PROSPECT CAPITAL CORP
Form 497
November 25, 2009

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

PROSPECTUS SUPPLEMENT
(To Prospectus dated November 9, 2009)

6,256,797 Shares

Common Stock

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

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

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

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

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

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

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

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

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

Prospectus Supplement dated November 25, 2009

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

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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PROSPECTUS SUMMARY

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

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

The Company

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

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

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

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

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

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Recent Developments

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

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

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

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

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

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

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

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

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

Litigation Relating to the Merger

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

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

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

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

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

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

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The Offering

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

Fees and Expenses

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

Stockholder transaction expenses:	
Offering expenses borne by us (as a percentage of offering price)(1)	None
Dividend reinvestment plan expenses(2)	None
Total stockholder transaction expenses (as a percentage of offering price)	None
Annual expenses (as a percentage of net assets attributable to common stock)(3):	
Combined base management fee (2.67%)(4) and incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) (2.03%)(5)	4.70%
Interest payments on borrowed funds	1.93%(6)
Other expenses	1.44%(7)
Total annual expenses	8.07%(5)(7)

Example

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

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

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

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

(1) The offering expenses of this offering were reported as a cost of the original issuance of the shares by the Company. The portion thereof attributable to registration of shares being sold by the selling stockholders will or has been paid by the Company on behalf of the stockholders as a whole and not by the selling stockholders.

(2) The expenses of the dividend reinvestment plan are included in other expenses.

(3) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at September 30, 2009. See Capitalization in this prospectus supplement.

(4) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Assuming that we have borrowed $195 million (the size of our credit facility), the 2% management fee of gross assets equals 2.67% of net assets. See Management Management Services Investment Advisory Agreement in the accompanying prospectus and footnote 7 below.

(5) Based on an annualized level of incentive fee paid during our quarter ended September 30, 2009, all of which consisted of an income incentive fee. For a more detailed discussion of the calculation of the two-part incentive fee, see Management Management Services Investment Advisory Agreement in the accompanying prospectus.

(6) We may borrow additional money before and after the proceeds of this offering are substantially invested. After this offering, we will have an increased amount available for us under our $195 million extended credit facility and we will continue to seek additional lenders to upsize the facility to up to $250 million. For more information,

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

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

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RISK FACTORS

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

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

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

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

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending February 12, 2010 as described in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information about recent sales below NAV per share, see Recent Sales of Common Stock Below Net Asset Value in this prospectus supplement and for additional information and hypothetical examples of these risks, see Sales of Common Stock Below Net Asset Value in this prospectus supplement and in the accompanying prospectus. We are currently seeking shareholder approval at our upcoming 2009 annual meeting, which is scheduled to be held on December 11, 2009 to continue for an additional year our ability to issue shares below net asset value.

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USE OF PROCEEDS

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

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SELLING STOCKHOLDERS

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

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

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

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

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

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

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

this prospectus supplement will be held by the selling stockholders.

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

Represents less than 1.0%

(1) Jonathan M. Glaser, Trustee of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.

(2) Kingsbrook Partners LP (Kingsbrook Partners), as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to

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

(3) ADAR Investment Management LLC, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. ADAR Investment Management LLC is controlled by Yehuda Blinder.

(4) UBS O Connor LLC, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Jeff Putnam as portfolio manager of the investment manager,disclaims any beneficial ownership of such shares.

(5) Daybreak Capital Management LLC, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Mr. Lawrence J. Butz and Mr. John Prinz are the managers of Daybreak Capital Management LLC. Each of Daybreak Capital Management LLC and Messrs. Butz and Prinz may by deemed to have beneficial ownership of the shares of common stock beneficially held by the selling stockholder. Daybreak Capital Management LLC and Messrs. Butz and Prinz each disclaims beneficial ownership of such shares.

(6) Downsview Capital, Inc. (Downsview) is the general partner of Cranshire Capital, L.P. (Cranshire) and consequently has voting control and investment discretion over securities held by Cranshire. Mitchell P. Kopin (Mr. Kopin), President of Downsview, has voting control over Downsview. As a result of the foregoing, each of Mr. Kopin and Downsview may be deemed to have beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended) of the shares of common stock beneficially owned by Cranshire.

(7) Michel A. Amsalem and Joshua Thomas have investment power of over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.

(8) Visium Asset Management, LP, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. JG Asset, LLC is the general partner of the Visium Asset Management, LP and Jacob Gottlieb is the managing member of JG Asset, LLC. Each of Visium Asset Management, LP, JG Asset, LLC and Mr. Gottlieb may be deemed to have beneficial ownership of the shares of common stock beneficially held by the selling stockholder.

(9) The selling stockholder has identified itself to us as an affiliate of a broker-dealer(s) and that it did not receive the shares of common stock outside of the ordinary course of business nor, at the time of issuance or purchase of the common stock, did it have any view to or arrangements or understandings, directly or indirectly, with any person to distribute the shares of common stock.

(10) RL Capital Management LLC has investment parent over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition of such shares. Messrs. Ronald Lazar and Anthony Polak are the managing members of RL Capital Management LLC.

(11) Rockwood Asset Management, Inc., as general partner of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Jay Buck is the President and sole stockholder of Rockwood Asset Management, Inc.

(12) Highbridge Capital Management, LLC, as trading manager of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Glen Dubin is the Chief Executive Officer of Highbridge Capital Management, LLC. Each of Highbridge Capital Management, LLC and Mr. Dubin disclaims any beneficial ownership of such shares.

(13) Sander Gerber has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Mr. Gerber disclaims any beneficial ownership of the securities held by the selling stockholder.

(14) DePrince, Race & Zollo, Inc., as investment advisor of the selling stockholders, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.

(15) Mendon Capital Advisors Corporation, as sub-investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.

(16) Mendon Capital Advisors Corporation, as investment advisor of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.

(17) Thornburg Investment Management has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.

(18) Thornburg Investment Income Builder owns a total of 2,538,415 shares of the Company s common stock, of which 677,686 shares were purchased subject to the Registration Rights Agreements.

(19) Thornburg Strategic Income Fund owns a total of 131,433 shares of the Company s common stock, of which 70,000 shares were purchased subject to the Registration Rights Agreements.

(20) Thornburg Global Opportunities Fund owns a total of 878,216 shares of the Company s common stock, of which 387,200 shares were purchased subject to the Registration Rights Agreements.

(21) Scotia Global Opportunities Fund owns a total of 219,900 shares of the Company s common stock, of which 201,000 shares were purchased subject to the Registration Rights Agreements.

(22) Red Rock Capital LLC has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Adam Goldman and Mark Sunderhuse control Red Rock Capital LLC.

(23) AVS Listed Private Equity Portfolio owns a total of 9,900 shares of the Company s common stock, of which 8,800 were purchased subject to the Registration Rights Agreements.

(24) JNL/Red Rocks Listed Private Equity Fund owns a total of 225,000 shares of the Company s common stock, of which 184,000 were purchased subject to the Registration Rights Agreements.

(25) Heights Capital Management, Inc., as authorized agent of the selling stockholder, has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares and may be deemed to be the beneficial owner of these shares. Martin Kobinger, as investment manager of Heights Capital Management, Inc., may be deemed to have beneficial ownership of the shares of common stock beneficially held by the selling stockholder and disclaims any beneficial ownership of such shares.

(26)

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

(27) Jonathan Silverman has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares. Mr. Silverman disclaims beneficial ownership of such shares.

(28) Confluence Investment Management, LLC has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.

(29) First Trust Specialty Finance & Financial Opportunities Fund owns a total of 640,827 shares of the Company s common stock, of which 300,000 shares were purchased subject to the Registration Rights Agreements.

(30) Barwon Investment Partners has investment power over the shares held by the selling stockholder, including the power to dispose, or to direct the disposition, of such shares.

(31) Barwon Global Listed Private Equity Fund owns a total of 107,000 shares of the Company s common stock, of which 87,000 were purchased pursuant to the Registration Rights Agreements.

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CAPITALIZATION

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

on an actual basis;

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

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

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

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

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

(1) As of November 24, 2009, we had no borrowings outstanding under our credit facility, representing no change in borrowings subsequent to September 30, 2009.

(2) Includes 233,524 shares of our common stock issued on October 19, 2009 in connection with our dividend reinvestment plan, and the sale of shares in connection with this offering (which had no effect on capitalization).

(3) On August 3, 2009, we entered into a merger agreement with Patriot Capital Funding, Inc. (Patriot). The merger agreement contemplates the merger of Patriot with and into the Company, with the Company as the surviving entity. In the merger, each outstanding share of Patriot common stock will be converted into the right to receive approximately 0.3992 shares of common stock of Prospect, subject the payment of cash in lieu of fractional shares of Prospect common stock resulting from the application of the foregoing exchange ratio. See Prospectus Summary Proposed Merger in the accompanying prospectus. However, the numbers in the Capitalization Table for the merger are estimated based on a closing stock price of our stock of $10.02. These numbers are merely estimates and the actual amounts may differ.

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RECENT SALES OF COMMON STOCK BELOW NET ASSET VALUE

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

Date of Offering	Price Per Share to Investors	Shares Issued	Estimated Net Asset Value Per Share	Percentage Dilution
March 18, 2009	$ 8.20	1,500,000	$ 14.43	2.20 %
April 27, 2009	$ 7.75	3,680,000	$ 14.15	5.05 %
May 26, 2009	$ 8.25	7,762,500	$ 13.44	7.59 %
July 7, 2009	$ 9.00	5,175,000	$ 12.40	3.37 %
August 20, 2009	$ 8.50	3,449,686	$ 11.57	1.78 %
September 24, 2009	$ 9.00	2,807,111	$ 11.36	1.20 %

DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

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

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

- 98% of our ordinary income for the calendar year,
- 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and
- any ordinary income and net capital gains for preceding years that were not distributed during such years.

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

In addition, although we currently intend to distribute realized net capital gains (which we define as net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may decide in the future to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under Material U.S. Federal Income Tax Considerations in the accompanying prospectus. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

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

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

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

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

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

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

Twelve Months Ending June 30, 2008						
First quarter	$ 15.08	$ 18.68	$ 14.16	23.9%	(6.1)%	$ 0.3925
Second quarter	14.58	17.17	11.22	17.8%	(23.0)%	0.395
Third quarter	14.15	16.00	13.55	13.1%	(4.2)%	0.400
Fourth quarter	14.55	16.12	13.18	10.8%	(9.4)%	0.40125
Twelve Months Ending June 30, 2009						
First quarter	$ 14.63	$ 14.24	$ 11.12	(2.7)%	(24.0)%	$ 0.4025
Second quarter	14.43	13.08	6.29	(9.4)%	(56.4)%	0.40375
Third quarter	14.19	12.89	6.38	(9.2)%	(55.0)%	0.405
Fourth Quarter	12.40	10.48	7.95	(15.5)%	(35.9)%	0.40625
Twelve Months Ending June 30, 2010						
First Quarter	$ 11.11	$ 10.99	$ 8.82	(1.1)%	(20.6)%	$ 0.4075
Second Quarter (to 11/24/09)	(3)(4)	$ 11.30	$ 9.93	(4)	(4)	(5)

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high or low sales price. The NAVs shown are based on outstanding shares at the end of each period.

(2) The High/Low Stock Price is calculated as of the last reported sales price on a given day in the applicable quarter.

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(3) Our most recently determined NAV per share was $11.11 as of September 30, 2009 ($10.70 on an as adjusted basis solely to give effect to dividends paid on October 19, 2009 and our issuances of common shares on October 19, 2009 in connection with our dividend reinvestment plan). NAV as of December 31, 2009 may be higher or lower than $10.70 based on potential changes in valuations as of December 31, 2009.

(4) NAV has not yet been finally determined for any day after September 30, 2009.

(5) The dividend for the second quarter of 2010 will be declared in December 2009.

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

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

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

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

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SELECTED CONDENSED FINANCIAL DATA OF PROSPECT

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

	For the Three Months Ended September 30		**For the Year/Period Ended June 30,**				
	2009	**2008**	**2009**	**2008**	**2007**	**2006**	**2005**
	(In thousands except data relating to shares, per share and number of portfolio companies)						
Performance Data:							
Interest income	$ 14,835	$ 17,556	$ 62,926	$ 59,033	$ 30,084	$ 13,268	$ 4,586
Dividend income	6,218	4,723	22,793	12,033	6,153	3,601	3,435
Other income	464	13,520	14,762	8,336	4,444		72
Total investment income	21,517	35,799	100,481	79,402	40,681	16,869	8,093
Interest and credit facility expenses	(1,374)	(1,508)	(6,161)	(6,318)	(1,903)	(642)	
Investment advisory expense	(6,289)	(8,698)	(26,705)	(20,199)	(11,226)	(3,868)	(1,808)
Other expenses	(1,536)	(2,091)	(8,452)	(7,772)	(4,421)	(3,801)	(3,874)
Total expenses	(9,199)	(12,297)	(41,318)	(34,289)	(17,550)	(8,311)	(5,682)
Net investment income	12,318	23,502	59,163	45,113	23,131	8,558	2,411