

PROSPECT CAPITAL CORP  
Form 497  
July 12, 2012

Table of Contents

Filed pursuant to Rule 497  
File No. 333-176637

PROSPECTUS SUPPLEMENT  
(To Prospectus dated October 21, 2011)

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21,000,000 Shares

## Prospect Capital Corporation

### Common Stock

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This is an offering of 21,000,000 shares of the common stock of Prospect Capital Corporation. Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

Our common stock is traded on the NASDAQ Global Select Market under the symbol "PSEC." The last reported closing sales price for our common stock on July 10, 2012 was \$11.90 per share and our most recently determined net asset value per share was \$10.82 as of March 31, 2012 (\$10.58 on an as adjusted basis solely to give effect to our distribution with record dates of April 30, 2012, May 31, 2012 and June 29, 2012, our issuance of common stock on April 20, 2012, May 24, 2012 and June 22, 2012 in connection with our dividend reinvestment plan, the issuance of 14,518,207 shares of common stock issued in conjunction with the acquisition of First Tower and our sale of 5,199,764 shares of common stock during the period from June 7, 2012 through July 9, 2012 (with settlement dates of June 12, 2012 through July 12, 2012)).

*Investing in our common stock involves risks. See "Risk Factors" beginning on page S-9 of this prospectus supplement and on page 10 of the accompanying prospectus.*

|  | Per Share | Total         |
|--|-----------|---------------|
| Price to the public  | \$11.15   | \$234,150,000 |
| Underwriting discounts and commissions                     | \$0.10    | \$2,100,000   |
| Proceeds to Prospect Capital Corporation (before expenses) | \$11.05   | \$232,050,000 |

The underwriter has an option for a period of 30 days from the date of this prospectus supplement to purchase up to an aggregate of 3,150,000 additional shares of our common stock at \$11.05 per share.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at [www.sec.gov](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 supplement or the accompanying prospectus.

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

Barclays expects to deliver the shares on or about July 16, 2012.

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**Barclays**

Prospectus Supplement dated July 11, 2012

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Table of Contents

**FORWARD-LOOKING STATEMENTS**

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

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

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

Table of Contents

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.

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

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

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

**TABLE OF CONTENTS  
PROSPECTUS SUPPLEMENT**

|  |             |
|--|-------------|
| <u>Prospectus Summary</u>  | <u>S-1</u>  |
| <u>Selected Condensed Financial Data</u>   | <u>S-8</u>  |
| <u>Risk Factors</u>  | <u>S-9</u>  |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>S-14</u> |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>S-48</u> |
| <u>Use of Proceeds</u>   | <u>S-49</u> |
| <u>Capitalization</u>  | <u>S-50</u> |
| <u>Recent Sales of Common Stock Below Net Asset Value</u>                                    | <u>S-52</u> |
| <u>Senior Securities</u>   | <u>S-53</u> |
| <u>Distributions and Price Range of Common Stock</u>   | <u>S-54</u> |
| <u>Underwriting</u>  | <u>S-57</u> |
| <u>Legal Matters</u>   | <u>S-62</u> |
| <u>Independent Registered Public Accounting Firm</u>   | <u>S-62</u> |
| <u>Available Information</u>   | <u>S-62</u> |
| <u>Index to Financial Statements</u>   | <u>F-1</u>  |

**PROSPECTUS**

|  |            |
|--|------------|
| <u>About This Prospectus</u>   | <u>1</u>   |
| <u>Prospectus Summary</u>  | <u>2</u>   |
| <u>Selected Condensed Financial Data</u>   | <u>9</u>   |
| <u>Risk Factors</u>  | <u>10</u>  |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>32</u>  |
| <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | <u>67</u>  |
| <u>Report of Management on Internal Control Over Financial Reporting</u>                     | <u>68</u>  |
| <u>Use of Proceeds</u>   | <u>68</u>  |
| <u>Forward-Looking Statements</u>  | <u>68</u>  |
| <u>Distributions</u>   | <u>70</u>  |
| <u>Senior Securities</u>   | <u>73</u>  |
| <u>Price Range of Common Stock</u>   | <u>74</u>  |
| <u>Business</u>  | <u>76</u>  |
| <u>Certain Relationships and Transactions</u>  | <u>101</u> |
| <u>Control Persons and Principal Stockholders</u>  | <u>102</u> |
| <u>Portfolio Companies</u>   | <u>103</u> |
| <u>Determination of Net Asset Value</u>  | <u>110</u> |
| <u>Sales of Common Stock Below Net Asset Value</u>   | <u>111</u> |
| <u>Dividend Reinvestment Plan</u>  | <u>115</u> |
| <u>Material U.S. Federal Income Tax Considerations</u>                                       | <u>117</u> |
| <u>Description of Our Capital Stock</u>  | <u>124</u> |
| <u>Description of Our Preferred Stock</u>  | <u>131</u> |
| <u>Description of Our Debt Securities</u>  | <u>131</u> |
| <u>Description of Our Warrants</u>   | <u>145</u> |
| <u>Regulation</u>  | <u>146</u> |
| <u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>                           | <u>152</u> |
| <u>Brokerage Allocation and Other Practices</u>  | <u>153</u> |
| <u>Plan of Distribution</u>  | <u>153</u> |
| <u>Legal Matters</u>   | <u>155</u> |
| <u>Independent Registered Accounting Firm</u>  | <u>155</u> |
| <u>Available Information</u>   | <u>155</u> |
| <u>Index to Financial Statements</u>   | <u>F-1</u> |

Table of Contents

**PROSPECTUS SUMMARY**

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

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

**The Company**

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

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

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

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of March 31, 2012, we held investments in 78 portfolio companies. The aggregate fair value as of March 31, 2012 of investments in these portfolio companies held on that date is approximately \$1.692 billion. Our portfolio across all our long-term debt had an annualized current yield of 12.6% as of March 31, 2012. The yield includes interest as well as dividends.

Table of Contents

**Recent Developments**

**Dividends**

On May 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101525 per share for May 2012 to holders of record on May 31, 2012 with a payment date of June 22, 2012;

\$0.101550 per share for June 2012 to holders of record on June 29, 2012 with a payment date of July 24, 2012;

\$0.101575 per share for July 2012 to holders of record on July 31, 2012 with a payment date of August 24, 2012; and

\$0.101600 per share for August 2012 to holders of record on August 31, 2012 with a payment date of September 21, 2012.

**Recent Investment Activity**

On April 2, 2012 we made an investment of \$22 million to purchase 51.2% of the subordinated notes in Galaxy XII CLO, Ltd.

On April 16, 2012, we made a senior secured debt investment of \$15 million to support the acquisition of Nixon, Inc., a designer and distributor of watches and accessories.

On April 20, 2012 we made an investment of \$43.195 million to purchase 71.1% of the subordinated notes in Symphony CLO IX, Ltd.

On May 8, 2012, SonicWALL, Inc. repaid the \$23 million loan receivable to us.

On May 17, 2012, we made an investment of \$50 million in Plato Learning, Inc., providers of educational software which deliver online curriculum and assessments to the U.S. educational market.

On May 21, 2012, we made a follow-on investment of \$10.5 million in Stauber Performance Ingredients, Inc.

On May 31, 2012, The Copernicus Group, Inc. repaid the remaining \$17.6 million loan receivable to us and we received \$2.6 million for our preferred stock positions, resulting in a realized gain of \$2.3 million.

On June 1, 2012, we made a senior secured second lien investment of \$17.5 million in an installment lender.

On June 1, 2012, we sold our membership interests in C&J Cladding for \$4.0 million, recognizing a realized gain of \$3.4 million on the sale, and received an advisory fee of \$1.5 million.

On June 7, 2012, we provided \$48.6 million of senior secured financing to Naylor, LLC, an outsourced provider of media and communications services to professional, trade and interest associations.

On June 7, 2012, we made an investment of \$27.4 million to purchase 73.6% of the unrated subordinated notes in Babson CLO Ltd. 2012-II.

On June 14, 2012, we made an investment of \$18.7 million to purchase 52.7% of the subordinated notes in Apidos CLO IX.

On June 15, 2012, we exited our investment in Nupla Corporation for a sales price of \$6.85 million. After payment of expenses, including accumulated managerial assistance of \$450,000 paid





Table of Contents

to our Administrator and a \$1.5 million structuring fee paid to us, the proceeds were applied to repayment of the loans receivable to us, resulting in a realized gain of \$2.9 million, as this loan was acquired in the Patriot Capital acquisition at a discount to the par amount outstanding.

On June 22, 2012, we made an investment of \$25.8 million to purchase 51.0% of the subordinated notes in Madison Park Funding IX, Ltd.

On June 29, 2012, Sport Helmets Holdings, LLC repaid the \$17.6 million loan receivable to us. We recognized \$2.6 million of accelerated purchase discount accretion in the quarter ended June 30, 2012.

On July 5, 2012, we made a senior secured debt investment of \$28.0 million to support the acquisition of a provider of forklift and other material handling equipment fleet services.

**Credit Facility**

On April 4, 2012, April 17, 2012, June 8, 2012 and June 13, 2012 we closed increases to our commitments to our credit facility of \$15 million, \$57.5 million, \$5 million and \$5 million respectively. The commitments to the credit facility now stand at \$492.5 million.

**Debt Issuance**

Since March 31, 2012, we issued approximately \$23.62 million in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of approximately \$23.16 million.

On April 16, 2012, we issued \$130 million in aggregate principal amount of 5.375% senior convertible notes due 2017 (the "2017 Notes") for net proceeds following underwriting expenses of approximately \$126 million. Other than the coupon and maturity date, the 2017 Notes have terms that are substantially similar to the terms of our 5.50% senior convertible notes due 2016 (the "2016 Notes") (See "Management's Discussion and Analysis of Financial Condition and Results of Operations Senior Convertible Notes")

On May 1, 2012, we issued \$100 million in aggregate principal amount of 6.95% senior unsecured notes due 2022 for net proceeds net of offering expenses of approximately \$96.8 million (the "2022 Notes").

**Stock Issuance in Connection with Dividend Reinvestment Plan**

On April 20, 2012, May 24, 2012 and June 22, 2012, we issued 85,063, 81,773 and 72,407 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

**ATM Offering**

On June 1, 2012, we and KeyBanc Capital Markets Inc. entered into an equity distribution agreement relating to sales by us through KeyBanc Capital Markets, by means of at-the-market offerings from time to time, of up to 9,500,000 shares of our common stock (the "ATM Program"). During the period from June 7, 2012 to July 9, 2012, we sold 5,199,764 shares of our common stock at an average price of \$11.38 per share, and raised \$59.2 million of gross proceeds, under the ATM Program. Net proceeds were \$58.6 million after commissions to the broker-dealer on shares sold.

**First Tower Acquisition**

On June 15, 2012, we completed the acquisition of the businesses of First Tower Corp. ("First Tower"). We acquired 80.1% of First Tower's businesses for \$110.2 million in cash and 14,518,207 million unregistered shares of our common stock.

Table of Contents

**The Offering**

|  |  |
|--|--|
| Common stock offered by us, excluding the underwriter's option to purchase additional shares                   | 21,000,000 shares.   |
| Common stock outstanding prior to this offering  | 141,881,145 shares.  |
| Common stock outstanding after this offering, excluding the underwriter's option to purchase additional shares | 162,881,145 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, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See "Use of Proceeds" in this prospectus supplement.  |
| The NASDAQ Global Select Market symbol   | PSEC   |
| Risk factors   | See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.  |
| Current distribution rate  | On May 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:<br><br>\$0.101525 per share for May 2012 to holders of record on May 31, 2012 with a payment date of June 22, 2012;<br><br>\$0.101550 per share for June 2012 to holders of record on June 29, 2012 with a payment date of July 24, 2012;<br><br>\$0.101575 per share for July 2012 to holders of record on July 31, 2012 with a payment date of August 24, 2012; and<br><br>\$0.101600 per share for August 2012 to holders of record on August 31, 2012 with a payment date of September 21, 2012, representing an annualized yield (based on the June 2012 distribution) of approximately 10.24% based on our July 10, 2012 closing stock price of \$11.90 per share. Such distributions are expected to be payable out of earnings. Our distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend. |

Table of Contents**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 \$1.069 billion. 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.

|  |        |
|--|--------|
| <b>Stockholder transaction expenses:</b>   |        |
| Sales load (as a percentage of offering price)(1)  | 0.89%  |
| Offering expenses borne by us (as a percentage of offering price)(2)   | 0.13%  |
| Dividend reinvestment plan expenses(3)   | None   |
| Total stockholder transaction expenses (as a percentage of offering price)   | 1.02%  |
| <b>Annual expenses (as a percentage of net assets attributable to common stock)(4):</b>  |        |
| Management Fees(5)   | 3.70%  |
| Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6) | 3.09%  |
| Interest payments on the credit facility   | 1.12%  |
| Interest payments on the 2015 Notes(7)   | 0.71%  |
| Interest payments on the 2016 Notes(8)   | 0.70%  |
| Interest payments on the 2017 Notes(9)   | 0.53%  |
| Interest payments on the 2022 Notes(10)  | 0.53%  |
| Interest payments on the Prospect Capital InterNotes®(11)  | 0.14%  |
| Acquired Fund Fees and Expenses(12)  | 0.01%  |
| Other expenses(13)   | 1.82%  |
| Total annual expenses(6)(13)   | 12.35% |

**Example**

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed \$1.069 billion and that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

|   | 1 Year   | 3 Years   | 5 Years   | 10 Years  |
|---|----------|-----------|-----------|-----------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return | \$ 89.92 | \$ 242.05 | \$ 385.04 | \$ 706.07 |

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

Table of Contents

**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.**

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- (1) The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one time fee, is the only sales load paid in connection with this offering.
- (2) The offering expenses of this offering are estimated to be approximately \$300,000.
- (3) The expenses of the dividend reinvestment plan are included in "other expenses."
- (4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at March 31, 2012. 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). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed \$492.5 million, the 2% management fee of gross assets equals approximately 3.70% of net assets. See "Business Management Services Investment Advisory Agreement" in the accompanying prospectus and footnote 6 below.
- (6) Based on an annualized level of incentive fee paid during our third fiscal quarter ended March 31, 2012, all of which consisted of an income incentive fee. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services Investment Advisory Agreement" in the accompanying prospectus.
- (7) On December 21, 2010, the Company issued \$150 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the 2015 Notes. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2015 Notes.
- (8) On February 18, 2011, the Company issued \$172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the 2016 Notes. Between January 30, 2012 and February 2, 2012, we repurchased \$5.0 million of our 2016 Notes at a price of 97.5% of par, including commissions. The transactions will result in our recognizing \$10,000 of loss in the quarter ended March 31, 2012. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2016 Notes. The 2016 Notes and the 2015 Notes are referred to collectively as the Senior Convertible Notes.
- (9) On April 16, 2012 the Company issued \$130 million in aggregate principal amount of 5.375% Convertible Senior Notes due 2017, which we refer to as the 2017 Notes.
- (10) On May 1, 2012 the Company issued \$100 million in aggregate principal amount of 6.95% Senior Notes due 2022, which we refer to as the 2022 Notes.
- (11) Since February 2012, the Company issued \$29.09 million in aggregate principal amount of our Prospect Capital InterNotes®.
- (12) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of March 31, 2012. 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



Table of Contents

substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately \$1,319 million as of March 31, 2012.

- (13) "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended March 31, 2012 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement" in the accompanying prospectus.

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 supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2011, 2010, 2009, 2008 and 2007 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and nine months ended March 31, 2012 and 2011 has been derived from unaudited financial data. Interim results for the three and nine months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2012. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-14 for more information.

|  | For the Three Months<br>Ended March 31, |                  | For the Nine Months Ended<br>March 31, |                  | For the Year/Period Ended June 30, |                  |                  |                  |                  |
|--|---|------------------|--|------------------|------------------------------------|------------------|------------------|------------------|------------------|
|  | 2012                                    | 2011             | 2012                                   | 2011             | 2011                               | 2010             | 2009             | 2008             | 2007             |
| (in thousands except data relating to shares, per share and number of portfolio companies) |   |                  |  |                  |                                    |                  |                  |                  |                  |
| <b>Performance Data:</b>   |   |                  |  |                  |                                    |                  |                  |                  |                  |
| Interest income  | \$ 72,946                               | \$ 34,504        | \$ 160,361                             | \$ 90,787        | \$ 134,454                         | \$ 86,518        | \$ 62,926        | \$ 59,033        | \$ 30,084        |
| Dividend income  | 7,477                                   | 2,763            | 34,664                                 | 8,328            | 15,092                             | 15,366           | 22,793           | 12,033           | 6,153            |
| Other income   | 15,200                                  | 7,306            | 23,203                                 | 13,970           | 19,930                             | 12,675           | 14,762           | 8,336            | 4,444            |
| <b>Total investment income</b>   | <b>95,623</b>                           | <b>44,573</b>    | <b>218,228</b>                         | <b>113,085</b>   | <b>169,476</b>                     | <b>114,559</b>   | <b>100,481</b>   | <b>79,402</b>    | <b>40,681</b>    |
| Interest and credit facility expenses  | (9,655)                                 | (5,660)          | (28,374)                               | (10,182)         | (17,598)                           | (8,382)          | (6,161)          | (6,318)          | (1,903)          |
| Investment advisory expense  | (23,467)                                | (12,034)         | (56,599)                               | (31,231)         | (46,051)                           | (30,727)         | (26,705)         | (20,199)         | (11,226)         |
| Other expenses   | (4,429)                                 | (2,923)          | (10,798)                               | (7,641)          | (11,606)                           | (8,260)          | (8,452)          | (7,772)          | (4,421)          |
| <b>Total expenses</b>  | <b>(37,551)</b>                         | <b>(20,617)</b>  | <b>(95,771)</b>                        | <b>(49,054)</b>  | <b>(75,255)</b>                    | <b>(47,369)</b>  | <b>(41,318)</b>  | <b>(34,289)</b>  | <b>(17,550)</b>  |
| <b>Net investment income</b>   | <b>58,072</b>                           | <b>23,956</b>    | <b>122,457</b>                         | <b>64,031</b>    | <b>94,221</b>                      | <b>67,190</b>    | <b>59,163</b>    | <b>45,113</b>    | <b>23,131</b>    |
| Realized and unrealized gains (losses)   | (7,863)                                 | 9,803            | 32,144                                 | 27,248           | 24,017                             | (47,565)         | (24,059)         | (17,522)         | (6,403)          |
| <b>Net increase in net assets from operations</b>  | <b>\$ 50,209</b>                        | <b>\$ 33,759</b> | <b>\$ 154,601</b>                      | <b>\$ 91,279</b> | <b>\$ 118,238</b>                  | <b>\$ 19,625</b> | <b>\$ 35,104</b> | <b>\$ 27,591</b> | <b>\$ 16,728</b> |
| <b>Per Share Data:</b>   |   |                  |  |                  |                                    |                  |                  |                  |                  |
| Net increase in net assets from operations(1)  | \$ 0.44                                 | \$ 0.38          | \$ 1.39                                | \$ 1.11          | \$ 1.38                            | \$ 0.33          | \$ 1.11          | \$ 1.17          | \$ 1.06          |
| Distributions declared per share   | \$ 0.30                                 | \$ 0.30          | \$ 0.91                                | \$ 0.91          | \$ (1.21)                          | \$ (1.33)        | \$ (1.62)        | \$ (1.59)        | \$ (1.54)        |
| Average weighted shares outstanding for the period   | 114,146,939                             | 88,200,916       | 110,868,177                            | 82,112,300       | 85,978,757                         | 59,429,222       | 31,559,905       | 23,626,642       | 15,724,095       |
| <b>Assets and Liabilities Data:</b>  |   |                  |  |                  |                                    |                  |                  |                  |                  |



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|                                 |              |              |              |              |              |            |            |            |            |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|------------|
| Investments                     | \$ 1,691,580 | \$ 1,213,517 | \$ 1,691,580 | \$ 1,213,517 | \$ 1,463,010 | \$ 748,483 | \$ 547,168 | \$ 497,530 | \$ 328,222 |
| Other assets                    | 124,429      | 125,345      | 124,429      | 125,345      | 86,307       | 84,212     | 119,857    | 44,248     | 48,280     |
| Total assets                    | 1,816,009    | 1,338,862    | 1,816,009    | 1,338,862    | 1,549,317    | 832,695    | 667,025    | 541,778    | 376,502    |
| Amount drawn on credit facility | 121,000      | 47,500       | 121,000      | 47,500       | 84,200       | 100,300    | 124,800    | 91,167     |            |
| 2010 Notes                      | 150,000      | 150,000      | 150,000      | 150,000      | 150,000      |            |            |            |            |
| 2011 Notes                      | 167,500      | 172,500      | 167,500      | 172,500      | 172,500      |            |            |            |            |
| Prospect Capital InterNotes®    | 5,465        |              | 5,465        |              |              |            |            |            |            |
| Amount owed to related parties  | 4,677        | 7,809        | 4,677        | 7,809        | 7,918        | 9,300      | 6,713      | 6,641      | 4,838      |
| Other liabilities               | 48,561       | 48,132       | 48,561       | 48,132       | 20,342       | 11,671     | 2,916      | 14,347     | 71,616     |
| Total liabilities               | 497,203      | 425,941      | 497,203      | 425,941      | 434,960      | 121,271    | 134,429    | 112,155    | 76,454     |
| Net assets                      | \$ 1,318,806 | \$ 912,921   | \$ 1,318,806 | \$ 912,921   | \$ 1,114,357 | \$ 711,424 | \$ 532,596 | \$ 429,623 | \$ 300,048 |

**Investment**

**Activity Data:**

|  |            |            |            |            |            |               |           |            |            |
|--|------------|------------|------------|------------|------------|---------------|-----------|------------|------------|
| No. of portfolio companies at period end                                     | 78         | 64         | 78         | 64         | 72         | 58            | 30        | 29(2)      | 24(2)      |
| Acquisitions   | \$ 170,073 | \$ 359,152 | \$ 547,345 | \$ 641,036 | \$ 953,337 | \$ 364,788(3) | \$ 98,305 | \$ 311,947 | \$ 167,255 |
| Sales, repayments, and other disposals                                       | \$ 188,399 | \$ 76,494  | \$ 354,660 | \$ 207,030 | \$ 285,562 | \$ 136,221    | \$ 27,007 | \$ 127,212 | \$ 38,407  |
| Annualized current yield at end of period for performing debt investments(4) | 12.6%      | 15.0%      | 12.6%      | 15.0%      | 12.3%      | 16.2%         | 14.6%     | 15.5%      | 17.3%      |

- (1) Per share data is based on average weighted shares for the period.
- (2) Includes a net profits interest in Charlevoix Energy Trading LLC ("Charlevoix"), remaining after loan was paid.
- (3) Includes \$207,126 of acquired portfolio investments from Patriot Acquisition.
- (4) Excludes equity investments and non-performing loans.

Table of Contents

**RISK FACTORS**

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and in the accompanying prospectus on page 10, together with all of the other information included in this prospectus supplement and in the accompanying prospectus, before you decide whether to make an investment in our common stock. The risks set forth below and in the accompanying prospectus are not the only risks we face. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV and the trading price of our common stock could decline, we could reduce or eliminate our dividend and you could lose all or part of your investment.*

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

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

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

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

Table of Contents

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

***The instability in the financial markets has led the U.S. federal government to take a number of unprecedented actions and pass legislation designed to regulate and support certain financial institutions and numerous segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity.***

On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act, among other things, grants regulatory authorities such as the Commodity Futures Trading Commission ("CFTC") and SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives market. The regulations adopted to date by these regulators have not had a material adverse effect on our business. However, several significant rulemaking initiatives have not been completed and these could have the effect of reducing liquidity or otherwise adversely affecting us or our investments. There can be no assurance that future regulatory actions authorized by the Dodd-Frank Act will not significantly reduce our profitability. The implementation of the Dodd-Frank Act could also adversely affect us by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase our exposure to potential liabilities. Increased regulatory oversight can also impose administrative burdens on us and on PCM, including, without limitation, responding to examinations or investigations and implementing new policies and procedures.

Additionally, federal, state, foreign and other governments, their regulatory agencies or self regulatory organizations may take actions that affect the regulation of the securities in which we invest, or the issuers of such securities, in ways that are unforeseeable. Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of our portfolio companies. Furthermore, volatile financial markets can expose us to greater market and liquidity risk and potential difficulty in valuing securities.

At any time after the date of this prospectus, legislation may be enacted that could negatively affect us or our portfolio companies. Changing approaches to regulation may have a negative impact on the entities in which we invest. Legislation or regulation may also change the way in which we are regulated. There can be no assurance that the Dodd-Frank Act or any future legislation, regulation or deregulation will not have a material adverse effect on us or will not impair our ability to achieve our investment objective.

***The recent downgrade of the U.S. credit rating and uncertainty about the financial stability of several countries in the European Union ("EU") could have a significant adverse effect on our business, results of operations and financial condition.***

Due to long-term federal budget deficit concerns, on August 5, 2011 S&P downgraded the federal government's credit rating from AAA to AA+ for the first time in history. This downgrade could lead to subsequent downgrades by S&P, as well as to downgrades by the other two major credit rating agencies, Moody's and Fitch Ratings. These developments, and the government's credit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our stock price and our financial performance.

Table of Contents

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these EU "peripheral nations" to continue to service their sovereign debt obligations. Despite assistance packages to Greece, Ireland and Portugal, the creation of a joint EU-IMF European Financial Stability Facility in May 2010, and a recently announced plan to expand financial assistance to Greece, uncertainty over the outcome of the EU governments' financial support programs and worries about sovereign finances persist. Risks and ongoing concerns about the debt crisis in Europe could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may continue to affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. There can be no assurance that the market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely affected.

***Our most recent NAV was calculated on March 31, 2012 and our NAV when calculated effective June 30, 2012 may be higher or lower.***

Our most recently estimated NAV per share is \$10.58 on an as adjusted basis solely to give effect to our distributions with record dates of April 30, 2012, May 31, 2012 and June 29, 2012, our issuance of common stock on April 20, 2012, May 24, 2012 and June 22, 2012 in connection with our dividend reinvestment plan, the issuance of 14,518,207 shares of common stock issued in conjunction with the acquisition of First Tower and our sale of 5,199,764 shares of common stock during the period from June 7, 2012 through July 9, 2012 (with settlement dates of June 12, 2012 through July 12, 2012), versus \$10.82 determined by us as of March 31, 2012. NAV per share as of June 30, 2012, may be higher or lower than \$10.58 based on potential changes in valuations, issuances of securities and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to March 31, 2012. 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, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending on December 9, 2012, as described in this prospectus supplement and in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such

Table of Contents

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 the accompanying prospectus.

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

We may distribute taxable dividends that are payable in part in our stock. Under IRS Revenue Procedure 2010-12, up to 90% of any such taxable dividend could be payable in our stock for dividends paid on or before December 31, 2012 with respect to any taxable year ending on or before December 31, 2011. The IRS has also issued private letter rulings on cash/stock dividends paid by regulated investment companies and real estate investment trusts if certain requirements are satisfied, and we have received such a ruling permitting us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2012 and August 31, 2013. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock (whether pursuant to Revenue Procedure 2010-12, a private letter ruling, or otherwise).

***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;

Table of Contents

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

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

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

*Illustration.* The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$2.0 billion in total assets, (ii) an average cost of funds of 4.72%, (iii) \$700 million in debt outstanding and (iv) \$1.3 billion 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>   |
| <b>Corresponding Return to Stockholder</b>               | <b>(17.9)%</b> | <b>(10.2)%</b> | <b>(2.5)%</b> | <b>5.2%</b> | <b>12.8%</b> |

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

Table of Contents

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

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

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

**Overview**

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

We seek to be a long-term investor with our portfolio companies. From our July 27, 2004 inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy. Since then, we have widened our strategy to focus in other sectors of the economy and continue to reduce our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 10% of our investment portfolio.

The aggregate value of our portfolio investments was \$1,691,580, and \$1,463,010 as of March 31, 2012 and June 30, 2011, respectively. During the nine months ended March 31, 2012, our net cost of investments increased by \$220,129, or 15.3%, as a result of nineteen new investments, several follow-on investments and a revolver advance, totaling \$542,846, accrued payment-in-kind interest of \$4,499 and accretion of purchase discount of \$3,741, while we received full repayment on twelve investments, sold one investment, received several partial prepayments, amortization payments and a revolver repayment, totaling \$354,660, including a net realized gain of \$23,703. During the nine months ended March 31, 2012, Deb Shops, Inc. ("Deb Shops") filed for bankruptcy and a plan for reorganization was proposed. The plan, which is expected to be approved by the bankruptcy court, will eliminate our debt position with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of \$14,607 for the full amount of the amortized cost. This realized loss was primarily offset by our sale of 392 shares of NRG Manufacturing, Inc. ("NRG") common stock for which we realized a gain of \$36,940.

Compared to the end of last fiscal year (ended June 30, 2011), net assets increased by \$204,449 or 18.3% during the nine months ended March 31, 2012, from \$1,114,357 to \$1,318,806. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$144,376, dividend reinvestments of \$7,893, and another \$154,601 from operations. These increases, in turn, were offset by \$102,421 in dividend distributions to our stockholders. The \$154,601 increase in net assets resulting from operations is net of the following: net investment income of \$122,457, net realized gain on investments of \$23,703 and an increase in net assets due to changes in net unrealized appreciation of investments of \$8,441.

**Third Quarter Highlights**

*Investment Transactions*

On January 4, 2012, Energy Solutions Holdings, Inc. ("Energy Solutions") sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working

Table of Contents

capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$148,687 in cash and an additional \$10,000 is being held in escrow. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us will be required to be recognized as dividend income, in accordance with ASC 946, *Financial Services Investment Companies*, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition.

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

On January 12, 2012, we made a follow-on investment of \$16,500 to purchase 86.8% of the secured Class D Notes in CIFC Funding 2011-I, Ltd ("CIFC"). The secured Class D Notes bear interest in cash at Libor plus 5.0% and has a final maturity date on January 19, 2023.

On January 17, 2012, we provided \$18,332 of secured second-lien financing to National Bankruptcy Solutions ("NBS"), a financial services processing company purchased by a leading private equity sponsor. The second lien note bears interest in cash at the greater of 12.00% or Libor plus 9.0% and interest in kind of 1.50% and has a final maturity of July 16, 2017.

On January 31, 2012, Aircraft Fasteners International, LLC ("AFI") repaid the \$7,441 loan receivable to us.

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

On February 10, 2012, we provided \$15,000 of secured second-lien financing to Rocket Software, Inc. ("Rocket Software"), a leading global infrastructure software company. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On February 15, 2012, we provided \$25,000 of secured second-lien financing to Blue Coat Systems, Inc. ("Blue Coat"), a leading provider of Web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 11.50% or Libor plus 10.0% and has a final maturity of August 15, 2018.

On February 24, 2012, we made a follow-on investment of \$7,856 to purchase 23.9% of the unrated subordinated notes to Apidos CLO VIII, Ltd ("Apidos").

On February 28, 2012, we made a senior secured follow-on investment of \$9,500 in Clearwater Seafoods LP ("Clearwater") to finance the repayment of a senior secured note due to mature in 2012



Table of Contents

and settle outstanding claims senior to our own investment. The second lien note bears interest in cash at 12.00% and has a final maturity of February 4, 2016.

On February 29, 2012, we provided \$15,000 of secured second-lien financing to Focus Brands, Inc. ("Focus"), a leading franchiser and operator of restaurants, cafes, ice cream stores and retail bakeries. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.00% and has a final maturity on August 21, 2018.

On March 1, 2012, we made a senior secured follow-on investment of \$27,500 in SG Acquisition Inc. ("Safe-Guard") to support a recapitalization. As of March 31, 2012, our investment is \$26,470 structured as \$12,720 of Term Loan C and \$13,750 of Term Loan D first lien notes. The Term Loan C note bears interest in cash at the greater of 8.50% or Libor plus 6.50% and has a final maturity of March 18, 2016. The Term Loan D notes bears interest in cash at the greater of 14.50% or Libor plus 12.50% and has a final maturity of March 18, 2016.

On March 14, 2012, we made an investment of \$26,569 to purchase 74.4% of the unrated subordinated notes in Babson CLO Ltd 2012-I ("Babson 2012").

On March 16, 2012, VPSI, Inc. ("VPSI") repaid the \$16,598 loan receivable to us.

On March 19, 2012, we entered into a definitive agreement to provide debt and equity for the acquisition of the businesses of First Tower Corp. ("First Tower"), a private multiline specialty finance company based in Flowood, Mississippi with over 150 branch offices. We are acquiring 80.1% of First Tower for \$110,200 of cash and 14,518,207 of our shares of common stock. We have the option, at our sole discretion, to substitute up to 100% cash in lieu of such 14,518,207 shares of our common stock at a price per share based on average trading prices prior to the closing date. The acquisition (the "First Tower Acquisition") was completed on June 15, 2012.

On March 23, 2012, Anchor Hocking, LLC ("Anchor Hocking") repaid the \$20,444 loan receivable to us.

On March 27, 2012, we provided \$12,500 of senior secured financing to IDQ Holdings, Inc. ("IDQ"), a manufacturer of a refrigerant refill kits for automobile air conditioners. The senior secured note bears interest in cash at 11.50% and has a final maturity of April 1, 2017.

On March 30, 2012, ROM Acquisition Corporation ("ROM") repaid the \$31,638 loan receivable to us.

*Revolving Credit Facility*

On March 27, 2012, we renegotiated the Syndicated Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$410,000 under the 2012 Facility as of March 31, 2012; which was increased to \$492,500 since March 31, 2012 (See *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 in the aggregate.

*Senior Convertible Notes*

Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 5.50% senior convertible notes due 2016 ("2016 Notes") at a price of 97.5% of par, including commissions. The transactions will result in our recognizing \$10 of loss in the quarter ended March 31, 2012.

*Prospect Capital InterNotes®*

During the three months ended March 31, 2012, we issued \$5,465 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$5,001.

Table of Contents

*Equity Issuance*

On October 21, 2011, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$618,600 of additional debt and equity securities in the public market as of March 31, 2012.

On January 25, 2012, February 17, 2012 and March 23, 2012, we issued shares of our common stock in connection with the dividend reinvestment plan of 85,252, 69,864 and 77,764, respectively.

On February 28, 2012, we completed a public stock offering of 12,000,000 shares of our common stock at \$10.95 per share, raising \$131,400 of gross proceeds and \$129,480 of net proceeds.

*Dividend*

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

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

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

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

**Investment Holdings**

As of March 31, 2012, we continue to pursue our investment strategy and continue to diversify the portfolio. In May 2007, we changed our name to "Prospect Capital Corporation" and terminated our policy to invest at least 80% of our net assets in energy companies. Since that time, we have reduced our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 10% of our investment portfolio.

At March 31, 2012, approximately \$1,691,580 or 128.3% of our net assets are invested in 78 long-term portfolio investments and 4.4% of our net assets are invested in money market funds.

During the nine months ended March 31, 2012, we originated \$547,345 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our performing loan portfolio's annualized current yield increased from 12.3% as of June 30, 2011 to 12.6% as of March 31, 2012 across all long-term debt investments. We expect our current asset yield may continue to decline modestly as we continue to reduce credit risk. Generally, we have seen a decrease in interest rates on loans issued during our fiscal year ended June 30, 2011 and the nine months ending March 31, 2012 in comparison to the rates in effect prior to June 30, 2010 as we continue to reduce the risk profile of the portfolio. Monetization of other equity positions that we hold is not included in this yield calculation. In many of our portfolio companies, we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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### Table of Contents

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

As of March 31, 2012, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., C&J Cladding LLC, Energy Solutions, Integrated Contract Services, Inc. ("ICS"), Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), Nupla Corporation ("Nupla") and R-V Industries, Inc. ("R-V"). We also own an affiliated interest in BNN Holdings Corp. f/k/a Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft"), Smart, LLC, and Sport Helmets Holdings, LLC ("Sport Helmets").

The following is a summary of our investment portfolio by level of control at March 31, 2012 and June 30, 2011, respectively:

| Level of Control          | March 31, 2012 |                      |              |                      | June 30, 2011 |                      |              |                      |
|---------------------------|----------------|----------------------|--------------|----------------------|---------------|----------------------|--------------|----------------------|
|                           | Cost           | Percent of Portfolio | Fair Value   | Percent of Portfolio | Cost          | Percent of Portfolio | Fair Value   | Percent of Portfolio |
| Control                   | \$ 232,459     | 14.0%                | \$ 323,786   | 19.1%                | \$ 262,301    | 18.3%                | \$ 310,072   | 21.2%                |
| Affiliate                 | 59,606         | 3.6%                 | 67,581       | 4.0%                 | 56,833        | 4.0%                 | 72,337       | 4.9%                 |
| Non-control/Non-affiliate | 1,363,798      | 82.4%                | 1,300,213    | 76.9%                | 1,116,600     | 77.7%                | 1,080,601    | 73.9%                |
| Total Portfolio           | \$ 1,655,863   | 100.0%               | \$ 1,691,580 | 100.0%               | \$ 1,435,734  | 100.0%               | \$ 1,463,010 | 100.0%               |

S-18

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Table of Contents

The following is our investment portfolio presented by type of investment at March 31, 2012 and June 30, 2011, respectively:

| Type of Investment           | March 31, 2012      |                      |                     |                      | June 30, 2011       |                      |                     |                      |
|------------------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
|                              | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio |
| Revolving Line of Credit     | \$ 2,508            | 0.2%                 | \$ 2,529            | 0.1%                 | \$ 7,144            | 0.5%                 | \$ 7,278            | 0.5%                 |
| Senior Secured Debt          | 851,475             | 51.4%                | 796,732             | 47.2%                | 822,582             | 57.3%                | 789,981             | 54.0%                |
| Subordinated Secured Debt    | 568,594             | 34.3%                | 510,936             | 30.2%                | 491,188             | 34.2%                | 448,675             | 30.7%                |
| Subordinated Unsecured Debt  | 70,389              | 4.3%                 | 70,872              | 4.2%                 | 54,687              | 3.8%                 | 55,336              | 3.8%                 |
| CLO Debt                     | 27,164              | 1.7%                 | 30,662              | 1.8%                 |                     | %                    |                     | %                    |
| CLO Residual Interest        | 77,228              | 4.7%                 | 78,942              | 4.7%                 |                     | %                    |                     | %                    |
| Preferred Stock              | 31,490              | 1.9%                 | 24,160              | 1.4%                 | 31,979              | 2.2%                 | 25,454              | 1.7%                 |
| Common Stock                 | 18,725              | 1.1%                 | 138,669             | 8.2%                 | 19,865              | 1.4%                 | 116,076             | 7.9%                 |
| Membership Interests         | 6,017               | 0.3%                 | 15,744              | 0.9%                 | 6,128               | 0.4%                 | 15,392              | 1.1%                 |
| Overriding Royalty Interests |                     |                      | % 1,677             | 0.1%                 |                     |                      | % 2,168             | 0.1%                 |
| Escrows Receivable           |                     |                      | % 15,269            | 0.9%                 |                     |                      | %                   | %                    |
| Warrants                     | 2,273               | 0.1%                 | 5,388               | 0.3%                 | 2,161               | 0.2%                 | 2,650               | 0.2%                 |
| <b>Total Portfolio</b>       | <b>\$ 1,655,863</b> | <b>100.0%</b>        | <b>\$ 1,691,580</b> | <b>100.0%</b>        | <b>\$ 1,435,734</b> | <b>100.0%</b>        | <b>\$ 1,463,010</b> | <b>100.0%</b>        |

The following is our investments in debt securities presented by type of security at March 31, 2012 and June 30, 2011, respectively:

| Level of Control             | March 31, 2012      |                            |                     |                            | June 30, 2011       |                            |                     |                            |
|------------------------------|---------------------|----------------------------|---------------------|----------------------------|---------------------|----------------------------|---------------------|----------------------------|
|                              | Cost                | Percent of Debt Securities | Fair Value          | Percent of Debt Securities | Cost                | Percent of Debt Securities | Fair Value          | Percent of Debt Securities |
| First Lien                   | \$ 861,292          | 56.7%                      | \$ 807,167          | 57.2%                      | \$ 902,031          | 65.6%                      | \$ 854,975          | 65.7%                      |
| Second Lien                  | 561,285             | 36.9%                      | 503,030             | 35.6%                      | 418,883             | 30.5%                      | 390,959             | 30.0%                      |
| Unsecured                    | 70,389              | 4.6%                       | 70,872              | 5.0%                       | 54,687              | 4.0%                       | 55,336              | 4.3%                       |
| CLO Debt                     | 27,164              | 1.8%                       | 30,662              | 2.2%                       |                     | %                          |                     | %                          |
| <b>Total Debt Securities</b> | <b>\$ 1,520,130</b> | <b>100.0%</b>              | <b>\$ 1,411,731</b> | <b>100.0%</b>              | <b>\$ 1,375,601</b> | <b>100.0%</b>              | <b>\$ 1,301,270</b> | <b>100.0%</b>              |

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Table of Contents

The following is our investment portfolio presented by geographic location of the investment at March 31, 2012 and June 30, 2011, respectively:

| Geographic Location    | March 31, 2012      |                      |                     |                      | June 30, 2011       |                      |                     |                      |
|------------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
|                        | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio |
| Canada                 | \$ 69,630           | 4.2%                 | \$ 71,392           | 4.2%                 | \$ 74,239           | 5.2%                 | \$ 75,207           | 5.1%                 |
| Cayman Islands         | 104,392             | 6.3%                 | 109,604             | 6.5%                 |                     | %                    |                     | %                    |
| Ireland                | 14,916              | 0.9%                 | 15,000              | 0.9%                 | 14,908              | 1.0%                 | 15,000              | 1.0%                 |
| Midwest US             | 381,227             | 23.0%                | 323,766             | 19.1%                | 358,540             | 25.0%                | 340,251             | 23.4%                |
| Northeast US           | 309,999             | 18.8%                | 330,789             | 19.6%                | 242,039             | 16.9%                | 234,628             | 16.0%                |
| Southeast US           | 312,130             | 18.8%                | 300,042             | 17.7%                | 234,528             | 16.3%                | 208,226             | 14.2%                |
| Southwest US           | 191,870             | 11.6%                | 279,617             | 16.5%                | 189,436             | 13.2%                | 266,004             | 18.2%                |
| Western US             | 271,699             | 16.4%                | 261,370             | 15.5%                | 322,044             | 22.4%                | 323,694             | 22.1%                |
| <b>Total Portfolio</b> | <b>\$ 1,655,863</b> | <b>100.0%</b>        | <b>\$ 1,691,580</b> | <b>100.0%</b>        | <b>\$ 1,435,734</b> | <b>100.0%</b>        | <b>\$ 1,463,010</b> | <b>100.0%</b>        |

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Table of Contents

The following is our investment portfolio presented by industry sector of the investment at March 31, 2012 and June 30, 2011, respectively:

| Industry   | March 31, 2012      |                      |                     |                      | June 30, 2011       |                      |                     |                      |
|--|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
|  | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio | Cost                | Percent of Portfolio | Fair Value          | Percent of Portfolio |
| Aerospace and Defense  | \$ 56               |                      | \$ 35,093           | 2.1%                 | \$ 56               |                      | \$ 35               | 2.9%                 |
| Automobile / Auto Finance  | 37,674              | 2.3%                 | 35,093              | 2.1%                 | 41,924              | 2.9%                 | 42,444              | 2.9%                 |
| Biomass Power(1)   |                     | %                    |                     | %                    | 2,540               | 0.2%                 |                     | %                    |
| Business Services  | 3,148               | 0.2%                 | 3,288               | 0.2%                 | 6,604               | 0.5%                 | 6,787               | 0.5%                 |
| Chemicals  | 56,359              | 3.4%                 | 56,359              | 3.3%                 | 25,277              | 1.8%                 | 25,277              | 1.7%                 |
| Commercial Services  | 80,567              | 4.9%                 | 80,567              | 4.8%                 | 34,625              | 2.4%                 | 34,625              | 2.4%                 |
| Consumer Services  | 99,117              | 6.0%                 | 99,347              | 5.9%                 | 68,286              | 4.8%                 | 68,286              | 4.7%                 |
| Contracting  | 15,949              | 1.0%                 | 1,106               | 0.0%                 | 18,220              | 1.3%                 | 1,767               | 0.1%                 |
| Diversified Financial Services                                     | 122,724             | 7.4%                 | 127,936             | 7.6%                 |                     | %                    |                     | %                    |
| Diversified / Conglomerate Service                                 |                     | %                    | 35                  | 0.0%                 |                     | %                    |                     | %                    |
| Durable Consumer Products  | 137,712             | 8.3%                 | 138,390             | 8.2%                 | 141,779             | 9.9%                 | 144,362             | 9.9%                 |
| Ecological   | 141                 | %                    | 216                 | %                    | 141                 | %                    | 194                 | %                    |
| Electronics  |                     | %                    | 142                 | %                    | 588                 | %                    | 1,374               | 0.1%                 |
| Energy(1)  | 63,245              | 3.8%                 | 166,260             | 9.9%                 |                     | %                    |                     | %                    |
| Food Products  | 146,643             | 8.9%                 | 139,474             | 8.2%                 | 144,503             | 10.1%                | 146,498             | 10.0%                |
| Gas Gathering and Processing(1)                                    |                     | %                    |                     | %                    | 42,003              | 2.9%                 | 105,406             | 7.2%                 |
| Healthcare   | 166,761             | 10.1%                | 167,667             | 9.9%                 | 156,396             | 10.9%                | 163,657             | 11.2%                |
| Home and Office Furnishings, Housewares and Durable                | 1,557               | 0.1%                 | 5,723               | 0.3%                 | 1,916               | 0.1%                 | 6,109               | 0.4%                 |
| Insurance  | 83,714              | 5.1%                 | 83,714              | 4.9%                 | 86,850              | 6.0%                 | 87,448              | 6.0%                 |
| Machinery  | 4,667               | 0.3%                 | 6,835               | 0.4%                 | 13,179              | 0.9%                 | 13,171              | 0.9%                 |
| Manufacturing  | 95,433              | 5.8%                 | 116,341             | 6.9%                 | 114,113             | 7.9%                 | 136,039             | 9.3%                 |
| Media  | 117,637             | 7.1%                 | 112,220             | 6.6%                 | 121,302             | 8.4%                 | 121,300             | 8.3%                 |
| Metal Services and Minerals  | 580                 | %                    | 5,231               | 0.3%                 | 580                 | %                    | 4,699               | 0.3%                 |
| Mining, Steel, Iron and Non-Precious Metals and Coal Production(1) |                     | %                    |                     | %                    | 1,448               | 0.1%                 |                     | %                    |
| Oil and Gas Equipment Services                                     | 7,574               | 0.5%                 | 7,574               | 0.4%                 |                     | %                    |                     | %                    |
| Oil and Gas Production   | 126,747             | 7.6%                 | 35,256              | 2.2%                 | 124,662             | 8.7%                 | 70,923              | 4.8%                 |
| Oilfield Fabrication   |                     | %                    |                     | %                    | 23,076              | 1.6%                 | 23,076              | 1.6%                 |
| Personal and Nondurable Consumer Products                          | 54,703              | 3.2%                 | 62,918              | 3.7%                 | 15,147              | 1.1%                 | 23,403              | 1.6%                 |
| Production Services  | 268                 | 0.0%                 | 2,040               | 0.1%                 | 14,387              | 1.0%                 | 15,357              | 1.0%                 |
| Property Management  | 51,920              | 3.1%                 | 47,803              | 2.8%                 | 52,420              | 3.7%                 | 51,726              | 3.5%                 |
| Retail   | 63                  | %                    | 137                 | %                    | 14,669              | 1.0%                 | 145                 | 0.0%                 |
| Shipping Vessels(1)  |                     | %                    |                     | %                    | 11,303              | 0.8%                 | 3,079               | 0.2%                 |
| Software & Computer Services                                       | 76,863              | 4.6%                 | 77,608              | 4.7%                 | 37,890              | 2.7%                 | 38,000              | 2.7%                 |
| Specialty Minerals   | 37,732              | 2.3%                 | 42,791              | 2.5%                 | 30,169              | 2.1%                 | 34,327              | 2.3%                 |
| Textiles and Leather   | 15,148              | 0.9%                 | 17,932              | 1.1%                 | 12,931              | 0.9%                 | 15,632              | 1.1%                 |
| Transportation   | 51,161              | 3.1%                 | 51,577              | 3.0%                 | 76,750              | 5.3%                 | 77,864              | 5.3%                 |
| <b>Total Portfolio</b>   | <b>\$ 1,655,863</b> | <b>100.0%</b>        | <b>\$ 1,691,580</b> | <b>100.0%</b>        | <b>\$ 1,435,734</b> | <b>100.0%</b>        | <b>\$ 1,463,010</b> | <b>100.0%</b>        |

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

Table of Contents

**Portfolio Investment Activity**

During the nine months ended March 31, 2012, we acquired \$449,264 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$92,082, funded \$1,500 of revolver advances, and recorded PIK interest of \$4,499, resulting in gross investment originations of \$547,345. The more significant of these investments are described briefly in the following:

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

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

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

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

On August 9, 2011, we made an investment of \$32,116 to purchase 66.2% of the unrated subordinated notes in Babson CLO Ltd 2011-I ("Babson").

On September 16, 2011, we acted as the facility agent and lead lender of a syndication of lenders that collectively provided \$132,000 in senior secured financing to support the financing of Capstone Logistics, LLC ("Capstone"), a leading logistics company. This company provides a broad array of logistics services to a diverse group of blue chip customers in the grocery, food service, retail, and specialty automotive industries. As of March 31, 2012 our investment is \$75,567 structured as \$33,942 of Term Loan A and \$41,625 of Term Loan B first lien notes. After the financing, we received repayment of the loan that was outstanding for Progressive Logistics Services, LLC ("PLS"). The Term Loan A notes bear interest in cash at the greater of 7.50% or Libor plus 5.50% and has a final maturity on September 16, 2016. The Term Loan B notes bear interest in cash at the greater of 13.50% or Libor plus 11.50% and has a final maturity on September 16, 2016.

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

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

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

## Edgar Filing: PROSPECT CAPITAL CORP - Form 497

### Table of Contents

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

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

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

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

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

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

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

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

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

On January 12, 2012, we made a follow-on investment of \$16,500 to purchase 86.8% of the secured Class D Notes in CIFC. The secured Class D Notes bear interest in cash at Libor plus 5.0% and has a final maturity date on January 19, 2023.

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



Table of Contents

bears interest in cash at the greater of 12.00% or Libor plus 9.0% and interest in kind of 1.50% and has a final maturity of July 17, 2017.

On February 10, 2012, we provided \$15,000 of secured second-lien financing to Rocket Software, a leading global infrastructure software company. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On February 15, 2012, we provided \$25,000 of secured second-lien financing to Blue Coat, a leading provider of Web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 11.50% or Libor plus 10.0% and has a final maturity of August 15, 2018.

On February 24, 2012, we made a follow-on investment of \$7,856 to purchase 23.9% of the unrated subordinated notes to Apidos.

On February 28, 2012, we made a senior secured follow-on investment of \$9,500 in Clearwater to finance the repayment of a senior secured note due to mature in 2012 and settle outstanding claims senior to our own investment. The second lien note bears interest in cash at 12.00% and has a final maturity of February 4, 2016.

On February 29, 2012, we provided \$15,000 of secured second-lien financing to Focus, a leading franchiser and operator of restaurants, cafes, ice cream stores and retail bakeries. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.00% and has a final maturity on August 21, 2018.

On March 1, 2012, we made a senior secured follow-on investment of \$27,500 in Safe-Guard to support a recapitalization. As of March 31, 2012, our investment is \$26,470 structured as \$12,720 of Term Loan C and \$13,750 of Term Loan D first lien notes. The Term Loan C note bears interest in cash at the greater of 8.50% or Libor plus 6.50% and has a final maturity of March 18, 2016. The Term Loan D notes bears interest in cash at the greater of 14.50% or Libor plus 12.50% and has a final maturity of March 18, 2016.

On March 14, 2012, we made an investment of \$26,569 to purchase 74.4% of the unrated subordinated notes in Babson 2012.

On March 27, 2012, we provided \$12,500 of senior secured financing to IDQ, a manufacturer of a refrigerant refill kits for automobile air conditioners. The senior secured note bears interest in cash at 11.50% and has a final maturity of April 1, 2017.

During the nine months ended March 31, 2012, we closed-out ten positions which are briefly described below.

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

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

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

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

On January 9, 2012, Arrowhead repaid the \$27,000 loan receivable to us.

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### Table of Contents

On January 31, 2012, AFI repaid the \$7,441 loan receivable to us.

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

On March 16, 2012, VPSI repaid the \$16,598 loan receivable to us.

On March 23, 2012, Anchor Hocking repaid the \$20,444 loan receivable to us.

On March 30, 2012, ROM repaid the \$31,638 loan receivable to us.

In addition to the repayments noted above, during the nine months ended March 31, 2012 we received principal amortization payments of \$18,948 on several loans, and \$26,254 of partial prepayments related to AFI, Anchor Hocking, Cargo Airport Services USA ("CAS"), LLC, Iron Horse, LHC Holdings Corp. ("LHC"), NMMB, Pinnacle Treatment Centers Inc, Progrexion Holdings, Inc ("Progrexion"), Safe-Guard, Seaton Corp and ST Products LLC.

During the nine months ended March 31, 2011, we also received principal amortization payments of \$12,584 on several loans, and \$12,640 of partial prepayments related to AIRMALL, AFI, Ajax, EXL Acquisition Corporation, Fischbein LLC ("Fischbein"), Iron Horse, LHC, Nupla and Progrexion.

On January 4, 2012, Energy Solutions sold Gas Solutions for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$148,687 in cash and an additional \$10,000 is being held in escrow. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us will be required to be recognized as dividend income, in accordance with ASC 946, *Financial Services Investment Companies*, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition.

During the three and nine months ended March 31, 2012, we recognized \$964 and \$3,348 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. Included in the \$964 recorded during the three months ended March 31, 2012 is \$726 of normal accretion and \$238 of accelerated accretion resulting from the repayment of ROM. Included in the \$3,348 recorded during the nine months ended March 31, 2012 is \$2,417 of normal accretion and \$931 of accelerated accretion resulting from the repayments of Mac & Massey and ROM. As of March 31, 2012, \$5,286 of purchase discount from the assets acquired from Patriot remains to be accreted as interest income, of which \$666 is expected to be amortized during the three months ending June 30, 2012.

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### Table of Contents

During the three and nine months ended March 31, 2011, we recognized \$4,739 and \$10,092, respectively, of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$4,739 for the three months ended March 31, 2011, is \$1,302 of normal accretion and \$3,268 of accelerated accretion resulting from the recapitalization of our loans Arrowhead and The Copernicus Group Inc. ("Copernicus"). Included in the \$10,092 for the nine months ended March 31, 2011, is \$3,979 of normal accretion, \$1,116 of accelerated accretion resulting from the repayment of Impact Products LLC, and \$4,828 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead, Copernicus and Northwestern Management Services, LLC ("Northwestern"). The restructured loans for Arrowhead, Copernicus and Northwestern were issued at market terms comparable other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loan was recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income.

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

| Quarter-End          | Acquisitions(1) | Dispositions(2) |
|----------------------|-----------------|-----------------|
| March 31, 2012       | \$ 170,073      | \$ 188,399      |
| December 31, 2011    | 154,697         | 120,206         |
| September 30, 2011   | 222,575         | 46,055          |
| June 30, 2011        | 312,301         | 62,367          |
| March 31, 2011       | 359,152         | 76,494          |
| December 31, 2010    | 140,933         | 62,915          |
| September 30, 2010   | 140,951         | 67,621          |
| June 30, 2010        | 88,973          | 39,883          |
| March 31, 2010       | 59,311          | 26,603          |
| December 31, 2009(3) | 210,438         | 45,494          |
| September 30, 2009   | 6,066           | 24,241          |
| June 30, 2009        | 7,929           | 3,148           |
| March 31, 2009       | 6,356           | 10,782          |
| December 31, 2008    | 13,564          | 2,128           |
| September 30, 2008   | 70,456          | 10,949          |
| June 30, 2008        | 118,913         | 61,148          |
| March 31, 2008       | 31,794          | 28,891          |
| December 31, 2007    | 120,846         | 19,223          |
| September 30, 2007   | 40,394          | 17,949          |
| June 30, 2007        | 130,345         | 9,857           |
| March 31, 2007       | 19,701          | 7,731           |
| December 31, 2006    | 62,679          | 17,796          |
| September 30, 2006   | 24,677          | 2,781           |
| June 30, 2006        | 42,783          | 5,752           |
| March 31, 2006       | 15,732          | 901             |
| December 31, 2005    |                 | 3,523           |
| September 30, 2005   | 25,342          |                 |
| June 30, 2005        | 17,544          |                 |
| March 31, 2005       | 7,332           |                 |
| December 31, 2004    | 23,771          | 32,083          |
| September 30, 2004   | 30,371          |                 |
| Since inception      | \$ 2,675,999    | \$ 994,920      |

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

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

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



Table of Contents

**Investment Valuation**

In determining the fair value of our portfolio investments at March 31, 2012 the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of \$1,673,726 to \$1,771,739, 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. As a second method, management and the independent valuation firm use a market approach to establish a blended required rate of return based on position of the debt instrument within the total capitalization of the portfolio company. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of \$1,691,580, excluding money market investments.

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

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

*Ajax Rolled Ring & Machine, Inc.*

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. As of March 31, 2012, we control 77.68% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was \$20,277 and new debt was \$15,035 as of March 31, 2012.

Ajax forges seamless steel rings sold to various customers. The rings are used in a range of industrial applications, including in construction equipment and wind power turbines. Ajax's business is cyclical, and the business experienced a significant rebound in 2010 and 2011 following the decline in 2009 due to the global macroeconomic crisis. Ajax's EBITDA has experienced a 133% and 76% year-over-year improvement in 2010 and 2011, respectively.

The Board of Directors increased the fair value of our investment in Ajax to \$46,535 as of March 31, 2012, a premium of \$5,166 from its amortized cost, compared to the \$7,822 unrealized depreciation recorded at June 30, 2011.

Table of Contents

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

Gas Solutions is an investment that we completed in September 2004 in which we own 100% of the equity. Gas Solutions is a midstream gathering and processing business located in east Texas. We have provided additional capital for growth initiatives, acquisitions and other capital needs subsequent to our initial investment.

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

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solution Assets") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solution Assets. Our loans to and investment in Energy Solutions remain outstanding as Energy Solutions and will continue as a portfolio company of Prospect managing other energy-related subsidiaries. The cash balances of Energy Solutions continue to collateralize our loan positions.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be \$166,260 for our debt and equity positions at March 31, 2012 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At March 31, 2012 and June 30, 2011, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at \$103,015 and \$51,491 above its amortized cost, respectively.

*Integrated Contract Services, Inc.*

ICS is an investment that we entered into in April 2007. Prior to January 2009, ICS owned the assets of ESA Environmental Specialists, Inc. ("ESA") and 100% of the stock of The Healing Staff ("THS"). ESA originally defaulted under our contract governing our investment in ESA, prompting us to commence foreclosure actions with respect to certain ESA assets in respect of which we have a priority lien. In response to our actions, ESA filed voluntarily for reorganization under the bankruptcy code on August 1, 2007. On September 20, 2007, the U.S. Bankruptcy Court approved a Section 363 Asset Sale from ESA to us. To complete this transaction, we contributed our ESA debt to a newly-formed entity, ICS, and provided funds for working capital on October 9, 2007. In return for the ESA debt, we received senior secured debt in ICS of equal amount to our ESA debt, preferred stock of ICS, and 49% of the ICS common stock. ICS subsequently ceased operations and assigned the collateral back to us. ICS is in default of both payment and financial covenants. During September and October 2007, we provided \$1,170 to THS for working capital.

In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS and certain ESA assets. THS provides outsourced medical staffing and security staffing services to governmental and commercial enterprises. In November 2009, THS was informed that the U.S. Air Force would not exercise its option to renew its contract. THS continues to solicit new contracts to replace the revenue lost when the Air Force contract ended. As part of its strategy to recovery from the loss of the Air Force contract, in 2010 THS started a new business, Vets Securing America, Inc. ("VSA"), to provide out-sourced security guards staffed primarily using retired military veterans. During the year ended June 30, 2011 and the nine months ended March 31, 2012, we made follow-on secured

Table of Contents

debt investments of \$1,708 and \$874, respectively, to support the ongoing operations of THS and VSA. There were no additional fundings during the three months ended March 31, 2012. In October 2011, we sold a building acquired from ESA for \$894. In January 2012, we received \$2,250 towards an ESA litigation settlement. The proceeds from both of these transactions were used to reduce the outstanding loan balance due to us.

Based upon an analysis of the liquidation value of the ESA assets and the enterprise value of THS/VSA, our Board of Directors determined the fair value of our investment in ICS to be \$1,106 at March 31, 2012, a reduction of \$14,843 from its amortized cost, compared to the \$16,453 unrealized loss recorded at June 30, 2011.

*Manx Energy, Inc.*

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

The Board of Directors decreased the fair value of our investment in Manx to zero as of March 31, 2012, a reduction of \$19,018 from its amortized cost, compared to the \$17,707 unrealized loss recorded at June 30, 2011.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Three of our portfolio companies experienced such volatility due to improved operating results and experienced meaningful increases in valuation during the three and nine months ended March 31, 2012. Ajax, Energy Solutions and R-V. The valuation of Ajax increased due to improved operating results and emergent customer base. The value of our equity position in Ajax has increased to \$11,223 as of March 31, 2012, a premium of \$5,166 to its cost, compared to the \$6,057 unrealized loss recorded at June 30, 2011. The valuation of Energy Solutions increased due to the sale of the company's equity interests in the underlying Gas Solutions entities in January 2012. The current value of undistributed sale proceeds held at Energy Solutions has resulted in a significant increase in valuation during the nine months ended March 31, 2012. The value of our equity position in Energy Solutions, including our equity positions in the underlying portfolio companies affected by the reorganization and contingent consideration agreement, has increased to \$122,211 as of March 31, 2012, a premium of \$113,419 to its cost, compared to the \$60,863 unrealized gain recorded at June 30, 2011. The valuation of R-V has increased due to improved operating results. The value of our equity position in R-V has increased to \$18,443 as of March 31, 2012, a premium of \$11,674 to its cost, compared to the \$1,348 unrealized gain recorded at June 30, 2011. Five of the other controlled investments have been valued at discounts to the original investment. Six of the control investments are valued at premiums to the original investment amounts. Overall, at March 31, 2012, the control investments are valued at \$91,327 above their amortized cost.

We hold four affiliate investments at March 31, 2012. The affiliate investments reported strong operating results with valuations remaining relatively consistent from June 30, 2011. Our equity investment in Biotronic experienced the most meaningful decrease in valuation as prior to June 30, 2011 we anticipated that the company would be sold at a substantial premium to our cost basis. This sales process was discontinued during the nine months ended March 31, 2012 as the buyer and Biotronic could not agree to terms acceptable to each party. The value of our equity position in

Table of Contents

Biotronic has decreased to \$394 as of March 31, 2012, a discount of \$2,485 to its amortized cost, compared to the \$4,127 unrealized gain recorded at June 30, 2011. The other three affiliate investments are valued at amortized cost or higher. Overall, at March 31, 2012, affiliate investments are valued \$7,975 above their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. The exception to this categorization relates to investments which were acquired in the Patriot Acquisition, many of which were acquired at significant discounts to par value, and any changes in operating results or interest rates can have a significant effect on the value of such investments. During the nine months ended March 31, 2012, our investment in Stryker Energy, LLC ("Stryker") experienced the most meaningful decrease in valuation due to declining operating results and a reduction in current natural gas prices. The value of our investment in Stryker has decreased to \$1,677 as of March 31, 2012, a discount of \$31,034 to its amortized cost, compared to the \$6,706 unrealized loss recorded at June 30, 2011. The decrease was due primarily to a drop in natural gas prices during the quarter ended December 31, 2011 and continuing to March 31, 2012. During the nine months ended March 31, 2012, our investment in H&M Oil & Gas, LLC ("H&M") also experienced a significant decrease in valuation due to declining operating results. The value of our investment in H&M has decreased to \$30,271 as of March 31, 2012, a discount of \$29,747 to its amortized cost, compared to the \$21,556 unrealized loss recorded at June 30, 2011. Other non-control/Non-affiliate investments did not experience significant changes in operations. The remaining investments did not experience significant changes in valuation. Overall, at March 31, 2012, Non-control/Non-affiliate investments are valued \$63,585 below their amortized cost.

**Capitalization**

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations, Senior Convertible Notes, which we issued in December 2010 and February 2011, Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes and Prospect Capital InterNotes® amounts and outstanding borrowings at March 31, 2012 and June 30, 2011:

|                              | As of March 31, 2012 |                    | As of June 30, 2011 |                    |
|------------------------------|----------------------|--------------------|---------------------|--------------------|
|                              | Maximum Draw Amount  | Amount Outstanding | Maximum Draw Amount | Amount Outstanding |
| Revolving Credit Facility    | \$ 410,000           | \$ 121,000         | \$ 325,000          | \$ 84,200          |
| Senior Convertible Notes     | \$ 317,500           | \$ 317,500         | \$ 322,500          | \$ 322,500         |
| Prospect Capital InterNotes® | \$ 5,465             | \$ 5,465           | \$                  | \$                 |

S-30



Table of Contents

The following table shows the contractual maturity of our Revolving Credit Facility and Senior Convertible Notes at March 31, 2012:

|                              | Payments Due By Period |             |                      |
|------------------------------|------------------------|-------------|----------------------|
|                              | Less Than<br>1 Year    | 1 - 3 Years | More Than<br>3 Years |
| Revolving Credit Facility    | \$                     | \$          | \$ 121,000           |
| Senior Convertible Notes     | \$                     | \$          | \$ 317,500           |
| Prospect Capital InterNotes® | \$                     | \$          | \$ 5,465             |

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of securities, including secured, unsecured and convertible debt securities and preferred stock, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock and warrants to purchase such securities in an amount up to \$618,600. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

*Revolving Credit Facility*

On July 11, 2010, we closed an extension and expansion of our existing credit facility with a syndicate of lenders through Prospect Capital Funding, LLC ("PCF") (the "2010 Facility"). The 2010 Facility, which had \$325,000 total commitments as of June 30, 2011, included an accordion feature which allowed the Syndicated Facility to accept up to an aggregate total of \$400,000 of commitments, a limit which was met on September 1, 2011. Interest on borrowings under the 2010 Facility was one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charged a fee on the unused portion of the 2010 Facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

On March 27, 2012, we renegotiated the Syndicated Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$410,000 under the 2012 Facility as of March 31, 2012; which was increased to \$492,500 since March 31, 2012 (See *Recent Developments*). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At March 31, 2012, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points

Table of Contents

otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of March 31, 2012 and June 30, 2011, we had \$376,137 and \$255,673, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was \$121,000 and \$84,200, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of \$482,500. At March 31, 2012, the investments used as collateral for the 2012 Facility had an aggregate market value of \$845,406, which represents 64.1% of our net assets. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at market value as of March 31, 2012. The release of any assets from PCF requires the approval of the facility agent.

Concurrent with the extension of our 2012 Facility, in March 2012, we wrote off \$304 of the unamortized debt issue costs associated with the previous credit facility, in accordance with ASC 470-50, *Debt Modifications and Extinguishments*. In connection with the origination and amendments of the 2012 Facility, we incurred \$8,428 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$8,397 remains to be amortized.

During the three and nine months ended March 31, 2012, we recorded \$4,484 and \$12,783 of interest costs, unused fees and amortization of financing costs on our credit facility as interest expense, respectively.

*Senior Convertible Notes*

On December 21, 2010, we issued \$150,000 in aggregate principal amount of our 2015 Notes for net proceeds following underwriting expenses of approximately \$145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2012 of 88.0902 and 88.1136 shares of common stock, respectively, per \$1,000 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately \$11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2015 Notes will be increased if monthly cash dividends paid to common shares exceed the rate of \$0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 2016 Notes for net proceeds following underwriting expenses of approximately \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 2016 Notes at a price of 97.5% of par, including commissions. The transactions resulted in our recognizing \$10 of loss in the quarter ended March 31, 2012. Interest on the 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at March 31, 2012 of 78.3699 and 78.3880 shares, respectively, of common stock per \$1,000 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.76 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2016 Notes will be increased when monthly cash dividends paid to common shares exceed the rate of \$0.101150 per share.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per \$1,000 principal amount of the 2015 Notes (the "conversion rate cap"), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the "Guidance") permitting us to adjust the conversion rate in certain instances without

Table of Contents

regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset