,951
Total Assets	615,495	667,025
Liabilities		
Credit facility payable (Note 9)		124,800
Due to Prospect Administration (Note 7)	157	842
Due to Prospect Capital Management (Note 7)	5,874	5,871
Accrued expenses	1,447	2,381
Other liabilities	771	535
Total Liabilities	8,249	134,429
Net Assets	\$ 607,246	\$ 532,596
Components of Net Assets		
	\$ 55	\$ 43

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Common stock, par value \$0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 54,672,155 and 42,943,084 issued and outstanding, respectively)				
Paid-in capital in excess of par	646,271		545,707	
Undistributed net investment income	16,922		24,152	
Accumulated realized losses on investments	(53,050)		(53,050)	
Unrealized (depreciation) appreciation on investments	(2,952)		15,744	
Net Assets	\$	607,246	\$	532,596
Net Asset Value Per Share	\$	11.11	\$	12.40

See notes to consolidated financial statements.

F-1

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS
For The Three Months Ended September 30, 2009 and 2008**

	For Three Months Ended	
	September 30,	September 30,
	2009	2008
	(Unaudited)	
	(In thousands, except share and per share data)	
Investment Income		
Interest income:		
Control investments (Net of foreign withholding tax of \$32 and \$47, respectively)	\$ 4,591	\$ 6,722
Affiliate investments	849	560
Non-control/non-affiliate investments	9,395	10,274
 Total interest income	 14,835	 17,556
Dividend income:		
Control investments	6,200	4,584
Money market funds	18	139
 Total dividend income	 6,218	 4,723
Other income: (Note 4)		
Control/affiliate investments		744
Non-control/non-affiliate investments	464	12,776
 Total other income	 464	 13,520
 Total Investment Income	 21,517	 35,799
Operating Expenses		
Investment advisory fees:		
Base management fee (Note 7)	3,209	2,823
Income incentive fee (Note 7)	3,080	5,875
 Total investment advisory fees	 6,289	 8,698
Interest and credit facility expenses	1,374	1,518
Sub-administration fees (including former Chief Financial Officer and Chief Compliance Officer)		250
Legal fees		597
Valuation services	120	160
Audit, compliance and tax related fees	262	177
Allocation of overhead from Prospect Administration (Note 7)	840	588

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Insurance expense	63	61
Directors fees	64	81
Other general and administrative expenses	187	167
Total Operating Expenses	9,199	12,297
Net Investment Income	12,318	23,502
Net realized gain on investments		1,645
Net change in unrealized depreciation on investments	(18,696)	(11,149)
Net (Decrease) Increase in Net Assets Resulting from Operations	\$ (6,378)	\$ 13,998
Net (decrease) increase in net assets resulting from operations per share:	\$ (0.13)	\$ 0.47
Dividends declared per share:	\$ 0.41	\$ 0.40

See notes to consolidated financial statements.

F-2

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For The Three Months Ended September 30, 2009 and 2008

	For the Three Months Ended September 30, September 30, 2009 2008 (Unaudited) (In thousands, except share data)	
Increase in Net Assets from Operations:		
Net investment income	\$ 12,318	\$ 23,502
Net realized gain on investments		1,645
Net change in unrealized depreciation on investments	(18,696)	(11,149)
Net (Decrease) Increase in Net Assets Resulting from Operations	(6,378)	13,998
Dividends to Shareholders:	(19,548)	(11,882)
Capital Share Transactions:		
Net proceeds from capital shares sold	98,833	
Less: Offering costs of public share offerings	(1,158)	
Reinvestment of dividends	2,901	
Net Increase in Net Assets Resulting from Capital Share Transactions	100,576	
Total Increase in Net Assets:	74,650	2,116
Net assets at beginning of period	532,596	429,623
Net Assets at End of Period	\$ 607,246	\$ 431,739
Capital Share Activity:		
Shares sold	11,431,797	
Shares issued through reinvestment of dividends	297,274	
Net increase in capital share activity	11,729,071	
Shares outstanding at beginning of period	42,943,084	29,520,379
Shares Outstanding at End of Period	54,672,155	29,520,379

See notes to consolidated financial statements.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Three Months Ended September 30, 2009 and 2008**

	For the Three Months Ended	
	September 30,	September 30,
	2009	2008
	(Unaudited)	
	(In thousands, except share data)	
Cash Flows from Operating Activities:		
Net (decrease) increase in net assets resulting from operations	\$ (6,378)	\$ 13,998
Net realized gain on investments		(1,645)
Net change in unrealized depreciation on investments	18,696	11,149
Accretion of original issue discount on investments	(501)	(1,770)
Amortization of deferred financing costs	823	180
Gain on settlement of net profits interest		(12,576)
Change in operating assets and liabilities:		
Payments for purchases of investments	(4,599)	(57,460)
Payment-In-Kind interest	(1,467)	(420)
Proceeds from sale of investments and collection of investment principal	24,241	10,949
Purchases of cash equivalents	(124,998)	(9,999)
Sales of cash equivalents	124,998	9,999
Net investments in money market funds	13,592	4,342
Increase in interest receivable	(1,090)	(1,422)
Decrease in dividends receivable	21	4,018
Decrease in loan principal receivable		8
Increase in receivable for managerial assistance		(2)
Increase in receivable for potential deal expenses		(303)
Decrease (increase) in other receivables	257	(45)
Increase in prepaid expenses	(712)	(73)
(Decrease) increase in due to Prospect Administration	(685)	343
Increase in due to Prospect Capital Management	3	2,685
Decrease in accrued expenses	(934)	(110)
Increase in other liabilities	236	369
Net Cash Provided By (Used In) Operating Activities:	41,503	(27,785)
Cash Flows from Financing Activities:		
Borrowings under credit facility		47,500
Payments under credit facility	(124,800)	(7,000)
Financing costs paid and deferred	(653)	(156)
Net proceeds from issuance of common stock	98,833	
Offering costs from issuance of common stock	(1,158)	
Dividends paid	(16,647)	(11,845)

Net Cash Provided By Financing Activities:	(44,425)	28,499
Total (Decrease) Increase in Cash	(2,922)	714
Cash balance at beginning of period	9,942	555
Cash Balance at End of Period	\$ 7,020	\$ 1,269
Cash Paid For Interest	\$ 348	\$ 1,250
Non-Cash Financing Activity:		
Amount of shares issued in connection with dividend reinvestment plan	\$ 2,901	\$

See notes to consolidated financial statements.

F-4

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS**

September 30, 2009 and June 30, 2009

Portfolio Investments(1)	Locale/Industry	Par Value/	September 30, 2009			
		Shares/ Ownership % (In thousands, except share data)	Cost	Fair Value(2)	% of Net Assets	
Control Investments (25.00% or greater of voting control)						
Ajax Rolled Ring & Machine Unrestricted common shares (7 total unrestricted common shares issued and outstanding and 681.86 restricted common shares issued and outstanding)	South Carolina/ Manufacturing	6	\$	\$	0.0%	
Series A convertible preferred shares (7,182.6 total preferred shares issued and outstanding)		6,142.6		6,057	0.0%	
Subordinated secured note Tranche B, 11.50% plus 6.00% PIK, 4/01/2013(3),(4)		\$ 11,855		11,855	8,192	1.3%
Senior secured note Tranche A, 10.50%, 4/01/2013(3),(5)		\$ 21,377		21,377	21,377	3.5%
Total				39,289	29,569	4.8%
C&J Cladding LLC Warrant, common units, expiring 3/30/2014 (1,000 total company units outstanding)	Texas/Metal Services	400		580	3,067	0.5%
Change Clean Energy Holdings, Inc. (CCEHI)(7) CCEHI common shares (1,000 total common shares issued and outstanding)	Maine/Biomass Power	1,000		2,826	2,530	0.4%
Gas Solutions Holdings, Inc.(3),(8) Common shares (100 total common shares outstanding)	Texas/Gas Gathering and Processing	100		5,003	55,187	