

PROSPECT CAPITAL CORP

Form 497

March 17, 2010

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

**PROSPECTUS SUPPLEMENT  
(To Prospectus dated March 4, 2010)**

**Up to 8,000,000 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.

We have entered into separate equity distribution agreements with each of BB&T Capital Markets, a division of Scott & Stringfellow, LLC and Knight Capital Markets LLC, which we refer to individually as a Sales Manager and together as the Sales Managers, relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. In accordance with the terms of the equity distribution agreements, we may offer and sell up to 8,000,000 shares of our common stock from time to time through the Sales Managers, as our agents for the offer and sale of such common stock.

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

Each Sales Manager will receive from us a commission equal to 2% of the gross sales price of all shares of common stock sold through it as Sales Manager under the applicable equity distribution agreement. In connection with the sale of the common stock on our behalf, a Sales Manager may be deemed to be an underwriter within the meaning of the 1933 Act, and the compensation of a Sales Manager may be deemed to be underwriting commissions or discounts.

Neither Sales Manager is required to sell any specific number or dollar amount of common stock, but each will use its reasonable efforts to sell the common stock offered by this prospectus supplement. See Plan of Distribution on page S-17 of this prospectus supplement.

These shares of common stock may be offered at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders at the annual meeting of stockholders held on December 11, 2009. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See Risk Factors beginning on page S-6 and Sales of Common Stock Below Net Asset Value beginning on page S-12 of this prospectus supplement and on page 80 of the accompanying prospectus.

Our common stock is traded on the NASDAQ Global Select Market under the symbol PSEC. The last reported closing sales price for our common stock on March 16, 2010 was \$12.47 per share and our most recently determined net asset

value per share was \$10.06 as of December 31, 2009 (\$10.07 on an as adjusted basis solely to give effect to our issuances of common stock on January 25, 2010 in connection with our dividend reinvestment plan).

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](http://www.sec.gov) where such information is available without charge upon written or oral request. Our Internet website address is [www.prospectstreet.com](http://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 9 of the accompanying prospectus.**

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

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

**Knight Capital Markets LLC**

Prospectus Supplement dated March 17, 2010

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**FORWARD-LOOKING STATEMENTS**

Our annual report on Form 10-K for the year ended June 30, 2009, any of our quarterly reports on Form 10-Q or current reports on Form 8-K, or any other oral or written statements made in press releases or otherwise by or on behalf of Prospect Capital Corporation including this prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of the Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), as amended, which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as intends, intend, intended, goal, estimate, estimates, expects, expected, project, projected, projections, plans, seeks, anticipates, anticipated, should, could, may, foreseeable future, believe, believes and scheduled and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

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

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

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

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

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

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**PROSPECTUS SUMMARY**

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

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

**The Company**

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

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

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

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

As of December 31, 2009, we held investments in 55 portfolio companies. The aggregate fair value as of December 31, 2009 of investments in these portfolio companies held on that date is approximately \$648 million. Our portfolio across all our long-term debt and certain equity investments had an annualized current yield of 15.6% as of

December 31, 2009. The yield includes interest as well as dividends.

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**Recent Developments**

On January 6, 2010, we announced a \$15 million increase in total commitments on our revolving credit facility, increasing the facility size from \$195 million to \$210 million.

On March 5, 2010 we announced that we had determined to terminate our solicitation in opposition to the proposed merger of Allied Capital Corporation with Ares Capital Corporation.

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Common stock offered by us	Up to 8,000,000 shares.
Common stock outstanding as of the date of this prospectus supplement	63,586,731 shares.
Use of proceeds	We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See <i>Use of Proceeds</i> in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See <i>Risk Factors</i> 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 second fiscal quarter of 2010, our Board of Directors declared a quarterly dividend of \$0.40875 per share, representing an annualized dividend yield of approximately 13.11% based on our March 16, 2010 closing stock price of \$12.47 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 at December 31, 2009. As of December 31, 2009, we had \$10 million outstanding under our credit facility. As of December 31, 2009, approximately \$62.9 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:**

Sales load (as a percentage of offering price)(1)	2.0%
Offering expenses borne by us (as a percentage of offering price)(2)	0.3%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	2.3%

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

Management Fees(5)	2.74%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.29%
Interest payments on borrowed funds	1.84%(7)
Acquired Fund Fees and Expenses	0.02%(8)
Other expenses	1.99%(9)
Total annual expenses	8.89%(6)(9)

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

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 87.45	\$ 213.26	\$ 335.08	\$ 623.04

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

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

- (1) Represents the commission with respect to our shares of common stock being sold in this offering, which we will pay to the Sales Managers in connection with sales of common stock effected by the Sales Managers in this offering. This is the only sales load to be paid in connection with this offering. There is no guaranty that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.
- (2) The offering expenses of this offering are estimated to be approximately \$300,000.
- (3) The expenses of the dividend reinvestment plan are included in [other expenses](#).
- (4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at December 31, 2009. See [Capitalization](#) in this prospectus supplement.
- (5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Assuming that we have borrowed \$195 million (the size of our credit facility at December 31, 2009), the 2% management fee of gross assets equals 2.74% of net assets. See [Management](#) [Management Services](#) [Investment Advisory Agreement](#) in the accompanying prospectus and

footnote 6 below.

- (6) Based on an annualized level of incentive fee paid during our quarter ended December 31, 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.
- (7) We may borrow additional money before and after the proceeds of this offering are substantially invested. After this offering, we will have an increased amount available for us under our existing credit facility and we will continue to seek additional lenders to upsize the facility to up to \$250 million. For more information, see Risk Factors Risks Relating To Our Business Changes in interest rates may affect our cost of capital and net investment income and Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Expenses Financial Condition, Liquidity and Capital Resources in the accompanying prospectus. The table above assumes that we have borrowed \$195 million under our credit facility, which is the maximum amount available under the credit facility at December 31, 2009. If we do not borrow amounts following this offering, our base management fee, as a percentage of net assets attributable to common stock, will decrease from the percentage shown in the table above, as borrowings will not represent a portion of our overall assets.

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- (8) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of December 31, 2009. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on average monthly net assets of approximately \$637 million for the six months ended December 31, 2009.
- (9) Other expense is based on our annualized expenses during our quarter ended December 31, 2009, as adjusted for the increased costs anticipated in connection with the extended credit facility. See Management Services Administration Agreement in the accompanying prospectus.



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**RISK FACTORS**

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

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

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

***Our most recent net asset value was calculated on December 31, 2009 and our NAV when calculated effective March 31, 2010 may be higher or lower.***

Our most recently estimated NAV per share is \$10.07 on an as adjusted basis solely to give effect to our issuance of common stock on January 25, 2010 in connection with our dividend reinvestment plan, versus \$10.06 determined by us as of December 31, 2009. NAV as of March 31, 2010 may be higher or lower than \$10.07 based on potential changes in valuations and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments subsequent to December 31, 2009. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from an independent valuation firm, our Investment Advisor and the audit committee of our Board of Directors.

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

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending on December 11, 2010 as described in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information about recent sales below NAV per share, see [Recent Sales of Common Stock Below Net Asset Value](#) in this

prospectus supplement and for additional information and hypothetical examples of these risks, see Sales of Common Stock Below Net Asset Value in this prospectus supplement and in the accompanying prospectus.

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**USE OF PROCEEDS**

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the 1933 Act, including sales made directly on the NASDAQ Global Select Market or sales made to or through a market maker other than on an exchange. There is no guaranty that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale, and may be for prices below our most recently determined net asset value per share. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all of our common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of \$12.47 per share for our common stock on the NASDAQ Global Select Market as of March 16, 2010, we estimate that the net proceeds of this offering will be approximately \$97.5 million after deducting the estimated Sales Manager commissions and our estimated offering expenses.

We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective.

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We may offer and sell up to 8,000,000 shares of our common stock from time to time through the Sales Managers as our agents for the offer and sale of such common stock. There is no guaranty that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. The table below assumes that we will sell 8,000,000 shares of our common stock, at a price of \$12.47 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on March 16, 2010). Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than \$12.47, depending on the market price of our common stock at the time of any such sale and whether such sale is made at a discount to our most recently determined net asset value per share.

The following table sets forth our capitalization as of December 31, 2009:

on an actual basis;

on an as adjusted basis giving effect to our distribution of shares of our common stock in connection with our dividend reinvestment plan on January 25, 2010 and additional borrowings; and

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of 8,000,000 shares of our common stock at a price of \$12.47 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on March 16, 2010) less commissions and expenses.

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

	<b>Actual</b>	<b>As of December 31, 2009 As Adjusted for Stock Issuances and Additional Borrowing After December 31, 2009 (Unaudited)</b>	<b>As further Adjusted for this Offering</b>
	<b>(In thousands, except shares and per share data)</b>		
Long-term debt, including current maturities:			
Borrowings under senior credit facility(1)	\$ 10,000	\$ 25,000	\$ 25,000
Amount owed to affiliates	7,412	7,412	7,412
Total long-term debt	17,412	32,412	32,412

Stockholders' equity:

Common stock, par value \$0.001 per share (100,000,000 common shares authorized; 63,349,746 shares outstanding actual, 63,586,731(2) shares outstanding as adjusted for stock issuances in connection with our dividend reinvestment plan completed after December 31, 2009 and 71,586,731 shares outstanding as further adjusted for this offering)	63	64	72
Paid-in capital in excess of par value	741,520	744,415	841,872
Undistributed (distributions in excess of) net investment income	(14,326)	(14,326)	(14,326)
Accumulated realized losses on investments	(104,279)	(104,279)	(104,279)
Net unrealized depreciation on investments	14,499	14,499	14,499
Total stockholders' equity	637,477	640,373	737,838
Total capitalization	\$ 654,889	\$ 672,785	\$ 770,250

- (1) As of December 31, 2009, we had \$10 million of borrowings outstanding under our credit facility. As of March 16, 2010, we had \$25.0 million of borrowings under our credit facility, representing a \$15.0 million increase in borrowing subsequent to December 31, 2009.
- (2) Includes 236,985 shares of our common stock issued on January 25, 2010 in connection with our dividend reinvestment plan.

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

At our 2008 annual meeting of stockholders held on February 12, 2009 and our 2009 annual meeting of stockholders held on December 11, 2009, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount to NAV per share during the twelve-month period following such approval. Accordingly, we may make additional offerings of our common stock without any limitation on the total amount of dilution to stockholders. See *Sales of Common Stock Below Net Asset Value* in this supplement and in the base prospectus. Pursuant to this authority, we have made the following offerings:

<b>Date of Offering</b>	<b>Price Per Share to Investors</b>	<b>Shares Issued</b>	<b>Estimated Net Asset Value Per Share</b>	<b>Percentage Dilution</b>
March 18, 2009	\$ 8.20	1,500,000	\$ 14.43	2.20%
April 22, 2009	\$ 7.75	3,680,000	\$ 14.15	5.05%
May 19, 2009	\$ 8.25	7,762,500	\$ 13.44	7.59%
July 7, 2009	\$ 9.00	5,175,000	\$ 12.40	3.37%
August 20, 2009	\$ 8.50	3,449,686	\$ 11.57	1.78%
September 24, 2009	\$ 9.00	2,807,111	\$ 11.36	1.20%

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**DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK**

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

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

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 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 and second quarters of the fiscal year ending June 30, 2010, we paid total distributions of approximately \$22.3 million and \$25.9 million, respectively.

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. In the past, our common stock has traded

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at a discount to our NAV. 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
<b>Twelve Months Ending June 30, 2005</b>						
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
<b>Twelve Months Ending June 30, 2006</b>						
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
<b>Twelve Months Ending June 30, 2007</b>						
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
<b>Twelve Months Ending June 30, 2008</b>						
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
<b>Twelve Months Ending June 30, 2009</b>						
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
<b>Twelve Months Ending June 30, 2010</b>						
First quarter	\$ 11.11	\$ 10.99	\$ 8.82	(1.1)%	(20.6)%	\$ 0.4075
Second quarter	10.06	12.31	9.93	22.4	(1.3)	0.40875
Third quarter (to 3/16/10)	(3)(4)	13.20	10.45	(4)	(4)	(5)

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high or low sales price. The NAVs shown are based on outstanding

shares of our common stock at the end of each period.

- (2) The High/Low Stock Price is calculated as of the closing price on a given day in the applicable quarter.
- (3) Our most recently determined NAV per share was \$10.06 as of December 31, 2009 (\$10.07 on an as adjusted basis solely to give effect to our issuance of common stock on January 25, 2010 in connection with our dividend reinvestment plan). NAV as of March 31, 2010 may be higher or lower than \$10.07 based on potential changes in valuations as of March 31, 2010.
- (4) NAV has not yet been finally determined for any day after December 31, 2009.
- (5) The dividend for the third quarter of 2010 will be declared in March 2010.

On March 16, 2010, the last reported sales price of our common stock was \$12.47 per share.

As of March 16, 2010, we had approximately 55 stockholders of record.

The below table sets forth each class of our outstanding securities as of March 16, 2010.

<b>Title of Class</b>	<b>Amount Authorized</b>	<b>Amount Held by Registrant or for its Account</b>	<b>Amount Outstanding Exclusive of Amount Shown Under(3)</b>
Common Stock	100,000,000	0	63,586,731

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**SALES OF COMMON STOCK BELOW NET ASSET VALUE**

At our 2008 annual meeting of stockholders held on February 12, 2009 and our 2009 annual meeting of stockholders held on December 11, 2009, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from NAV per share during the twelve month period following such approval. In order to sell shares of our common stock pursuant to this authorization a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares of common stock, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount.

As of the date of this prospectus supplement, our common stock is trading at a price above our most recently determined NAV per share. However, in the future, our common stock may trade at a price below our most recently determined NAV per share and, as such, the offering being made pursuant to this prospectus supplement may be at a price below our most recently determined NAV per share.

In making a determination that an offering below net asset value is in our and our stockholders' best interests, our Board of Directors considers a variety of factors including matters such as:

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

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

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

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

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

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

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

The leverage available to us.

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

We will not sell shares of common stock under a prospectus supplement to the registration statement (the current registration statement ) if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV at the time of the first offering is \$10.06 and we have 64 million shares of common stock outstanding, sale of 16 million shares of common stock at net proceeds to us of \$5.03 per share (a 50% discount) would produce dilution of 10.00%. If we subsequently determined that our NAV per share increased to \$11.00 on the then 80 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 8.885 million shares of common stock at net proceeds to us of \$5.50 per share, which would produce dilution of 5.00%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

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

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

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

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

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

**Impact On Existing Stockholders Who Do Not Participate in the Offering**

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

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

The examples assume that the issuer has 64,000,000 common shares outstanding, \$700,000,000 in total assets and \$56,160,000 in total liabilities. The current NAV and NAV per share are thus \$643,840,000 and \$10.06. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 3,200,000 shares of common stock (5% of the outstanding shares of common stock) at \$9.56 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 6,400,000 shares of common stock (10% of the outstanding shares of common stock) at \$9.05 per share after offering expenses and commissions (a 10% discount from NAV) and (3) an offering of 12,800,000 shares of common stock (20% of the outstanding shares of common stock) at \$8.05 per share after offering expenses and commissions (a 20% discount from NAV).

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price							
Price per Share to Public		\$ 10.06		\$ 9.53		\$ 8.47	
Net Proceeds per Share to Offeror		\$ 9.56		\$ 9.05		\$ 8.05	

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**crease to NAV**

Total Shares Outstanding	64,000,000	67,200,000	5.00%	70,400,000	10.00%	76,800,000	20.00%
NAV per Share	\$ 10.06	\$ 10.04	(0.24)%	\$ 9.97	(0.91)%	\$ 9.72	(3.33)%

**ution to**

**nonparticipating**

**Stockholder**

Shares Held by Stockholder A	64,000	64,000	0.00%	64,000	0.00%	64,000	0.00%
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Percentage Held by Stockholder A	0.10%	0.10%	(4.76)%	0.09%	(9.09)%	0.08%	(16.67)%
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Total NAV Held by Stockholder A	\$ 643,840	\$ 642,307	(0.24)%	\$ 637,987	(0.91)%	\$ 622,379	(3.33)%
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Total Investment by Stockholder A (Assumed to be \$10.06 per Share)	\$ 643,840	\$ 643,840		\$ 643,840		\$ 643,840	
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Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (1,553)		\$ (5,853)		\$ (21,461)	
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NAV per Share Held by Stockholder A		\$ 10.04		\$ 9.97		\$ 9.72	
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Investment per Share Held by Stockholder A (Assumed to be \$10.06 per Share on Shares Held prior to Sale)	\$ 10.06	\$ 10.06		\$ 10.06		\$ 10.06	
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Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.02)		\$ (0.09)		\$ (0.34)	
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Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(0.24)%		(0.91)%		(3.33)%
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**Table of Contents****Impact On Existing Stockholders Who Do Participate in the Offering**

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares of common stock in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares of common stock immediately prior to the offering. The level of NAV dilution will decrease as the number of shares of common stock such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of common stock such stockholder purchases increases. Even a stockholder who 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 of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution and accretion in the hypothetical 20% discount offering from the prior chart (Example 3) for a stockholder that acquires shares of common stock equal to (1) 50% of its proportionate share of the offering (i.e., 6,400 shares of common stock, which is 0.05% of an offering of 12,800,000 shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e. 19,200 shares of common stock, which is 0.15% of an offering of 12,800,000 shares of common stock rather than its 0.10% proportionate share). It is not possible to predict the level of market price decline that may occur.

	<b>Prior to Sale Below NAV</b>	<b>50% Participation Following Sale</b>	<b>% Change</b>	<b>150% Participation Following Sale</b>	<b>% Change</b>
<b>Offering Price</b>					
Price per Share to Public		\$ 8.47		\$ 8.47	
Net Proceeds per Share to Issuer		\$ 8.05		\$ 8.05	
<b>Decrease/Increase to NAV</b>					
Total Shares Outstanding	64,000,000	76,800,000	20.00%	76,800,000	20.00%
NAV per Share	\$ 10.06	\$ 9.72	(3.33)%	\$ 9.72	(3.33)%
<b>Dilution/Accretion to Participating Stockholder</b>					
Shares Held by Stockholder A	64,000	70,400	10.00%	83,200	30.00%
Percentage Held by Stockholder A	0.10%	0.09%	(8.33)%	0.11%	8.33%
Total NAV Held by Stockholder A	\$ 643,840	\$ 684,617	6.33%	\$ 809,092	25.67%
Total Investment by Stockholder A (Assumed to be \$10.06 per Share on Shares held Prior to		\$ 698,058		\$ 806,494	

Sale)								
Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment)		\$	(13,441)		\$	2,598		
NAV per Share Held by Stockholder A		\$	9.72		\$	9.72		
Investment per Share Held by Stockholder A (Assumed to Be \$10.06 on Shares Held Prior to Sale)	\$	10.06	\$	9.91	(1.44)%	\$	9.69	(3.64)%
Dilution/Accretion per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$	(0.19)		\$	0.03		
Percentage Dilution/Accretion to Stockholder A (Dilution/Accretion per Share Divided by Investment per Share)					(1.93)%		0.32%	

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**Table of Contents****Impact On New Investors**

Investors who are not currently stockholders and who participate in an offering below NAV but whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by the issuer will experience an immediate decrease, albeit small, in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share due to selling compensation and expenses paid by the issuer being significantly less than the discount per share will experience an immediate increase in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

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

	<b>Prior to Sale Below NAV</b>	<b>Example 1 5% Offering at 5% Discount</b>		<b>Example 2 10% Offering at 10% Discount</b>		<b>Example 3 20% Offering at 20% Discount</b>	
		<b>Following Sale</b>	<b>% Change</b>	<b>Following Sale</b>	<b>% Change</b>	<b>Following Sale</b>	<b>% Change</b>
<b>Offering Price</b>							
Price per Share to Public		\$ 10.06		\$ 9.53		\$ 8.47	
Net Proceeds per Share to Issuer		\$ 9.56		\$ 9.05		\$ 8.05	
<b>Decrease/Increase to NAV</b>							
Total Shares Outstanding	64,000,000	67,200,000	5.00%	70,400,000	10.00%	76,800,000	20.00%
NAV per Share	\$ 10.06	\$ 10.04	(0.24)%	\$ 9.97	(0.91)%	\$ 9.72	(3.33)%
<b>Dilution/Accretion to New Investor A</b>							
Shares Held by Investor	0	3,200		6,400		12,800	
Percentage Held by Investor A	0.00%	0.00%		0.01%		0.02%	
Total NAV Held by Investor A	\$ 0	\$ 32,115		\$ 63,799		\$ 124,476	
Total Investment by Investor A (At Price to		\$ 32,192		\$ 60,995		\$ 108,436	

Public)						
Total Dilution/Accretion						
Investor A (Total NAV						
Less Total Investment)	\$	(77)	\$	2,804	\$	16,040
NAV per Share Held by						
Investor A	\$	10.04	\$	9.97	\$	9.72
Investment per Share						
Held by Investor A	\$	10.06	\$	9.53	\$	8.47
Dilution/Accretion per						
Share Held by Investor A						
NAV per Share Less						
Investment per Share)	\$	(0.02)	\$	0.44	\$	1.25
Percentage						
Dilution/Accretion to						
Investor A						
Dilution/Accretion per						
Share Divided by						
Investment per Share)		(0.24)%		4.60%		14.79%

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**PLAN OF DISTRIBUTION**

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

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

Each Sales Manager will receive from us a commission equal to 2.0% of the gross sales price of all shares of common stock sold through it as Sales Manager under the applicable equity distribution agreement. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Managers under the terms of the equity distribution agreements, will be approximately \$300,000.

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

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

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

The Sales Managers may perform investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The Sales Managers may, from time to time, engage in transactions with and perform services for us in the ordinary course of business. Certain of the net proceeds from sale of shares of common stock under this prospectus supplement and the accompanying prospectus, not including Sales Manager commissions, may be paid to affiliates of BB&T Capital Markets, a division of Scott & Stringfellow, LLC that are

lenders under the Company's existing credit facility. Accordingly, if more than 5% of the net proceeds of this offering is to be paid to BB&T Capital Markets, a division of Scott & Stringfellow, LLC or its affiliates, the offering will be conducted by the Sales Managers in compliance with FINRA Rule 5110(h).

The principal business address of BB&T Capital Markets, a division of Scott & Stringfellow, LLC is 909 East Main Street, Richmond, VA 23219 and the principal business address of Knight Capital Markets LLC is 405 Lexington Avenue, New York, NY 10174.

### **LEGAL MATTERS**

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

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Certain legal matters will be passed upon for the Sales Managers by Troutman Sanders LLP. Troutman Sanders LLP will rely as to certain matters of Maryland law upon Venable LLP.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the 1933 Act, with respect to our common stock offered by this prospectus supplement. The registration statement contains additional information about us and the common stock being registered by this prospectus supplement. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the 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](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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

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**\$500,000,000**

**PROSPECT CAPITAL CORPORATION**

**Common Stock  
Preferred Stock  
Debt Securities  
Warrants**

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$500,000,000 of our common stock, preferred stock, debt securities or rights to purchase shares of common stock, preferred stock or debt securities, collectively, the Securities, to provide us with additional capital. Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

We may offer shares of common stock at a discount to net asset value per share in certain circumstances. 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.

Our Securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Securities through agents, underwriters or dealers without delivery of the prospectus and a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market under the symbol PSEC. As of February 25 2010, the last reported sales price for our common stock was \$11.66.

Prospect Capital Corporation, or the Company, is a company that lends to and invests in middle market privately-held companies. Prospect Capital Corporation, a Maryland corporation, has been organized as a closed-end investment company since April 13, 2004 and has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act, and is a non-diversified investment company within the meaning of the 1940 Act.

Prospect Capital Management LLC, our investment adviser, manages our investments and Prospect Administration LLC, our administrator, provides the administrative services necessary for us to operate.

**Investing in our Securities involves a heightened risk of total loss of investment and is subject to risks. Before buying any Securities, you should read the discussion of the material risks of investing in our Securities in Risk Factors beginning on page 9 of this prospectus.**

This prospectus contains important information about us that you should know before investing in our Securities. Please read it before making an investment decision 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. You may make inquiries or obtain this information free of charge by writing to Prospect Capital Corporation at 10 East 40th Street, 44th Floor, New York, NY 10016, or by calling 212-448-0702. Our Internet address is <http://www.prospectstreet.com>. You may also obtain information about us from our website and the SEC's website

(<http://www.sec.gov>).

**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.**

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The date of this Prospectus is March 4, 2010

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the SEC, using the shelf registration process. Under the shelf registration process, we may offer, from time to time on a delayed basis, up to \$500,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities on the terms to be determined at the time of the offering. The Securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the heading Available Information and the section under the heading Risk Factors before you make an investment decision.

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**PROSPECTUS SUMMARY**

*The following summary contains basic information about this offering. It does not contain all the information that may be important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred.*

*Information contained or incorporated by reference in this prospectus may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are statements about the future that may be identified by the use of forward-looking terminology such as may, will, expect, intend, plans, anticipate, estimate or continue or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the Securities Act. The matters described in Risk Factors and certain other factors noted throughout this prospectus and in any exhibits to the registration statement of which this prospectus is a part, constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements. The Company reminds all investors that no forward-looking statement can be relied upon as an accurate or even mostly accurate forecast because humans cannot forecast the future.*

*The terms we, us, our, and Company refer to Prospect Capital Corporation; Prospect Capital Management or the Investment Adviser refers to Prospect Capital Management LLC, our investment adviser; Prospect Administration or the Administrator refers to Prospect Administration LLC, our administrator; and Prospect refers to Prospect Capital Management LLC, its affiliates and its predecessor companies.*

**The Company**

We are a financial services company that lends to and invests in middle market privately-held companies.

We were originally organized under the name Prospect Street Energy Corporation and we changed our name to Prospect Energy Corporation in June 2004. We changed our name again to Prospect Capital Corporation in May 2007 and at the same time terminated our policy of investing at least 80% of our net assets in energy companies. While we expect to be less focused on the energy industry in the future, we will continue to have significant holdings in the energy and energy related industries. On December 2, 2009, we completed our previously announced acquisition of Patriot Capital Funding, Inc., or Patriot, under the Agreement and Plan of Merger, dated as of August 3, 2009, by and among, us and Patriot. Pursuant to the terms of the merger agreement, we acquired Patriot for approximately \$200 million comprised of our common stock and cash to repay all of Patriot's outstanding debt, which amounted to \$107.3 million. In the merger, each outstanding share of Patriot common stock was converted into the right to receive 0.363992 shares of common stock of Prospect, representing 8,444,068 shares of the Company's common stock, and the payment of cash in lieu of fractional shares of Prospect common stock of less than \$200 resulting from the application of the foregoing exchange ratio.

We have been organized as a closed-end investment company since April 13, 2004 and have filed an election to be treated as a business development company under the 1940 Act. We are a non-diversified company within the meaning of the 1940 Act. Our headquarters are located at 10 East 40th Street, 44th Floor, New York, NY 10016, and our telephone number is (212) 448-0702.

**The Investment Adviser**

Prospect Capital Management, an affiliate of the Company, manages our investment activities. Prospect Capital Management is an investment adviser that has been registered under the Investment Advisers Act of 1940, or the Advisers Act, since March 31, 2004. Under an investment advisory and management agreement between us and Prospect Capital Management, or the Investment Advisory Agreement, we have agreed to pay Prospect Capital Management investment advisory fees, which will consist of an annual base management fee based on our gross assets, which we define as total assets without deduction for any liabilities, as well as a two-part incentive fee based on our performance.

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**The Offering**

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$500,000,000 of our Securities, which we expect to use initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objectives.

Our Securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to a particular offering will disclose the terms of that offering, including the name or names of any agents or underwriters involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters, or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

We may sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock upon approval of our directors, including a majority of our independent directors, in certain circumstances. See Sales of Common Stock Below Net Asset Value in this prospectus and in the prospectus supplement, if applicable. 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.

Set forth below is additional information regarding the offering of our Securities:

**Use of proceeds**

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See Use of Proceeds.

**Distributions**

We have paid quarterly distributions to the holders of our common stock and generally intend to continue to do so. The amount of the quarterly distributions is determined by our Board of Directors and is based on our estimate of our investment company taxable income and net short-term capital gains. 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 accounting reclassifications. Distributions in excess of our current or accumulated earnings or profits constitute a return of capital and will reduce the stockholder's adjusted tax basis in such stockholder's common stock. After the adjusted basis is reduced to zero, these distributions will constitute capital gains to such stockholders. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of Securities will likely pay distributions in accordance with their terms. See Price Range of Common Stock, Distributions and Material U.S. Federal Income Tax Considerations.

**Taxation**

We have qualified and elected to be treated for U.S. Federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or the Code. As a RIC, we generally do not have to pay corporate-level U.S. Federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our qualification

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as a RIC and obtain RIC tax treatment, we must maintain specified source-of-income and asset diversification requirements and distribute annually 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. See Distributions and Material U.S. Federal Income Tax Considerations.

**Dividend reinvestment plan**

We have a dividend reinvestment plan for our stockholders. This is an opt out dividend reinvestment plan. As a result, when we declare a dividend, the dividends are automatically reinvested in additional shares of our common stock, unless a stockholder specifically opts 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 stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan.

**The NASDAQ Global Select Market Symbol**

PSEC

**Anti-takeover provisions**

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. See Description Of Our Capital Stock.

**Management arrangements**

Prospect Capital Management serves as our investment adviser. Prospect Administration serves as our administrator. For a description of Prospect Capital Management, Prospect Administration and our contractual arrangements with these companies, see Management Management Services Investment Advisory Agreement, and Management Management Services Administration Agreement.

**Risk factors**

Investment in our Securities involves certain risks relating to our structure and investment objective that should be considered by prospective purchasers of our Securities. In addition, investment in our Securities involves certain risks relating to investing in the energy sector, including but not limited to risks associated with commodity pricing, regulation, production, demand, depletion and expiration, weather, and valuation. We have a limited operating history upon which you can evaluate our business. In addition, as a business development company, our portfolio primarily includes securities issued by privately-held companies. These investments generally involve a high degree of business and financial risk, and are less liquid than public securities. We are required to mark the carrying value of our investments to fair value on a quarterly basis, and economic events, market conditions and events affecting individual portfolio companies can result in quarter-to-quarter mark-downs and mark-ups of the value of individual investments that collectively can materially affect our net asset value, or NAV. Also, our determinations of

fair value of privately-held securities may differ materially from the values that would exist if there was a ready market for these investments. A large number of entities compete for the same kind of

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investment opportunities as we do. Moreover, our business requires a substantial amount of capital to operate and to grow and we seek additional capital from external sources. In addition, the failure to qualify as a RIC eligible for pass-through tax treatment under the Code on income distributed to stockholders could have a materially adverse effect on the total return, if any, obtainable from an investment in our Securities. See **Risk Factors** and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Securities.

**Plan of distribution**

We may offer, from time to time, up to \$500,000,000 of our common stock, preferred stock, debt securities or rights to purchase shares of our common stock, preferred stock or debt securities on the terms to be determined at the time of the offering. Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. We may not sell Securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such Securities. For more information, see **Plan of Distribution**.

**Fees and Expenses**

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$195 million under our credit facility, which is the maximum amount available under the credit facility. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

**Stockholder transaction expenses:**

Sales load (as a percentage of offering price)(1)	5.00%
Offering expenses borne by us (as a percentage of offering price)(2)	0.50%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)(4)	5.50%
<b>Annual expenses (as a percentage of net assets attributable to common stock)(4):</b>	
Management Fees(5)	2.74%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.29%
Interest payments on borrowed funds	1.84%
Acquired Fund Fees and Expenses	0.02%(7)
Other expenses	1.99%(8)



Total annual expenses

8.89%(6)(8)

5

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The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed all \$195 million available under our line of credit, that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 117.33	\$ 239.02	\$ 356.86	\$ 635.38

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, as 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, 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](#) 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) In the event that the Securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the estimated applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the estimated offering expenses borne by us as a percentage of the offering price.
- (3) The expenses of the dividend reinvestment plan are included in other expenses.
- (4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.
- (5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed \$195 million, the 2% management fee of gross assets equals approximately 2.74% of net assets. See [Management Services](#) [Investment Advisory Agreement](#) and footnote 6 below.

- (6) The incentive fee payable to our Investment Adviser under the Investment Advisory Agreement is based on our performance and will not be paid unless we achieve certain goals. Under the assumption of a 5% return required in the example, no incentive fee would be payable. For a more detailed discussion of the calculation of the two-part incentive fee, see Management Services Investment Advisory Agreement.
- (7) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of December 31, 2009. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's

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average net assets used in calculating this percentage was based on average monthly net assets of approximately \$637 million for the six months ended December 31, 2009.

- (8) Other expenses are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our six months ended December 31, 2009 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. Other expenses does not include non-recurring expenses. See Management Management Services Administration Agreement.

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

You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus. Financial information below for the twelve months ended June 30, 2009, 2008, 2007, 2006 and 2005 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the six months ended December 31, 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 six months ended December 31, 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 27 for more information.

	For the Six Months Ended			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)						
<b>Income Data:</b>							
Income	\$ 33,374	\$ 34,797	\$ 62,926	\$ 59,033	\$ 30,084	\$ 13,268	\$ 4,000
Net income	10,388	9,388	22,793	12,033	6,153	3,601	3,000
Operating income	6,638	13,827	14,762	8,336	4,444		
Investment	50,400	58,012	100,481	79,402	40,681	16,869	8,000
Interest and credit							
expenses	(3,369)	(3,483)	(6,161)	(6,318)	(1,903)	(642)	
Investment advisory	(13,696)	(14,628)	(26,705)	(20,199)	(11,226)	(3,868)	(1,000)
expenses	(4,092)	(4,439)	(8,452)	(7,772)	(4,421)	(3,801)	(3,000)
expenses	(21,157)	(22,550)	(41,318)	(34,289)	(17,550)	(8,311)	(5,000)
Investment	29,243	35,462	59,163	45,113	23,131	8,558	2,000
Realized and							
unrealized gains	(52,474)	(14,940)	(24,059)	(17,522)	(6,403)	4,338	6,000
Increase in net							
assets from							
operations	\$ (23,231)	\$ 20,522	\$ 35,104	\$ 27,591	\$ 16,728	\$ 12,896	\$ 8,000
<b>Share Data:</b>							

Increase in net								
from								
operations(1)	\$ (0.43)	\$ 0.69	\$ 1.11	\$ 1.17	\$ 1.06	\$ 1.83	\$	
operations								
per share	\$ (0.82)	\$ (0.80)	\$ (1.62)	\$ (1.59)	\$ (1.54)	\$ (1.12)	\$	
weighted								
outstanding								
period	53,709,197	29,569,571	31,559,905	23,626,642	15,724,095	7,056,846	7,056,846	7,056,846
<b>and</b>								
<b>Key Data:</b>								
Assets	\$ 648,135	\$ 555,661	\$ 547,168	\$ 497,530	\$ 328,222	\$ 133,969	\$ 55,000	\$ 55,000
Liabilities	40,945	32,316	119,857	44,248	48,280	4,511	48,280	48,280
Equity	689,080	587,977	667,025	541,778	376,502	138,480	103,000	103,000
drawn on								
facility	10,000	138,667	124,800	91,167		28,500		
owed to								
parties	7,412	6,312	6,713	6,641	4,838	745		
liabilities	34,191	15,195	2,916	14,347	71,616	965		
liabilities								
	51,603	160,174	134,429	112,155	76,454	30,210		
Assets	\$ 637,477	\$ 427,803	\$ 532,596	\$ 429,623	\$ 300,048	\$ 108,270	\$ 108,270	\$ 108,270
<b>Investment Activity</b>								
portfolio								
companies at period								
	55	30	30	29(2)	24(2)	15		
operations	\$ 216,504	\$ 84,020	\$ 98,305	\$ 311,947	\$ 167,255	\$ 83,625	\$ 79,000	\$ 79,000
repayments,								
net disposals	\$ 69,735	\$ 13,077	\$ 27,007	\$ 127,212	\$ 38,407	\$ 9,954	\$ 32,000	\$ 32,000
Weighted-Average								
at end of								
period	15.6%	16.0%	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.

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**RISK FACTORS**

*Investing in our Securities involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before you decide whether to make an investment in our Securities. The risks set forth below are not the only risks we face. If any of the adverse events or conditions described below 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, or the value of our preferred stock, debt securities, and warrants, if any are outstanding, may decline, and you may lose all or part of your investment.*

**Risks Relating To Our Business**

*Our financial condition and results of operations will depend on our ability to manage our future growth effectively.*

Prospect Capital Management has been registered as an investment adviser since March 31, 2004, and we have been organized as a closed-end investment company since April 13, 2004. Our ability to achieve our investment objective depends on our ability to grow, which depends, in turn, on our Investment Adviser's ability to continue to identify, analyze, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Investment Adviser's structuring of investments, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. As we continue to grow, Prospect Capital Management will need to continue to hire, train, supervise and manage new employees. Failure to manage our future growth effectively could have a materially adverse effect on our business, financial condition and results of operations.

*We are dependent upon Prospect Capital Management's key management personnel for our future success.*

We depend on the diligence, skill and network of business contacts of the senior management of our Investment Adviser. We also depend, to a significant extent, on our Investment Adviser's access to the investment professionals and the information and deal flow generated by these investment professionals in the course of their investment and portfolio management activities. The senior management team of the Investment Adviser evaluates, negotiates, structures, closes, monitors and services our investments. Our success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior management team could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain our investment adviser or that we will continue to have access to its investment professionals or its information and deal flow.

*We operate in a highly competitive market for investment opportunities.*

A large number of entities compete with us to make the types of investments that we make in target companies. We compete with other business development companies, public and private funds, commercial and investment banks and commercial financing companies. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified, a trend we expect to continue.

Many of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more or fuller relationships with borrowers and sponsors than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. We cannot assure you that the competitive pressures we face will not have a materially adverse effect on our



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business, financial condition and results of operations. Also, as a result of existing and increasing competition and our competitors ability to provide a total package solution, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We do not seek to compete primarily based on the interest rates that we offer, and we believe that some of our competitors make loans with interest rates that are comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors pricing, terms and structure. If we match our competitors pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

***Most of our portfolio investments are recorded at fair value as determined in good faith by our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments.***

A large percentage of our portfolio investments consist of securities of privately held companies. Hence, market quotations are generally not readily available for determining the fair values of such investments. The determination of fair value, and thus the amount of unrealized losses we may incur in any year, is to a degree subjective, and the Investment Adviser has a conflict of interest in making the determination. We value these securities quarterly at fair value as determined in good faith by our Board of Directors based on input from our Investment Adviser, a third party independent valuation firm and our audit committee. Our Board of Directors utilizes the services of an independent valuation firm to aid it in determining the fair value of any securities. The types of factors that may be considered in determining the fair values of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow, current market interest rates and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, the valuations may fluctuate significantly over short periods of time due to changes in current market conditions. The determinations of fair value by our Board of Directors may differ materially from the values that would have been used if an active market and market quotations existed for these investments. Our net asset value could be adversely affected if the determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

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

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

A likelihood of greater volatility in the net asset value and market price of our common stock;

Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;

The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;

Increased operating expenses due to the cost of leverage, including issuance and servicing costs;

Convertible or exchangeable securities issued in the future may have rights, preferences and privileges more favorable than those of our common stock; and

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Subordination to lenders – superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds are distributed to our stockholders.

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

*Illustration.* The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$667 million in total assets, (ii) an average cost of funds of 7.0%, (iii) \$124.8 million in debt outstanding and (iv) \$532.6 million of shareholders equity.

<b>Assumed Return on Our Portfolio (net of expenses)</b>	<b>(10)%</b>	<b>(5)%</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
Corresponding Return to Stockholder	(14.2)%	(7.9)%	(1.6)%	4.6%	10.9%

***Changes in interest rates may affect our cost of capital and net investment income.***

A significant portion of the debt investments we make bears interest at fixed rates and the value of these investments could be negatively affected by increases in market interest rates. In addition, as the interest rate on our revolving credit facility is at a variable rate based on an index, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, a significant increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which would reduce our net investment income.

***We need to raise additional capital to grow because we must distribute most of our income.***

We need additional capital to fund growth in our investments. A reduction in the availability of new capital could limit our ability to grow. 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, to our shareholders to maintain our RIC status. As a result, such earnings are not available to fund investment originations. We have sought additional capital by borrowing from financial institutions and may issue debt securities or additional equity securities. If we fail to obtain funds from such sources or from other sources to fund our investments, we could be limited in our ability to grow, which may have an adverse effect on the value of our common stock. In addition, as a business development company, we are generally required to maintain a ratio of total assets to total borrowings of at least 200%, which may restrict our ability to borrow in certain circumstances.

***The lack of liquidity in our investments may adversely affect our business.***

We generally make investments in private companies. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have

previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or our Investment Adviser has material non-public information regarding such portfolio company.

*We may experience fluctuations in our quarterly results.*

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest or dividend rates payable on the debt or equity securities we hold, the default rate on debt securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the

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degree to which we encounter competition in our markets, the seasonality of the energy industry, weather patterns, changes in energy prices and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Our most recent net asset value was calculated on December 31, 2009 and our NAV when calculated effective March 31, 2010 may be higher or lower.***

Our most recently estimated NAV per share is \$10.07 on an as adjusted basis solely to give effect to our issuance of common shares on January 25, 2010 in connection with our dividend reinvestment plan, versus \$10.06 determined by us as of December 31, 2009. NAV as of March 31, 2010 may be higher or lower than \$10.07 based on potential changes in valuations and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments subsequent to December 31, 2009. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from an independent valuation firm, our Investment Advisor and the audit committee of our Board of Directors.

***Potential conflicts of interest could impact our investment returns.***

Our executive officers and directors, and the executive officers of our Investment Adviser, Prospect Capital Management, may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our best interests or those of our stockholders. Nevertheless, it is possible that new investment opportunities that meet our investment objective may come to the attention of one of these entities in connection with another investment advisory client or program, and, if so, such opportunity might not be offered, or otherwise made available, to us. However, as an investment adviser, Prospect Capital Management has a fiduciary obligation to act in the best interests of its clients, including us. To that end, if Prospect Capital Management or its affiliates manage any additional investment vehicles or client accounts in the future, Prospect Capital Management will endeavor to allocate investment opportunities in a fair and equitable manner over time so as not to discriminate unfairly against any client. If Prospect Capital Management chooses to establish another investment fund in the future, when the investment professionals of Prospect Capital Management identify an investment, they will have to choose which investment fund should make the investment.

In the course of our investing activities, under the Investment Advisory Agreement we pay base management and incentive fees to Prospect Capital Management, and reimburse Prospect Capital Management for certain expenses it incurs. As a result of the Investment Advisory Agreement, there may be times when the senior management team of Prospect Capital Management has interests that differ from those of our stockholders, giving rise to a conflict.

Prospect Capital Management receives a quarterly income incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income incentive fee is subject to a fixed quarterly hurdle rate before providing an income incentive fee return to the Investment Adviser. This fixed hurdle rate was determined when then current interest rates were relatively low on a historical basis. Thus, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that our Investment Adviser will receive an income incentive fee than if interest rates on our investments remained constant or decreased. Subject to the receipt of any requisite stockholder approval under the 1940 Act, our Board of Directors may adjust the hurdle rate by amending the Investment Advisory Agreement.

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that has a deferred interest feature, it is possible that interest accrued under such loan that has previously been included in the calculation of the income

incentive fee will become uncollectible. If this happens, our Investment Adviser is not required to reimburse us for any such income incentive fee payments. If we do not have sufficient liquid assets to pay this incentive fee or distributions to stockholders on such accrued income, we may be required to liquidate assets in order to do so. This fee structure could give rise to a conflict of interest for our Investment Adviser to the extent that it may encourage

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the Investment Adviser to favor debt financings that provide for deferred interest, rather than current cash payments of interest.

We have entered into a royalty-free license agreement with Prospect Capital Management. Under this agreement, Prospect Capital Management agrees to grant us a non-exclusive license to use the name Prospect Capital. Under the license agreement, we have the right to use the Prospect Capital name for so long as Prospect Capital Management or one of its affiliates remains our Investment Adviser. In addition, we rent office space from Prospect Administration, an affiliate of Prospect Capital Management, and pay Prospect Administration our allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations as Administrator under the Administration Agreement, including rent and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. This may create conflicts of interest that our Board of Directors monitors.

***Our incentive fee could induce Prospect Capital Management to make speculative investments.***

The incentive fee payable by us to Prospect Capital Management may create an incentive for our Investment Adviser to make investments on our behalf that are more speculative or involve more risk than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable is determined (calculated as a percentage of the return on invested capital) may encourage the Investment Adviser to use leverage to increase the return on our investments. Increased use of leverage and this increased risk of replacement of that leverage at maturity, would increase the likelihood of default, which would disfavor holders of our common stock. Similarly, because the Investment Adviser will receive an incentive fee based, in part, upon net capital gains realized on our investments, the Investment Adviser may invest more than would otherwise be appropriate in companies whose securities are likely to yield capital gains, as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to Prospect Capital Management could create an incentive for our Investment Adviser to invest on our behalf in instruments, such as zero coupon bonds, that have a deferred interest feature. Under these investments, we would accrue interest income over the life of the investment but would not receive payments in cash on the investment until the end of the term. Our net investment income used to calculate the income incentive fee, however, includes accrued interest. For example, accrued interest, if any, on our investments in zero coupon bonds will be included in the calculation of our incentive fee, even though we will not receive any cash interest payments in respect of payment on the bond until its maturity date. Thus, a portion of this incentive fee would be based on income that we may not have yet received in cash in the event of default may never receive.

***Changes in laws or regulations governing our operations may adversely affect our business.***

We and our portfolio companies are subject to regulation by laws at the local, state and U.S. Federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, changes in these laws or regulations could have a materially adverse effect on our business. For additional information regarding the regulations we are subject to, see Regulation.

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

The U.S. financial markets have been experiencing a high level of volatility, disruption and distress, which was exacerbated by the failure of several major financial institutions in the last few months of 2008. In addition, the U.S. economy has been in a recession, the aftermath of which may be severe and prolonged. Similar conditions have occurred in the financial markets and economies of numerous other countries and could worsen, both in the U.S. and

globally. These conditions have raised the level of many of the risks described in this document 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, NAV and our stock price.



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**Risks Relating To Our Operation As A Business Development Company**

***Our Investment Adviser and its senior management team have limited experience managing a business development company under the 1940 Act.***

The 1940 Act imposes numerous constraints on the operations of business development companies. For example, business development companies are, with narrow exceptions, required to invest at least 70% of their total assets in securities of certain privately held, thinly traded or distressed U.S. companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Our Investment Adviser's and its senior management team's limited experience in managing a portfolio of assets under such constraints may hinder their ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. In addition, our investment strategies differ in some ways from those of other investment funds that have been managed in the past by investment professionals.

***A failure on our part to maintain our status as a business development company would significantly reduce our operating flexibility.***

If we do not continue to qualify as a business development company, we might be regulated as a registered closed-end investment company under the 1940 Act; our failure to qualify as a BDC would make us subject to additional regulatory requirements, which may significantly decrease our operating flexibility by limiting our ability to employ leverage.

***If we fail to qualify as a RIC, we will have to pay corporate-level taxes on our income, and our income available for distribution would be reduced.***

To maintain our qualification for federal income tax purposes as a RIC under Subchapter M of the Code, and obtain RIC tax treatment, we must meet certain source of income, asset diversification and annual distribution requirements.

The source of income requirement is satisfied if we derive at least 90% of our annual gross income from interest, dividends, payments with respect to certain securities loans, gains from the sale or other disposition of securities or options thereon or foreign currencies, or other income derived with respect to our business of investing in such securities or currencies, and net income from interests in qualified publicly traded partnerships, as defined in the Code.

The annual distribution requirement for a RIC is satisfied if we 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, to our stockholders on an annual basis. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify for RIC tax treatment. If we are unable to obtain cash from other sources, we may fail to qualify for RIC tax treatment and, thus, may be subject to corporate-level income tax.

To maintain our qualification as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses.

If we fail to qualify as a RIC for any reason or become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount of our distributions. Such a failure would have a materially adverse effect on us and our stockholders. For additional

information regarding asset coverage ratio and RIC requirements, see Regulation Senior Securities and Material U.S. Federal Income Tax Considerations .

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***Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital.***

We have incurred indebtedness under our revolving credit facility and, in the future, may issue preferred stock and/or borrow additional money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test, which would prohibit us from paying dividends and could prohibit us from qualifying as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments or sell additional shares of common stock at a time when such sales may be disadvantageous in order to repay a portion of our indebtedness. In addition, issuance of additional common stock could dilute the percentage ownership of our current stockholders in us.

As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain circumstances, including if (i)(1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders' best interests 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 or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at our annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share. At our 2008 annual meeting of stockholders held on February 12, 2009, and our 2009 annual meeting of stockholders held on December 11, 2009, we obtained the first method of approval from our shareholders. See If we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material discussed below.

To generate cash for funding new investments, we pledged a substantial portion of our portfolio investments under our revolving credit facility. These assets are not available to secure other sources of funding or for securitization. Our ability to obtain additional secured or unsecured financing on attractive terms in the future is uncertain.

Alternatively, we may securitize our future loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to such subsidiary. This could include the sale of interests in the loans by the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools. We would retain a portion of the equity in the securitized pool of loans. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings, if any. Moreover, the successful securitization of our loan portfolio exposes us to a risk of loss for the equity we retain in the securitized pool of loans and might expose us to losses because the residual loans in which we do not sell interests may tend to be those that are riskier and more likely to generate losses. A successful securitization may also impose financial and operating covenants that restrict our business activities and may include limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under

Subchapter M of the Code. The 1940 Act may also impose restrictions on the structure of any securitizations.

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***Our common stock may trade at a discount to our net asset value per share.***

Common stock of BDCs, like that of closed-end investment companies, frequently trades at a discount to current net asset value, which could adversely affect the ability to raise capital. In the past, our common stock has traded at a discount to our net asset value. However, we have been able to periodically raise capital pursuant to authority granted by our stockholders at our 2008 and 2009 annual meetings to sell an unlimited number of shares of our common stock at any level of discount from net asset value during the 12 month period following such approval. The risk that our common stock may continue to trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline.

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

At our 2009 annual meeting of stockholders held on December 11, 2009, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from net asset value per share during the 12 month period following the December 11, 2009 approval in accordance with the exception described above in

Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital. 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 net asset value per share (as well as in the aggregate net asset value 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. They may also experience a reduction in the market price of our common stock. For additional information and hypothetical examples of these risks, see [Sales of Common Stock Below Net Asset Value](#) and the prospectus supplement pursuant to which such sale is made.

***We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.***

For U.S. Federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount, which could be significant relative to our overall investment activities, or increases in loan balances as a result of payment-in-kind arrangements, are included in our taxable income before we receive any corresponding cash payments. We also may be required to include in taxable income certain other amounts that we do not receive in cash. While we focus primarily on investments that will generate a current cash return, our investment portfolio currently includes, and we may continue to invest in, securities that do not pay some or all of their return in periodic current cash distributions.

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the income incentive fee will become uncollectible.

Since in some cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty meeting the tax requirement to 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, to maintain RIC tax treatment. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise

additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC treatment and thus become subject to corporate-level income tax. See Regulation Senior Securities and Material U.S. Federal Income Tax Considerations .

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***Our ability to enter into transactions with our affiliates is restricted.***

We are prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any security or other property from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits joint transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. We are prohibited from buying or selling any security or other property from or to our Investment Adviser and its affiliates and persons with whom we are in a control relationship, or entering into joint transactions with any such person, absent the prior approval of the SEC.

***The Company may be unable to realize the benefits anticipated by the merger with Patriot or may take longer than anticipated to achieve such benefits.***

On December 2, 2009, we completed our previously announced acquisition of Patriot under the Agreement and Plan of Merger, dated as of August 3, 2009, by and among, us and Patriot. The realization of certain benefits anticipated as a result of the merger will depend in part on the integration of Patriot's investment portfolio with the Company and the successful inclusion of Patriot's investment portfolio in the Company's financing operations. There can be no assurance that Patriot's business can be operated profitably or integrated successfully into the Company's operations in a timely fashion or at all. The dedication of management resources to such integration may detract attention from the day-to-day business of the Company and there can be no assurance that there will not be substantial costs associated with the transition process or that there will not be other material adverse effects as a result of these integration efforts. Such effects, including but not limited to, incurring unexpected costs or delays in connection with such integration and failure of Patriot's investment portfolio to perform as expected, could have a material adverse effect on the financial results of the Company.

**Risks Relating To Our Investments**

We may not realize gains or income from our investments.

We seek to generate both current income and capital appreciation. However, the securities we invest in may not appreciate and, in fact, may decline in value, and the issuers of debt securities we invest in may default on interest and/or principal payments. Accordingly, we may not be able to realize gains from our investments, and any gains that we do realize may not be sufficient to offset any losses we experience. See **Business** **Our Investment Objective and Policies** .

Our portfolio is concentrated in a limited number of portfolio companies, particularly those in the energy industry, which subject us to a risk of significant loss if any of these companies defaults on its obligations under any of the securities that we hold or if the energy industry experiences a downturn.

As of February 25, 2010, we had invested in a number of companies in the energy and energy related industries. A consequence of this lack of diversification is that the aggregate returns we realize may be significantly and adversely affected if a small number of such investments perform poorly or if we need to write down the value of any one investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments are concentrated in relatively few portfolio companies. In addition, to date we have concentrated on making investments in the energy industry. While we expect to be less focused on the energy and energy related industries in the future, we anticipate that we will continue to have significant holdings in the energy and energy related industries. As a result, a downturn in the energy industry could materially and adversely affect us.

***The energy industry is subject to many risks.***

We have a significant concentration in the energy industry. Our definition of energy, as used in the context of the energy industry, is broad, and different sectors in the energy industry may be subject to variable risks and economic pressures. As a result, it is difficult to anticipate the impact of changing economic and political conditions



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on our portfolio companies and, as a result, our financial results. The revenues, income (or losses) and valuations of energy companies can fluctuate suddenly and dramatically due to any one or more of the following factors:

*Commodity Pricing Risk.* Energy companies in general are directly affected by energy commodity prices, such as the market prices of crude oil, natural gas and wholesale electricity, especially for those that own the underlying energy commodity. In addition, the volatility of commodity prices can affect other energy companies due to the impact of prices on the volume of commodities transported, processed, stored or distributed and on the cost of fuel for power generation companies. The volatility of commodity prices can also affect energy companies' ability to access the capital markets in light of market perception that their performance may be directly tied to commodity prices. Historically, energy commodity prices have been cyclical and exhibited significant volatility. Although we generally prefer risk controls, including appropriate commodity and other hedges, by certain of our portfolio companies, if available, some of our portfolio companies may not engage in hedging transactions to minimize their exposure to commodity price risk. For those companies that engage in such hedging transactions, they remain subject to market risks, including market liquidity and counterparty creditworthiness. In addition, such companies may also still have exposure to market prices if such companies do not produce volumes or other contractual obligations in accordance with such hedging contracts.

*Regulatory Risk.* The profitability of energy companies could be adversely affected by changes in the regulatory environment. The businesses of energy companies are heavily regulated by federal, state and local governments in diverse ways, such as the way in which energy assets are constructed, maintained and operated and the prices energy companies may charge for their products and services. Such regulation can change over time in scope and intensity. For example, a particular by-product of an energy process may be declared hazardous by a regulatory agency, which can unexpectedly increase production costs. Moreover, many state and federal environmental laws provide for civil penalties as well as regulatory remediation, thus adding to the potential liability an energy company may face. In addition, the deregulation of energy markets and the unresolved regulatory issues related to some power markets such as California create uncertainty in the regulatory environment as rules and regulations may be adopted on a transitional basis. We cannot assure you that the deregulation of energy markets will continue and if it continues, whether its impact on energy companies' profitability will be positive.

*Production Risk.* The profitability of energy companies may be materially impacted by the volume of crude oil, natural gas or other energy commodities available for transporting, processing, storing, distributing or power generation. A significant decrease in the production of natural gas, crude oil, coal or other energy commodities, due to the decline of production from existing facilities, import supply disruption, depressed commodity prices, political events, OPEC actions or otherwise, could reduce revenue and operating income or increase operating costs of energy companies and, therefore, their ability to pay debt or dividends.

*Demand Risk.* A sustained decline in demand for crude oil, natural gas, refined petroleum products and electricity could materially affect revenues and cash flows of energy companies. Factors that could lead to a decrease in market demand include a recession or other adverse economic conditions, an increase in the market price of the underlying commodity, higher taxes or other regulatory actions that increase costs, or a shift in consumer demand for such products.

*Depletion and Exploration Risk.* A portion of any one energy company's assets may be dedicated to natural gas, crude oil and/or coal reserves and other commodities that naturally deplete over time. Depletion could have a materially adverse impact on such company's ability to maintain its revenue. Further, estimates of energy reserves may not be accurate and, even if accurate, reserves may not be fully utilized at reasonable costs. Exploration of energy resources, especially of oil and gas, is inherently risky and requires large amounts

of capital.

*Weather Risk.* Unseasonable extreme weather patterns could result in significant volatility in demand for energy and power. In addition, hurricanes, storms, tornados, floods, rain, and other significant weather events could disrupt supply and other operations at our portfolio companies as well as customers or suppliers to such companies. This volatility may create fluctuations in earnings of energy companies.

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*Operational Risk.* Energy companies are subject to various operational risks, such as failed drilling or well development, unscheduled outages, underestimated cost projections, unanticipated operation and maintenance expenses, failure to obtain the necessary permits to operate and failure of third-party contractors (for example, energy producers and shippers) to perform their contractual obligations. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction, expanding operations through acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risk factors arising from their specific business strategies.

*Competition Risk.* The progress in deregulating energy markets has created more competition in the energy industry. This competition is reflected in risks associated with marketing and selling energy in the evolving energy market and a competitor's development of a lower-cost energy or power source, or of a lower cost means of operations, and other risks arising from competition.

*Valuation Risk.* Since mid-2001, excess power generation capacity in certain regions of the United States has caused substantial decreases in the market capitalization of many energy companies. While such prices have recovered to some extent, we can offer no assurance that such decreases in market capitalization will not recur, or that any future decreases in energy company valuations will be insubstantial or temporary in nature.

*Terrorism Risk.* Since the September 11th attacks, the United States government has issued public warnings indicating that energy assets, specifically those related to pipeline infrastructure, production facilities and transmission and distribution facilities, might be specific targets of terrorist activity. The continued threat of terrorism and related military activity will likely increase volatility for prices of natural gas and oil and could affect the market for products and services of energy companies. In addition, any future terrorist attack or armed conflict in the United States or elsewhere may undermine economic conditions in the United States in general.

*Financing Risk.* Some of our portfolio companies rely on the capital markets to raise money to pay their existing obligations. Their ability to access the capital markets on attractive terms or at all may be affected by any of the risks associated with energy companies described above, by general economic and market conditions or by other factors. This may in turn affect their ability to satisfy their obligations with us.

*Climate Change.* There is evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, customers of energy companies needs vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increased energy use due to weather changes may require additional investments by our portfolio companies in more pipelines and other infrastructure to serve increased demand. A decrease in energy use due to weather changes may affect our portfolio companies financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions. Energy companies could also be affected by the potential for lawsuits against or taxes or other regulatory costs imposed on greenhouse gas emitters, based on links drawn between greenhouse gas emissions and climate change.

***Our investments in prospective portfolio companies may be risky and we could lose all or part of our investment.***

Some of our portfolio companies 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 and the value of our investment in them may decline substantially or fall to zero.

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In addition, investment in the middle market companies that we are targeting involves a number of other significant risks, including:

these companies may have limited financial resources and may be unable to meet their obligations under their securities that we hold, which may be accompanied by a deterioration in the value of their securities or of any collateral with respect to any securities and a reduction in the likelihood of our realizing on any guarantees we may have obtained in connection with our investment;

they may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;

because many of these companies are privately held companies, public information is generally not available about these companies. As a result, we will depend on the ability of our Investment Adviser to obtain adequate information to evaluate these companies in making investment decisions. If our Investment Adviser is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and we may lose money on our investments;

they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a materially adverse impact on our portfolio company and, in turn, on us;

they may have less predictable operating results, may from time to time be parties to litigation, may be engaged in changing businesses with products subject to a risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

they may have difficulty accessing the capital markets to meet future capital needs;

increased taxes, regulatory expense or the costs of changes to the way they conduct business due to the effects of climate change may adversely affect their business, financial structure or prospects.

In addition, our executive officers, directors and our Investment Adviser could, in the ordinary course of business, be named as defendants in litigation arising from proposed investments or from our investments in the portfolio companies.

***Economic recessions or downturns could impair our portfolio companies and harm our operating results.***

The U.S. financial markets have been experiencing a high level of volatility, disruption and distress, which was exacerbated by the failure of several major financial institutions in the last few months of 2008. In addition, the U.S. economy has been in a recession, the aftermath of which may be severe and prolonged. Similar conditions have occurred in the financial markets and economies of numerous other countries and could worsen, both in the U.S. and globally. Our portfolio companies will generally be affected by the conditions and overall strength of the national, regional and local economies, including interest rate fluctuations, changes in the capital markets and changes in the prices of their primary commodities and products. These factors also impact the amount of residential, industrial and commercial growth in the energy industry. Additionally, these factors could adversely impact the customer base and customer collections of our portfolio companies.

As a result, many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans or meet other obligations during these periods. Therefore, our non-performing assets are

likely to increase, and the value of our portfolio is likely to decrease, during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger

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cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt or preferred equity, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt or equity holding and subordinate all or a portion of our claim to those of other creditors.

***The lack of liquidity in our investments may adversely affect our business.***

*We make investments in private companies.* A portion of these investments may be subject to legal and other restrictions on resale, transfer, pledge or other disposition or will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our Investment Adviser has or could be deemed to have material non-public information regarding such business entity.

***We may have limited access to information about privately held companies in which we invest.***

*We invest primarily in privately-held companies.* Generally, little public information exists about these companies, and we are required to rely on the ability of our Investment Adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investment.

***We may not be in a position to control a portfolio investment when we are a debt or minority equity investor and its management may make decisions that could decrease the value of our investment.***

We make both debt and minority equity investments in portfolio companies. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

***Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.***

We may invest in mezzanine debt and dividend-paying equity securities issued by our portfolio companies. Our portfolio companies usually have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, the securities in which we invest. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of the securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying the senior security holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with securities in which we invest, we would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.





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***We may not be able to fully realize the value of the collateral securing our debt investments.***

Although a substantial amount of our debt investments are protected by holding security interests in the assets of the portfolio companies, we may not be able to fully realize the value of the collateral securing our investments due to one or more of the following factors:

our debt investments are primarily made in the form of mezzanine loans, therefore our liens on the collateral, if any, are subordinated to those of the senior secured debt of the portfolio companies, if any. As a result, we may not be able to control remedies with respect to the collateral;

the collateral may not be valuable enough to satisfy all of the obligations under our secured loan, particularly after giving effect to the repayment of secured debt of the portfolio company that ranks senior to our loan;

bankruptcy laws may limit our ability to realize value from the collateral and may delay the realization process;

our rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral;

the need to obtain regulatory and contractual consents could impair or impede how effectively the collateral would be liquidated and could affect the value received; and

some or all of the collateral may be illiquid and may have no readily ascertainable market value. The liquidity and value of the collateral could be impaired as a result of changing economic conditions, competition, and other factors, including the availability of suitable buyers.

***Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.***

Our investment strategy contemplates potential investments in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although currently most of our investments are, and we expect that most of our investments will be, U.S. dollar-denominated, investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments.

***We may expose ourselves to risks if we engage in hedging transactions.***

We may employ hedging techniques to minimize certain investment risks, such as fluctuations in interest and currency exchange rates, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market

interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

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The success of our hedging transactions depends on our ability to correctly predict movements, currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies.

***Our Board of Directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse to us and could impair the value of our stockholders' investment.***

Our Board of Directors has the authority to modify or waive our current operating policies and our strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, financial condition, and value of our common stock. However, the effects might be adverse, which could negatively impact our ability to pay dividends and cause stockholders to lose all or part of their investment.

## **Risks Relating To Our Securities**

***Investing in our securities may involve a high degree of risk.***

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be speculative and aggressive, and therefore, an investment in our shares may not be suitable for someone with low risk tolerance.

***The market price of our securities may fluctuate significantly.***

The market price and liquidity of the market for our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in the energy industry, which are not necessarily related to the operating performance of these companies;

- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

- loss of RIC qualification;

- changes in earnings or variations in operating results;

- changes in the value of our portfolio of investments;

- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

departure of one or more of Prospect Capital Management's key personnel;

operating performance of companies comparable to us;

changes in prevailing interest rates;

litigation matters;

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general economic trends and other external factors; and

loss of a major funding source.

***Sales of substantial amounts of our securities in the public market may have an adverse effect on the market price of our securities.***

As of February 25, 2010, we have 63,586,731 shares of common stock outstanding. Sales of substantial amounts of our securities or the availability of such securities for sale could adversely affect the prevailing market price for our securities. If this occurs and continues it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

***There is a risk that you may not receive distributions or that our distributions may not grow over time.***

We have made and intend to continue to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions.

***Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.***

Our charter and bylaws and the Maryland General Corporation Law contain provisions that may have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interest. These provisions may prevent shareholders from being able to sell shares of its common stock at a premium over the current of prevailing market prices.

Our charter provides for the classification of our Board of Directors into three classes of directors, serving staggered three-year terms, which may render a change of control or removal of our incumbent management more difficult. Furthermore, any and all vacancies on our Board of Directors will be filled generally only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term until a successor is elected and qualifies.

Our Board of Directors is authorized to create and issue new series of shares, to classify or reclassify any unissued shares of stock into one or more classes or series, including preferred stock and, without stockholder approval, to amend our charter to increase or decrease the number of shares of common stock that we have authority to issue, which could have the effect of diluting a stockholder's ownership interest. Prior to the issuance of shares of common stock of each class or series, including any reclassified series, our Board of Directors is required by our governing documents to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series of shares of stock.

Our charter and bylaws also provide that our Board of Directors has the exclusive power to adopt, alter or repeal any provision of our bylaws, and to make new bylaws. The Maryland General Corporation Law also contains certain provisions that may limit the ability of a third party to acquire control of us, such as:

The Maryland Business Combination Act, which, subject to certain limitations, prohibits certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of the common stock or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, imposes special minimum price provisions and special stockholder voting requirements on these combinations; and

The Maryland Control Share Acquisition Act, which provides that control shares of a Maryland corporation (defined as shares of common stock which, when aggregated with other shares of common stock controlled by the stockholder, entitles the stockholder to exercise one of three increasing ranges of

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voting power in electing directors, as described more fully below) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares ) have no voting rights except to the extent approved by stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares of common stock.

The provisions of the Maryland Business Combination Act will not apply, however, if our Board of Directors adopts a resolution that any business combination between us and any other person will be exempt from the provisions of the Maryland Business Combination Act. Although our Board of Directors has adopted such a resolution, there can be no assurance that this resolution will not be altered or repealed in whole or in part at any time. If the resolution is altered or repealed, the provisions of the Maryland Business Combination Act may discourage others from trying to acquire control of us.

As permitted by Maryland law, our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of our common stock. Although our bylaws include such a provision, such a provision may also be amended or eliminated by our Board of Directors at any time in the future, provided that we will notify the Division of Investment Management at the SEC prior to amending or eliminating this provision.

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

We may distribute taxable dividends that are payable in part in our stock. Under IRS Revenue Procedure 2010-12, which extended and modified Revenue Procedure 2009-15, up to 90% of any such taxable dividend for 2009, 2010, and 2011 could be payable in our stock. The IRS has also issued (and where Revenue Procedure 2009-15 or 2010-12 is not currently applicable, the IRS continues to issue) private letter rulings on cash/stock dividends paid by regulated investment companies and real estate investment trusts using a 20% cash standard (instead of the 10% cash standard of Revenue Procedures 2009-15 and 2010-12) if certain requirements are satisfied. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of its current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of its stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock (whether pursuant to Revenue Procedure 2009-15 or 2010-12, a private letter ruling, or otherwise).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Risk Factors and Forward-Looking Statements appearing elsewhere herein.**

**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. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act.

We have based the forward-looking statements included in herein on information available to us on the date of this document, 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.

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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.

**Patriot Acquisition**

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

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

The merger has been accounted for as an acquisition of Patriot by Prospect Capital Corporation ( Prospect ) in accordance with acquisition method of accounting as detailed in ASC 805, *Business Combinations* ( ASC 805 ). The fair value of the consideration paid was allocated to the assets acquired and liabilities assumed based on their fair values as the date of acquisition. As described in more detail in ASC 805, goodwill, if any, would have been recognized as of the acquisition date, if the consideration transferred exceeded the fair value of identifiable net assets acquired. As of the acquisition date, the fair value of the identifiable net assets acquired exceeded the fair value of the consideration transferred, and we recognized the excess as a gain. A gain of \$5,714 was recorded by Prospect in the quarter ended December 31, 2009 related to the acquisition of Patriot. The acquisition of Patriot was negotiated in July 2009 with the purchase agreement being signed on August 3, 2009. Between July 2009 and December 2, 2009, our valuation of certain of the investments acquired from Patriot increased due to market improvement, which resulted in the recognition of the gain at closing.

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

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

- (1) The value of the shares of common stock exchanged with the Patriot common shareholders was based upon the closing price of our common stock on December 2, 2009, the price immediately prior to the closing of the transaction.
- (2) The fair value of Patriot's investments were determined by the Board of Directors in conjunction with an independent valuation agent. This valuation resulted in a purchase price which was \$98,150 below the amortized cost of such investments. For those assets which are performing, Prospect will record the accretion to par value in interest income over the remaining term of the investment.

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

During the period from the acquisition of Patriot on December 2, 2009 to December 31, 2009, we recognized \$7,495 of interest income from the assets acquired from Patriot. Included in this amount is \$4,560 resulting from the acceleration of purchase discounts from the early repayments of three loans, three revolving lines of credit and the sale of one investment position.

## **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 continue to remain 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 December 31, 2009, we had \$62,914 available under our credit facility, of which \$10,000 was outstanding. In addition, we had \$105,050 of eligible assets from the Patriot acquisition in the process of being pledged to the facility which will generate an additional \$67,086 of availability. Further, 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 filed with the SEC a post-effective amendment to the registration statement on Form N-2 on November 6, 2009. Such amendment was declared effective by the SEC on November 9, 2009.

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

## **Critical Accounting Policies and Estimates**

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

***Basis of Consolidation***

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X, and the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our December 31, 2009 and June 30, 2009 financial statements include our accounts and the accounts of Prospect Capital Funding, LLC, our only wholly-owned, closely-managed

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subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

### ***Investment Classification***

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

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

### ***Investment Valuation***

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

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

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

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

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

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

*Level 1:* Quoted prices in active markets for identical assets or liabilities, accessible by 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.

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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 and six months ended December 31, 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.

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

## ***Federal and State Income Taxes***

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

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



We adopted FASB ASC 740, *Income Taxes* ( ASC 740 ). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Adoption of ASC 740 was applied to all open tax years as of July 1, 2007. The adoption of ASC 740 did not have an effect on our net asset value, financial condition or results of operations as there was no liability for

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unrecognized tax benefits and no change to our beginning net asset value. As of December 31, 2009 and for the three and six months then ended, we did not have a liability for any unrecognized tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

### ***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 December 31, 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 six months ended December 31, 2009, net assets have increased by \$104,881 from \$532,596 as of June 30, 2009 to \$637,477 as of December 31, 2009. This net increase in assets primarily resulted from \$195,833 of capital share transactions including 8,444,068 of shares issued in conjunction with the Patriot Acquisition, offset by \$67,721 in dividends declared to our stockholders. During this six month period we recognized net investment income of \$29,243, a decrease in net assets due to realized losses of \$51,229 and a decrease in net assets due to changes in unrealized depreciation of investments of \$1,245.

The aggregate fair value of our portfolio investments was \$648,135 and \$547,168 as of December 31, 2009 and June 30, 2009, respectively. During the six months ended December 31, 2009, our net cost of investments increased by \$102,212, or 19.2%, primarily from the acquisition of Patriot. At December 31, 2009, we were invested in 55 long-term portfolio investments.

### **Investment Activity**

During the six months ended December 31, 2009, we acquired \$207,126 of investments from Patriot, completed follow-on investments in existing portfolio companies totaling approximately \$7,321, and recorded PIK interest of \$2,059, resulting in gross investment originations with a cost basis of \$216,506. The more significant of these investments are described briefly in the following:

During the six months ended December 31, 2009, we made follow-on secured debt investments of \$1,423 in Iron Horse Coiled Tubing, Inc. ( Iron Horse ) in support of the build out of additional equipment and to fund working capital

requirements.

During the six months ended December 31, 2009, we provided additional fundings of \$3,376 to Yatesville Coal Holdings, Inc. ( Yatesville ) to fund ongoing operations.

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

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On October 30, 2009, we made a follow-on secured subordinated debt investment of \$500 in Ajax Rolled Ring & Machine ( Ajax ).

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

During the six months ended December 31, 2009, we closed-out six positions which are briefly described below.

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

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

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

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

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

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

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

During the six months ended December 31, 2009, we also received principal amortization payments of \$7,184 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:

<b>Quarter-End</b>	<b>Acquisitions(1)</b>	<b>Dispositions(2)</b>
December 31, 2009	\$ 210,438	\$ 45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731

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December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	\$ 1,027,033	\$ 304,377

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

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

**Table of Contents****Investment Holdings**

As of December 31, 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. This concentration continues to decrease as we make investments outside of the energy and energy related industries. Some of the companies in which we invest have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their investment objective or the value of our investment in them may decline substantially or fall to zero.

Our portfolio had an annualized current yield of 15.6% and 16.0% across all our long-term debt and certain equity investments as of December 31, 2009 and December 31, 2008, respectively. At December 31, 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 add to the portfolio. Monetization of other equity positions that we hold is not included in this yield calculation. In each of our portfolio companies, we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of December 31, 2009, we own controlling interests in Ajax, AWCNC, LLC, C&J, Change Clean Energy Holdings, Inc. ( CCEHI ), Coalbed, Inc./Coalbed, LLC (formerly Conquest Cherokee, LLC) ( Coalbed ), Fischbein, LLC ( Fischbein ), Freedom Marine Services LLC ( Freedom Marine ), GSHI, Integrated Contract Services, Inc. ( ICS ), Iron Horse, NRG, Nupla Corporation ( Nupla ), R-V Industries, Inc. ( R-V ), Sidump r Trailer Company, Inc. ( Sidump r ) and Yatesville. We also own an affiliated interest in Appalachian Energy Holdings, LLC ( AEH ), Biotronic NeuroNetwork ( Biotronic ), Boxercraft Incorporated ( Boxercraft ), KTPS Holdings, LLC ( KTPS ), Miller Petroleum, Inc. ( Miller ), Smart, LLC ( Smart ) and Sport Helmets Holdings, LLC ( Sport Helmets ).

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

Level of Control	Cost	December 31, 2009		Percent of Portfolio	Cost	June 30, 2009		Percent of Portfolio
		Percent of Portfolio	Fair Value			Percent of Portfolio	Fair Value	
Control	\$ 165,867	25.2%	\$ 191,898	28.6%	\$ 187,105	29.7%	\$ 206,332	31.9%
Affiliate	68,052	10.4%	66,479	9.9%	33,544	5.3%	32,254	5.0%

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Non-control/Non-affiliate	399,717	60.8%	389,758	58.0%	310,775	49.3%	308,582	47.8%
Money Market Funds	23,418	3.6%	23,418	3.5%	98,735	15.7%	98,735	15.3%
Total Portfolio	\$ 657,054	100.0%	\$ 671,553	100.0%	\$ 630,159	100.0%	\$ 645,903	100.0%

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

Level of Control	Cost	December 31, 2009		June 30, 2009		Cost	Fair Value	Percent of Portfolio
		Percent of Portfolio	Fair Value	Percent of Portfolio	Fair Value			
Money Market Funds	\$ 23,418	3.6%	23,418	3.5%	\$ 98,735	15.7%	\$ 98,735	15.3%
Revolving Line of Credit	2,041	0.3%	2,013	0.3%		%		%
Senior Secured Debt	306,009	46.6%	281,321	41.9%	232,534	36.9%	220,993	34.2%
Subordinated Secured Debt	272,320	41.4%	239,968	35.7%	251,292	39.9%	194,547	30.1%
Subordinated Unsecured Debt	15,185	2.3%	15,771	2.4%	15,065	2.4%	16,331	2.5%
Preferred Stock	11,484	1.7%	6,106	0.9%	10,432	1.6%	4,139	0.7%
Common Stock	18,713	2.9%	82,213	12.2%	16,310	2.6%	89,278	13.8%
Membership Interests	5,124	0.8%	9,287	1.4%	3,031	0.5%	7,270	1.1%
Overriding Royalty Interests		%	2,762	0.4%		%	3,483	0.5%
Net Profit Interests		%	1,451	0.2%		%	2,561	0.4%
Warrants	2,760	0.4%	7,243	1.1%	2,760	0.4%	8,566	1.4%
<b>Total Portfolio</b>	<b>\$ 657,054</b>	<b>100.0%</b>	<b>\$ 671,553</b>	<b>100.0%</b>	<b>\$ 630,159</b>	<b>100.0%</b>	<b>\$ 645,903</b>	<b>100.0%</b>

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

Level of Control	Cost	December 31, 2009		June 30, 2009		Cost	Fair Value	Percent of Portfolio
		Percent of Portfolio	Fair Value	Percent of Portfolio	Fair Value			
Canada	\$ 20,717	3.1%	\$ 12,318	1.8%	\$ 19,344	3.1%	\$ 12,606	2.0%
Midwest US	115,332	17.6%	122,125	18.2%	77,681	12.3%	84,097	13.0%
Northeast US	61,171	9.3%	53,823	8.0%	44,875	7.1%	47,049	7.3%
Southeast US	189,313	28.8%	152,209	22.7%	164,652	26.1%	101,710	15.7%
Southwest US	183,428	27.9%	245,792	36.6%	178,993	28.4%	253,615	39.3%
Western US	63,675	9.7%	61,868	9.2%	45,879	7.3%	48,091	7.4%
Money Market Funds	23,418	3.6%	23,418	3.5%	98,735	15.7%	98,735	15.3%
<b>Total Portfolio</b>	<b>\$ 657,054</b>	<b>100.0%</b>	<b>\$ 671,553</b>	<b>100.0%</b>	<b>\$ 630,159</b>	<b>100.0%</b>	<b>\$ 645,903</b>	<b>100.0%</b>



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

Level of Control	December 31, 2009				June 30, 2009			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	\$ 56	%	\$ 48	%	\$	%	\$	%
Automobile	868	0.1%	868	0.1%		%		%
Biomass Power	2,825	0.4%	1,976	0.3%	2,530	0.4%	2,530	0.4%
Construction Services	5,028	0.8%	1,165	0.2%	5,017	0.8%	2,408	0.4%
Contracting	16,652	2.5%	5,275	0.8%	16,652	2.6%	5,000	0.8%
Ecological	141	%	295	%		%		%
Electronics	14,910	2.3%	14,994	2.2%		%		%
Financial Services	25,685	3.9%	24,511	3.6%	25,424	4.0%	23,073	3.6%
Food Products	34,634	5.3%	37,412	5.6%	27,413	4.4%	29,416	4.6%
Gas Gathering and Processing	35,003	5.3%	85,187	12.7%	35,003	5.6%	85,187	13.2%
Healthcare	88,217	13.4%	92,253	13.7%	57,535	9.1%	60,293	9.3%

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Level of Control	Cost	December 31, 2009		Percent of Portfolio	Cost	June 30, 2009		Percent of Portfolio
		Percent of Portfolio	Fair Value			Percent of Portfolio	Fair Value	
Home and Office Furnishings,								
Housewares and Durable	2,436	0.4%	2,432	0.4%		%		%
Insurance	3,873	0.6%	3,871	0.6%		%		%
Machinery	26,952	4.1%	27,088	4.0%		%		%
Manufacturing	80,590	12.3%	83,112	12.4%	90,978	14.4%	110,929	17.2%
Metal Services and Minerals	9,492	1.4%	12,180	1.8%	3,302	0.5%	7,133	1.1%
Mining, Steel, Iron and Non-Precious Metals and Coal								
Production	10,527	1.6%	10,705	1.6%	48,890	7.8%	13,097	2.0%
Oil and Gas								
Production	104,469	15.9%	93,904	14.0%	104,183	16.5%	104,806	16.2%
Oilfield Fabrication	32,337	4.9%	32,337	4.8%	34,247	5.4%	34,931	5.4%
Personal and Nondurable								
Consumer Products	28,705	4.4%	28,845	4.3%		%		%
Pharmaceuticals	11,952	1.8%	12,000	1.8%	11,949	2.0%	11,452	1.8%
Printing and Publishing	7,640	1.2%	7,803	1.2%		%		%
Production Services	20,717	3.2%	12,318	1.8%	19,344	3.1%	12,606	1.9%
Retail	14,670	2.2%	2,388	0.4%	14,623	2.3%	6,272	1.0%
Shipping Vessels	7,899	1.2%	6,181	0.9%	7,160	1.1%	7,381	1.1%
Specialty Minerals	15,814	2.4%	17,806	2.7%	15,814	2.5%	18,924	2.9%
Technical Services	11,373	1.7%	11,615	1.7%	11,360	1.8%	11,730	1.8%
Textiles and Leather	20,171	3.1%	19,566	2.9%		%		%
Money Market Funds	23,418	3.6%	23,418	3.5%	98,735	15.7%	98,735	15.3%
Total Portfolio	\$ 657,054	100.0%	\$ 671,553	100.0%	\$ 630,159	100.0%	\$ 645,903	100.0%

**Investment Valuation**

In determining the fair value of our portfolio investments at December 31, 2009, the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of \$604,614 to \$680,622, 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 \$648,135, 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.

During the six months ended December 31, 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. 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 category have not seen a significant change in value as they were previously valued at or near par value. In comparison to assets held as of June 30, 2009, these assets include: American Gilsonite Company,

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Biotronic, Castro Cheese Company, Inc., IEC/ARS, Maverick Healthcare, LLC, Qualitest Pharmaceuticals, Inc., Regional Management Corp., Shearer's Foods, Inc., Stryker Energy, LLC, TriZetto Group and Unitek. Such assets acquired from Patriot include: Aircraft Fasteners International, LLC, Boxercraft, Copernicus Group, EXL Acquisition Corp., Fairchild Industrial Products Co., Hudson Products Holdings, Inc., KTPS, Label Corp Holdings, Inc., LHC Holdings Corp., Northwestern Management Services LLC, R-O-M Corporation and Sport Helmets.

Nine debt investments were made to companies that are not performing in line with budget expectations as of December 31, 2009 and have seen a diminution of value since June 30, 2009 (Ajax, Coalbed, Deb Shops, Inc., H&M Oil & Gas, LLC, Iron Horse, NRG, R-V, Wind River Resources Corp. and Wind River II Corp. and Yatesville). The valuation of these assets is further stressed by declining market demand within their respective industries, primarily retail, industrial and energy-related. For these assets, we have increased the market interest rates to take into account the increased credit risk, illiquidity and general changes in current interest rates for similar assets to determine their fair value.

Five portfolio companies (ADAPCO, 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.

***Ajax Rolled Ring & Machine, Inc.***

We acquired a controlling equity interest in Ajax in a recapitalization of the company that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. As of December 31, 2009, we control 78.1% of the fully-diluted common and preferred equity.

Ajax forges seamless steel rings sold to various customers. The rings are used in a range of industrial applications, including in construction equipment and wind power turbines. Ajax's business is cyclical, and the business suffered in light of the global macroeconomic crisis of the past several quarters. 2008 was relatively strong for Ajax, but in the first half of 2009, Ajax experienced massive cuts in ordering of steel rings by its key customers. The second half of 2009 showed steady improvement versus very weak performance in the first half of the year and despite improvement in the second half of the year, Ajax's overall performance in 2009 was well below that of 2008. At December 31, 2009, Ajax had a backlog of new business that would indicate continued improvement through 2010.

The Board of Directors wrote-down the fair value of our investment in Ajax to \$25,802 as of December 31, 2009, a reduction of \$14,059 from its amortized cost, compared to the \$7,581 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 six months ended December 31, 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 December 31, 2009, our Board of Directors, under recommendation from senior management, has set the value of the CCEHI investment at \$1,976, a reduction of \$849 from its amortized cost.

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***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 \$25,816 of EBITDA for the fiscal year ending December 31, 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 December 31, 2009 based upon a combination of a discounted cash flow analysis and a public comparables analysis. At December 31, 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 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 \$5,275 at December 31, 2009, a reduction of \$11,377 from its amortized cost, compared to the \$11,652 unrealized loss recorded at June 30, 2009.

***Iron Horse Coiled Tubing, Inc.***

Iron Horse is an investment that we made in April 2006. Iron Horse had been a provider of coiled tubing subcontractor services prior to making a strategic decision in late 2007 to directly service natural gas and oil producers in the Western Canadian Sedimentary Basin ( WCSB ) as a fracturing services provider. As a result of the business transition, the Company s 2008 financial performance declined significantly from 2007 levels. Iron

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Horse completed its transition from a subcontractor to a direct service provider in 2009, but natural gas prices fell to trough levels due to the recession and heightened natural gas inventory levels. Since November 2009, Iron Horse has seen increased activity in the WCSB and is now completing wells for several large producers in the WCSB.

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

The Board of Directors wrote-down the fair value of our investment in Iron Horse to \$12,318 as of December 31, 2009, a reduction of \$8,399 from its amortized cost, compared to the \$6,738 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. We continue to evaluate strategies for Yatesville such as soliciting indications of interest regarding a transaction involving part or all of recoverable reserves. During the six months ended December 31, 2009, we provided additional funding of \$3,376 to Yatesville to fund ongoing operations including new permitting. During the quarter, we discontinued operations at Yatesville. As of December 31, 2009, our Board of Directors determined that consistent with the decision to discontinue operations, the impairment of Yatesville was other than temporary and we recorded a realized loss of \$51,228 which was the amount that the amortized cost exceeded the fair value at December 31, 2009. Our Board of Directors set the value of the remaining Yatesville investment at \$1,035, which represents the residual value of recoverable reserves, as of December 31, 2009, a reduction of \$12,062 from its value as of June 30, 2009.

**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 six lenders have closed on \$210,000 to date, includes an accordion feature which allows the Facility to accept up to an aggregate total of \$250,000 of commitments for which we continue to solicit additional commitments from other lenders for the additional \$40,000. The revolving period of the Facility extends through June 2010, with an additional one year amortization period after the completion of the revolving period. As of December 31, 2009 and June 30, 2009, we had \$10,000 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 December 31, 2009 and June 30, 2009:

**As of**

**As of**



	<b>December 31, 2009</b>		<b>June 30, 2009</b>	
	<b>Facility Amount</b>	<b>Amount Outstanding</b>	<b>Facility Amount</b>	<b>Amount Outstanding</b>
Revolving Credit Facility	\$ 195,000	\$ 10,000	\$ 175,000	\$ 124,800

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The following table shows the contractual maturity of our revolving credit facility at December 31, 2009:

	<b>Payments Due By Period</b>		
	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>More Than 3 Years</b>
Credit Facility Payable	\$ 10,000	\$	\$

During the six months ended December 31, 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. We also issued 8,444,068 shares to acquire Patriot increasing net asset value to shareholders by \$0.03 per share. The following table shows the calculation of net asset value per share as of December 31, 2009 and June 30, 2009:

	<b>As of December 31, 2009</b>	<b>As of June 30, 2009</b>
Net Assets	\$ 637,477	\$ 532,596
Shares of common stock outstanding	63,349,746	42,943,084
Net asset value per share	\$ 10.06	\$ 12.40

At December 31, 2009, we had 63,349,746 of our common stock issued and outstanding.

**Results of Operations**

For the three months ended December 31, 2009 and December 31, 2008, the net (decrease) increase in net assets resulting from operations was (\$16,853) and \$6,524, respectively, representing (\$0.29) and \$0.22 per share, respectively. We experienced a net realized and unrealized loss of \$33,778 or approximately \$0.59 per share in the three months ended December 31, 2009. This compares with the net realized and unrealized loss of \$5,436 during the three months ended December 31, 2008 or approximately \$0.18 per share.

For the six months ended December 31, 2009 and December 31, 2008, the net (decrease) increase in net assets resulting from operations was (\$23,231) and \$20,522, respectively, representing (\$0.43) and \$0.69 per share, respectively. We experienced a net realized and unrealized loss of \$52,474 or approximately \$0.98 per share in the six months ended December 31, 2009. This compares with the net realized and unrealized loss of \$14,940 during the six months ended December 31, 2008 or approximately \$0.51 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 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

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structuring fees. The following table details the various components of investment income and the related levels of debt investments for the three months ended December 31, 2009 and December 31, 2008:

	<b>For the Three Months Ended December 31,</b>		<b>For the Six Months Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Interest income	\$ 18,539	\$ 17,241	\$ 33,374	\$ 34,797
Dividend income	4,170	4,665	10,388	9,388
Other income	6,174	307	6,638	13,827
Total investment income	\$ 28,883	\$ 22,213	\$ 50,400	\$ 58,012
Average debt principal of investments	\$ 571,809	\$ 537,101	\$ 535,069	\$ 517,421
Weighted-average interest rate earned	12.86%	12.74%	12.37%	13.34%

Total investment income increased significantly from \$22,213 for the three months ended December 31, 2008 to \$28,883 for the six months ended December 31, 2009. This \$6,670 increase is primarily due to the Patriot acquisition, for which we recognized a gain from the acquisition of \$5,714 and purchase discount accretion of \$5,320 during the three months ended December 31, 2009. The discount accretion includes \$4,560 of accelerated accretion from early repayments of ADAPCO, Quartermaster and Aylward. Total investment income has decreased for the six months ended December 31, 2009 from the amount reported for the six months ended December 31, 2008 primarily due to a decrease in other income. This \$7,189 decrease in other income is primarily due to the settlement of our net profit interests in IEC/ARS for \$12,576 during the six months ended December 31, 2008, partially offset but gain from the acquisition of Patriot.

Average principal balances of debt investments have increased from \$537,101 for the three months ended December 31, 2008 to \$571,809 for the three months ended December 31, 2009. For the six months ended December 31, 2008 and 2009, average principal balances of debt investments increased from \$517,421 to \$535,069, respectively. These increases are primarily due to the Patriot acquisition which resulted in an additional \$289,030 of debt principal to our portfolio.

The weighted-average interest rate earned increased from 12.74% for the three months ended December 31, 2008 to 12.86% for the three months ended December 31, 2009. This increase is primarily the result of purchase discount accretion of \$5,320 from the Patriot acquisition. For the six months ended December 31, 2008 and 2009, weighted-average interest rate earned decreased from 13.34% to 12.37%, respectively. This decrease is primarily the result of Patriot acquisition purchase discount accretion, offset by foregone interest on non-accrual loans. During the six month period ended December 31, 2009, interest of \$12,510 was foregone on non-accrual debt investments compared to \$4,983 of forgone interest for the three months ended December 31, 2008. Without adjustments for foregone interest and purchase discount accretion from the Patriot acquisition, the weighted average interest rates earned on debt investments would have been 15.0% and 15.3% for the three months ended December 31, 2009 and 2008, 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 \$11,958 and \$10,253 for the three months ended December 31, 2009 and December 31, 2008, respectively. Operating expenses were \$21,157 and \$22,550 for the six months ended December 31, 2009 and December 31, 2008, respectively.

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The base management fee was \$3,176 and \$2,940 for the three months ended December 31, 2009 and December 31, 2008, respectively. The base management fee was \$6,385 and \$5,763 for the six months ended December 31, 2009 and December 31, 2008, respectively. The increase in this expense for the three and six months ended December 31, 2009 is directly related to our growth in total assets.

For the three months ended December 31, 2009 and December 31, 2008, we incurred \$4,231 and \$2,990, respectively, of income incentive fees. The \$1,241 increase in the income incentive fee for the respective three-month period is driven by an increase in pre-incentive fee net investment income from \$14,950 for the three months ended December 31, 2008 to \$21,156 for the three months ended December 31, 2009, primarily the result of additional investment income from the Patriot acquisition. For the six months ended December 31, 2009 and December 31, 2008, we incurred \$7,311 and \$8,865, respectively, of income incentive fees. The \$1,554 decrease in the income incentive fee for the respective six-month period is driven by a decrease in pre-incentive fee net investment income from \$44,327 for the six months ended December 31, 2008 to \$36,554 for the six months ended December 31, 2009, primarily the result of the settlement of net profits interest in IEC/ARS in the 2008 period offset by the income from the Patriot acquisition. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three and six months ended December 31, 2009, we incurred \$1,995 and \$3,369 of expenses related to our credit facility. This compares with expenses of \$1,965 and \$3,483 incurred during the three and six months ended December 31, 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.

	<b>For the Three Months Ended December 31,</b>		<b>For the Six Months Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Interest on borrowings	\$ 266	\$ 1,712	\$ 393	\$ 2,942
Amortization of deferred financing costs	1,282	180	2,106	360
Commitment and other fees	447	73	870	181
<b>Total</b>	<b>\$ 1,995</b>	<b>\$ 1,965</b>	<b>\$ 3,369</b>	<b>\$ 3,483</b>
Weighted-average debt outstanding	\$ 17,609	\$ 137,525	\$ 13,003	\$ 125,845
Weighted-average interest rate on borrowings	6.00%	4.94%	6.00%	4.64%
Facility amount at beginning of period	\$ 195,000	\$ 200,000	\$ 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 increased from \$184 for the three months ended December 31, 2008 to \$390 for the three months ended December 31, 2009 primarily due to the increased size of our portfolio. Legal costs decreased from \$483 for the six months ended December 31, 2008 to \$390 for the six months ended December 31, 2009 as there were legal matters in the prior year that are no longer active.

**Table of Contents****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 investment income was \$16,925 and \$11,960 for the three months ended December 31, 2009 and December 31, 2008, respectively. This \$4,965 increase was due primarily to the Patriot acquisition, for we recognized a gain from the acquisition and purchase discount accretion, partially offset by increased advisory fees and forgone interest related to Iron Horse. Net investment income was \$29,243 and \$35,462 for the six months ended December 31, 2009 and December 31, 2008, respectively. This \$6,219 decrease is due primarily to the settlement of our net profit interests in IEC/ARS during the six months ended December 31, 2008, offset by the Patriot acquisition, increased advisory fees and forgone interest related to Iron Horse for the six months ended December 31, 2009.

Net realized (loss) gains were (\$51,229) and \$16 for the three months ended December 31, 2009 and December 31, 2008, respectively. Net realized (loss) gains were (\$51,229) and \$1,661 for the six months ended December 31, 2009 and December 31, 2008, respectively. The net realized loss of \$51,229 for the three and six months ended December 31, 2009 was due primarily to the impairment of Yatesville. See *Investment Valuations* for further discussion.

Net increase (decrease) in net assets from changes in unrealized appreciation/depreciation was \$17,451 and (\$5,452) for the three months ended December 31, 2009 and December 31, 2008, respectively. For the three months ended December 31, 2009, the \$17,451 increase in net assets from the net change in unrealized appreciation/depreciation was driven primarily by our impairment of Yatesville which resulted in \$40,856 being reversed out of unrealized, partially offset by write-downs of our investments in Ajax, H&M, NRG and R-V. For the three months ended December 31, 2008, the \$5,452 decrease in net assets from the net change in unrealized appreciation/depreciation was driven primarily by write-downs to our investments in Deb Shops, Iron Horse, Qualitest, RMC, Resco, WEPI, and Yatesville which were partially offset by unrealized appreciation of our investment in GSHI.

Net decrease in net assets from changes in unrealized appreciation/depreciation was \$1,245 and \$16,601 for the six months ended December 31, 2009 and December 31, 2008, respectively. The \$1,245 decrease occurring during the six months ended December 31, 2009 was primarily attributable to unrealized depreciation recognized for our investments in Ajax, Coalbed, Deb Shops, H&M, NRG, and R-V partially offset by the impairment of our investment in Yatesville of \$51,228. The \$16,601 decrease occurring during the six months ended December 31, 2008 was attributable to unrealized depreciation recognized for our investments in Deb Shops, Iron Horse, Qualitest, RMC, Resco, WEPI, and Yatesville partially offset by a write-up of our investment in GSHI.

**Financial Condition, Liquidity and Capital Resources**

For the six months ended December 31, 2009 and December 31, 2008, our operating activities provided (used) \$155,128 and (\$23,126) of cash, respectively. Investing activities for the Patriot acquisition used \$106,586 and zero for the six months ended December 31, 2009 and December 31, 2008, respectively. Financing activities provided \$54,640 and \$25,009 of cash during the six months ended December 31, 2009 and December 31, 2008, respectively, which included the payments of dividends of \$36,469 and \$22,221, during the six months ended December 31, 2009 and December 31, 2008, respectively.

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



We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. At December 31, 2009, we had \$10,000 outstanding borrowings on our \$195,000 revolving credit facility. Subsequent to December 31, 2009, we completed a closing for an additional \$15,000 commitment to the revolving credit facility, increasing total commitments to \$210,000.

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On September 6, 2007, our Registration Statement on Form N-2 was declared effective by the SEC. At December 31, 2009, under the Registration Statement, we had remaining availability to issue up to approximately \$147,500 of our equity securities over the next eight 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 filed with the SEC a post-effective amendment to the registration statement on Form N-2 on November 6, 2009. Such amendment was declared effective by the SEC on November 9, 2009.

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

## **Off-Balance Sheet Arrangements**

At December 31, 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 January 25, 2010, we issued 236,985 shares of our common stock in connection with the dividend reinvestment plan.

On January 4, 2010, we completed a closing for an additional \$15,000 commitment to the Facility, increasing total commitments to \$210,000.

## ***Merger Discussions with Allied Capital Corporation***

On January 14, 2010, Prospect Capital delivered a proposal letter to the Allied Capital Board (the First Prospect Capital Merger Offer Letter ) containing an offer to acquire each outstanding Allied Capital Corporation ( Allied Capital ) Share in exchange for 0.385 of a share of Prospect Capital Common Stock (the First Prospect Capital Merger Offer ).

On January 19, 2010, Allied Capital filed a Form 8-K stating that the Allied Capital Board determined that the First Prospect Capital Merger Offer did not constitute a Superior Proposal as such term is defined in the Ares Capital Merger Agreement.

On January 20, 2010, Prospect Capital issued a press release containing a copy of a letter it subsequently sent to the Allied Capital Board in connection with the First Prospect Capital Merger Offer.

On January 26, 2010, Prospect Capital announced that it delivered another letter to the Allied Capital Board, raising its offer to acquire Allied Capital (the Second Prospect Capital Merger Offer Letter ).

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On February 3, 2010, Allied Capital informed us and filed a Form 8-K stating that the Allied Capital Board determined that the Second Prospect Capital Merger Offer did not constitute a Superior Proposal as such term is defined in the Ares Capital Merger Agreement.

On February 9, 2010, Prospect Capital announced that it delivered another letter to the Allied Capital Board, raising its offer to acquire Allied Capital (the Third Prospect Capital Merger Offer Letter ).

On February 11, 2010, Allied Capital informed us and filed a Form 8-K stating that the Allied Capital Board determined that the Third Prospect Capital Merger Offer did not constitute a Superior Proposal as such term is defined in the Ares Capital Merger Agreement. Prospect Capital has filed proxy materials to solicit Allied Shareholders to vote against Allied s proposed merger with Ares Capital Corporation. A merger with Allied would be material to Prospect Capital and its shareholders. If Prospect Capital were to negotiate a merger agreement with Allied, Prospect Capital would provide extensive disclosure to its shareholders regarding the terms and conditions of and risks regarding such transaction.

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**REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2009. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2009 based upon criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on our assessment, management determined that the Company's internal control over financial reporting was effective as of June 30, 2009 based on the criteria on Internal Control – Integrated Framework issued by COSO. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Our management's assessment of the effectiveness of our internal control over financial reporting as of June 30, 2009 has been audited by BDO Seidman LLP, an independent registered public accounting firm, as stated in their report which appears in the 10-K.

**USE OF PROCEEDS**

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. A supplement to this prospectus relating to each offering will provide additional detail, to the extent known at the time, regarding the use of the proceeds from such offering including any intention to utilize proceeds to pay expenses in order to avoid sales of long-term assets.

We anticipate that substantially all of the net proceeds of an offering of Securities pursuant to this prospectus will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. In addition, we expect that there will be several offerings pursuant to this prospectus; we expect that substantially all of the proceeds from all offerings will be used within three years. Pending our new investments, we plan to invest a portion of net proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment and other general corporate purposes. The management fee payable by us will not be reduced while our assets are invested in such securities. See Regulation – Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

**FORWARD-LOOKING STATEMENTS**

Our annual report on Form 10-K for the year ended June 30, 2009, any of our quarterly reports on Form 10-Q or current reports on Form 8-K, or any other oral or written statements made in press releases or otherwise by or on behalf of Prospect Capital Corporation including this prospectus may contain forward looking statements within the meaning of the Section 21E of the Securities Exchange Act of 1934, as amended, which involve substantial risks and uncertainties. Forward looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment

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management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as intends, intend, intended, goal, estimate, estimates, expects, expect, expected, project, projected, project, anticipates, anticipated, should, could, may, will, designed to, foreseeable future, believe, believes, variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital;

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

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

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the Securities and Exchange Commission, Internal Revenue Service, the New York Stock Exchange, and other authorities that we are subject to, as well as their

counterparts in any foreign jurisdictions where we might do business; and

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

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



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**DISTRIBUTIONS**

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. This tax of \$533,000 was paid in the quarter ending March 31, 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. 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 may 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. See Dividend Reinvestment Plan. 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. For the fiscal year ended June 30, 2009, we declared total dividends of approximately \$56.1 million. For the first and second quarters of the fiscal year ending June 30, 2010, we paid total distributions of approximately \$22.3 million and \$25.9 million, respectively.

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.