

PROSPECT CAPITAL CORP
Form 497
December 21, 2012

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Filed pursuant to Rule 497
File No. 333-183530

PROSPECTUS SUPPLEMENT
(To Prospectus dated October 29, 2012)

Up to 17,500,000 Shares

Common Stock

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

We have entered into an equity distribution agreement, dated December 21, 2012, with KeyBanc Capital Markets Inc., relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. We sometimes refer to KeyBanc Capital Markets Inc. as the "Sales Manager."

The equity distribution agreement provides that we may offer and sell up to 17,500,000 shares of our common stock from time to time through the Sales Manager, as our agent for the offer and sale of such common stock. However, due to a lock-up restriction we entered into in connection with our recent convertible notes offering, we are limited to offering only up to 1,000,000 shares of our common stock per day until January 17, 2013. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be "at the market" as defined in Rule 415 under the Securities Act of 1933, as amended, or the "1933 Act," including sales made directly on the NASDAQ Global Select Market or sales made to or through a market maker other than on an exchange.

The Sales Manager will receive from us a commission to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of all shares of common stock sold through it as Sales Manager under the equity distribution agreement. The Sales Manager is not required to sell any specific number or dollar amount of common stock, but it will use its commercially reasonable efforts to sell the common stock offered by this prospectus supplement and the accompanying prospectus. See "Plan of Distribution" on page S-60 of this prospectus supplement.

These shares of common stock may be offered at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders at the 2012 annual meeting of stockholders held on December 7, 2012. 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-11 and "Recent Sales of Common Stock Below Net Asset Value" beginning on page S-48 of this prospectus supplement and on page 121 of the accompanying prospectus.

Our common stock is listed on The Nasdaq Global Select Market under the symbol "PSEC." The last reported sale price of our common stock on December 20, 2012 was \$11.00 per share. Our most recently estimated NAV per share is \$10.89 on an as adjusted basis solely to give effect to our issuance of common stock since September 30, 2012 in connection with our dividend reinvestment plan, our issuance of 1,245,655 shares of common stock during the period from October 1, 2012 to October 9, 2012 under our at-the-market offering program, our issuance of 35,000,000 shares of common stock on November 7, 2012 and our issuance of 467,928 shares of common stock in connection with the CCPI, Inc. investment, versus \$10.88 determined by us as of September 30, 2012.

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

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-11 of this prospectus supplement and on page 11 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.

KeyBanc Capital Markets

Prospectus Supplement dated December 21, 2012

FORWARD-LOOKING STATEMENTS

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

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

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

the ability of our portfolio companies to achieve their objectives,

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

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

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

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

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

the adequacy of our cash resources and working capital,

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

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

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

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the NASDAQ Global 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, including any pricing supplement included hereto, and the accompanying prospectus. We have not, and the Sales Manager has not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement, including any pricing supplement included hereto, or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the Sales Manager 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, including any pricing supplement included hereto, 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, including any pricing supplement included hereto, supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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PROSPECTUS SUMMARY

This summary highlights some 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. In this prospectus supplement and the accompanying prospectus, we use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$2 billion. 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 invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments have generally ranged between \$5 million and \$75 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

We also 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, which consist of companies in the discovery, production, transportation, storage and use of energy resources as well as companies that sell products and services to, or acquire products and services from, these companies. We have made no direct 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

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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, 2012, we held investments in 96 portfolio companies. The aggregate fair value as of September 30, 2012 of investments in these portfolio companies held on that date is approximately \$2.7 billion. Our portfolio across all our long-term debt had an annualized current yield of 13.3% as of September 30, 2012. The yield includes interest as well as dividends.

Recent Developments

Dividends

On November 7, 2012, as revised by our announcement on December 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101675 per share for November 2012 to holders of record on November 30, 2012 with a payment date of December 20, 2012;

\$0.110000 per share for December 2012 to holders of record on December 31, 2012 with a payment date of January 23, 2013; and

\$0.110025 per share for January 2013 to holders of record on January 31, 2013 with a payment date of February 20, 2013.

Recent Investment Activity

On October 3, 2012, we made a senior secured investment of \$21.5 million to support the acquisition of CP Well Testing, LLC, a leading provider of flowback services to oil and gas companies operating in Western Oklahoma and the Texas Panhandle.

On October 5, 2012, Northwestern Management Services, LLC repaid the \$15.1 million loan receivable to us and we sold our 50 shares of Northwestern common stock for total proceeds of \$2.2 million, realizing a gain of \$1.9 million.

On October 11, 2012, we made a secured second lien investment of \$12.0 million in Deltek, Inc., an enterprise software and information solutions provider for professional services firms, government contractors, and government agencies.

On October 12, 2012, we made a senior secured investment of \$42.0 million to support the acquisition of Gulf Coast Machine and Supply Company, a preferred provider of value-added forging solutions to energy and industrial end markets.

On October 16, 2012, Blue Coat Systems, Inc. repaid the \$25.0 million loan receivable to us.

On October 18, 2012, we made a follow-on equity investment of \$20.0 million to First Tower Holdings of Delaware LLC, to support seasonal growth in finance receivables due to increased holiday borrowing activity among its customer base.

On October 18, 2012, Hi-Tech Testing Service, Inc. and Wilson Inspection X-Ray Services, Inc. repaid the \$7.2 million loan receivable to us.

On October 19, 2012, Mood Media Corporation repaid the \$15.0 million loan receivable to us.

On October 24, 2012, we made an investment of \$7.8 million to acquire an industrial real estate property occupied by Filet-of-Chicken, a chicken processor in Georgia.

On October 31, 2012, Shearer's Foods, Inc. repaid the \$38.0 million loan receivable to us.

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On November 5, 2012, we made an investment of \$39.5 million to purchase 95.0% of the subordinated notes in ING IM CLO 2012-4, LTD.

On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's Foods, Inc., receiving \$6.0 million of net proceeds and realizing a gain of approximately \$2.0 million on the redemption.

On November 8, 2012, Potters Holdings II, L.P. repaid the \$15.0 million loan receivable to us.

On November 9, 2012 we made a secured second lien investment of \$22.0 million to support the recapitalization of EIG Investors Corp. Concurrent with the financing, we received a repayment of the \$12.0 million loan previously outstanding.

On November 15, 2012, Renaissance Learning, Inc. repaid the \$6.0 million loan receivable to us.

On November 26, 2012 we made a secured second lien investment of \$22.0 million in Petroleum Place, Inc., a provider of enterprise resource planning software focused on the oil & gas industry.

On November 30, 2012 we made a secured second lien investment of \$9.5 million to support the recapitalization of R-V Industries, Inc.

On December 3, 2012, VanDeMark Chemicals, Inc. repaid the \$29.7 million loan receivable to us.

On December 6, 2012, we made an investment of \$38.3 million, to purchase 90% of the subordinated notes in Apidos CLO XI, LLC.

On December 7, 2012, Hudson Products Holdings, Inc. repaid the \$6.3 million loan receivable to us.

On December 13, 2012, we completed a \$33.9 million recapitalization of CCPI, Inc ("CCPI"), an international manufacturer of refractory materials and other consumable products for industrial applications. Through the recapitalization, Prospect acquired a controlling interest in CCPI for \$28.3 million in cash and 467,928 unregistered shares of our common stock.

On December 14, 2012, we provided \$10.0 million of first-lien financing to support the recapitalization of Prince Mineral Holding Corp., a leading global specialty mineral processor and consolidator.

On December 14, 2012, we made a \$3.0 million follow-on investment in Focus Brands, Inc.

On December 17, 2012, we made a \$39.8 million first-lien investment in Coverall Health-Based Cleaning Systems, a leading franchiser of commercial cleaning businesses.

On December 17, 2012, we made a \$38.2 million first-lien follow-on investment in Material Handling Services, LLC, d/b/a Total Fleet Solutions, to support the acquisition of Miner Holding Company, Inc.

On December 17, 2012, we made a secured debt investment of \$30 million to support the recapitalization of BNN Holdings Corp. After the financing, we received payment of the \$26.2 million loan that was previously outstanding.

On December 19, 2012, we provided \$17.5 million of senior secured second-lien financing to support the recapitalization of a retailer of food, beverages and general merchandise.

On December 19, 2012, we provided \$23.2 million of senior secured second-lien financing to support the recapitalization of TB Corp., a Mexican restaurant chain.

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On December 20, 2012, we made a follow-on senior secured debt investment of \$19.5 million to support the recapitalization of Progrexion Holdings, Inc. After the financing, we now hold \$154.5 million of senior secured debt of Progrexion Holdings, Inc.

On December 21, 2012, ST Products, LLC repaid the \$23.2 million loan receivable to us.

On December 21, 2012, SG Acquisition, Inc. repaid the \$83.2 million loan receivable to us.

On December 21, 2012, we made a \$10.0 million senior secured second-lien follow-on investment in Seaton Corp.

On December 21, 2012, we made a \$37.5 million senior secured first-lien investment in a leading provider of regional same day and next day distribution services for premier e-commerce and product supply businesses.

On December 21, 2012, we made a \$12.0 million senior secured first-lien follow-on investment in FPG, LLC.

Shelf Registration

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$3.0 billion of additional securities.

Debt Issuance

On December 19, 2012, we closed an increase of \$35.0 million to our commitments to our credit facility. The commitments to the credit facility now stand at \$552.5 million.

During the period from October 4, 2012 to December 20, 2012, we issued \$68.2 million in aggregate principal amount of our Prospect Capital InterNotes for net proceeds of approximately \$66.2 million.

On December 21, 2012, we issued \$200.0 million in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds following underwriting and other expenses of approximately \$193.6 million. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate of 79.7766 shares of common stock per \$1,000 principal amount of 2019 Notes, which is equivalent to a conversion price of approximately \$12.54 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2019 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.110025 per share.

Common Stock Issuances

During the period from October 1, 2012 to October 9, 2012, we sold 1,245,655 shares of our common stock at an average price of \$11.53 per share, and raised \$14.4 million of gross proceeds, under our at-the-market offering program, or the ATM Program. Net proceeds were \$14.2 million net of commissions to the broker-dealer on shares sold and offering costs.

On October 24, 2012 we issued 83,200 shares of our common stock in connection with the dividend reinvestment plan.

On November 7, 2012, we issued 35,000,000 shares of our common stock at \$11.10 per share (or \$10.96 per share net proceeds excluding expenses), raising \$383.6 million of net proceeds.

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On November 22, 2012, we issued 84,904 shares of our common stock in connection with the dividend reinvestment plan.

On December 13, 2012, we issued 467,928 unregistered shares of our common stock in connection with the CCPI investment.

On December 20, 2012, we issued 100,552 shares of our common stock in connection with the dividend reinvestment plan.

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The Offering

Common stock offered by us	Up to 17,500,000 shares.
Common stock outstanding as of the date of this prospectus supplement	210,133,957 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 November 7, 2012, as revised by our announcement on December 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates: \$0.110000 per share for December 2012 to holders of record on December 31, 2012 with a payment date of January 23, 2013; and \$0.110025 per share for January 2013 to holders of record on January 31, 2013 with a payment date of February 20, 2013, representing an annualized yield (based on the November 2012 distribution) of approximately 12.00% based on our December 20, 2012 closing stock price of \$11.00 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 \$552.5 million under our credit facility, which is the maximum amount available under the credit facility, in addition to our other indebtedness of \$1,094.8 million and a maximum sales load of 2.0% pursuant to the equity distribution agreement. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:

Sales load (as a percentage of offering price)(1)	2.00%
Offering expenses borne by us (as a percentage of offering price)(2)	0.10%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	2.10%

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

Management Fees(5)	3.97%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	3.93%
Total advisory fees	7.90%
Total interest expense(7)	4.34%
Acquired Fund Fees and Expenses(8)	0.01%
Other expenses(9)	1.30%
Total annual expenses(6)(9)	13.55%

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 have borrowed all \$552.5 million available under our line of credit, in addition to our other indebtedness of \$1,094.8 million 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	\$ 90.92	\$ 226.24	\$ 355.83	\$ 656.32

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

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date for the distribution. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

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

- (1) Represents the estimated commission with respect to the shares of common stock being sold in this offering. The Sales Manager will be entitled to compensation up to 2.00% of the gross proceeds of the sale of any shares of our common stock under the equity distribution agreement, with the exact amount of such compensation to be mutually agreed upon by the Company and the Sales Manager from time to time. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.
- (2) The offering expenses of this offering are estimated to be approximately \$200,000.
- (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 June 30, 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, including any borrowed amounts for non-investment purposes, for which purpose we have not and have no intention of borrowing). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed \$1.6 billion, the 2% management fee of gross assets equals approximately 3.97% of net assets. Based on our borrowings as of December 20, 2012 of \$1.1 billion, the 2% management fee of gross assets equals approximately 3.39% of net assets. See "Business Management Services Investment Advisory Agreement" in the accompanying prospectus and footnote 6 below.
- (6) Based on the incentive fee paid during our most recently completed fiscal year ended September 30, 2012, all of which consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre-incentive fee income. 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. 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 resulted in us 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. 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. On August 14, 2012, the Company issued \$200 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018, which we refer to as the 2018 Notes. On December 21, 2012, the Company issued \$200 million aggregate principal amount of 5.875% Convertible Senior Notes due 2019, which we refer to as the 2019 Notes. The 2015 Notes, 2016 Notes, 2017 Notes, 2018 Notes and 2019 Notes are referred to collectively as the Senior Convertible Notes. 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

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the 2022 Notes. Since February 2012, the Company issued \$156.7 million in aggregate principal amount of our Prospect Capital InterNotes®. The Senior Convertible Notes, the 2022 Notes and the Prospect Capital InterNotes® are referred to collectively as the Notes.

- (8) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of September 30, 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 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 \$1,883.3 million as of September 30, 2012.
- (9) "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended September 30, 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.

SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months ended September 30, 2012 and 2011 has been derived from unaudited financial data. Interim results for the three months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. 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-13 for more information.

	For the Three Months Ended September 30,		For the Year/Period Ended June 30,				
	2012	2011	2012	2011	2010	2009	2008
(in thousands except data relating to shares, per share and number of portfolio companies)							
Performance Data:							
Interest income	\$ 78,310	\$ 42,387	\$ 219,536	\$ 134,454	\$ 86,518	\$ 62,926	\$ 59,033
Dividend income	36,208	7,050	64,881	15,092	15,366	22,793	12,033
Other income	9,118	5,905	36,493	19,930	12,675	14,762	8,336
Total investment income	123,636	55,342	320,910	169,476	114,559	100,481	79,402
Interest and credit facility expenses	(13,511)	(8,960)	(35,836)	(17,598)	(8,382)	(6,161)	(6,318)
Investment advisory expense	(31,735)	(15,180)	(46,671)	(46,051)	(30,727)	(26,705)	(20,199)
Other expenses	(4,363)	(3,325)	(51,719)	(11,606)	(8,260)	(8,452)	(7,772)
Total expenses	(49,609)	(27,465)	(134,226)	(75,255)	(47,369)	(41,318)	(34,289)
Net investment income	74,027	27,877	186,684	94,221	67,190	59,163	45,113
Realized and unrealized gains (losses)	1,775	(14,607)	4,220	24,017	(47,565)	(24,059)	(17,522)
Net increase in net assets from operations	\$ 47,249	\$ 39,900	\$ 190,904	\$ 118,238	\$ 19,625	\$ 35,104	\$ 27,591
Per Share Data:							
Net increase in net assets from operations(1)	\$ 0.29	\$ 0.37	\$ 1.67	\$ 1.38	\$ 0.33	\$ 1.11	\$ 1.17
Distributions declared per share	\$ (0.30)	\$ (0.30)	\$ (1.22)	\$ (1.21)	\$ (1.33)	\$ (1.62)	\$ (1.59)
Average weighted shares outstanding for the period	162,492,894	108,959,489	114,394,554	85,978,757	59,429,222	31,559,905	23,626,642
Assets and Liabilities Data:							
Investments	\$ 2,846,123	\$ 1,700,699	\$ 2,212,590	\$ 1,463,010	\$ 748,483	\$ 547,168	\$ 497,530
Other assets	66,474	26,848	42,664	86,307	84,212	119,857	44,248
Total assets	2,912,597	1,727,547	2,255,254	1,549,317	832,695	667,025	541,778
Amount drawn on credit facility		233,500	96,000	84,200	100,300	124,800	91,167
Senior Convertible Notes	647,500	322,500	447,500	322,500			
2022 Notes	100,000		100,000				
InterNotes®	88,517		20,638				
Amount owed to related parties	12,045	12,337	8,571	7,918	9,300	6,713	6,641
Other liabilities	181,209	20,434	70,571	20,342	11,671	2,916	14,347
Total liabilities	1,029,271	588,771	743,280	434,960	121,271	134,429	112,155

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Net assets \$ 1,883,326 \$ 1,138,776 \$ 1,511,974 \$ 1,114,357 \$ 711,424 \$ 532,596 \$ 429,623

Investment Activity Data:

No. of portfolio companies at period end	96	76	85	72	58	30	29(2)
Acquisitions	\$ 747,937	\$ 222,575	\$ 1,120,659	\$ 953,337	\$ 364,788(3)	\$ 98,305	\$ 311,947
Sales, repayments, and other disposals	\$ 158,123	\$ 46,055	\$ 500,952	\$ 285,862	\$ 136,221	\$ 27,007	\$ 127,211
Weighted-Average Yield at end of period(4)	13.3%	12.4%	13.6%	12.8%	16.2%	14.6%	15.5%

-
- (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 acquired from Patriot Capital Funding, LLC.
- (4) Excludes equity investments and non-performing loans.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and in the accompanying prospectus on page 11, 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.

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

Our most recently estimated NAV per share is \$10.89 on an as adjusted basis solely to give effect to our issuance of common stock since September 30, 2012 in connection with our dividend reinvestment plan, our issuance of 1,245,655 shares of common stock during the period from October 1, 2012 to October 9, 2012 under our ATM offering program, our issuance of 35,000,000 shares of common stock on November 7, 2012 and our issuance of 467,928 shares of common stock in connection with the CCPI investment, versus \$10.88 determined by us as of September 30, 2012. NAV per share as of December 31, 2012, may be higher or lower than \$10.89 based on potential changes in valuations, issuances of securities, dividends paid 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 September 30, 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 independent valuation firms, our Investment Advisor, our Administrator 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 7, 2013, as described in this prospectus supplement and in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information about recent sales below NAV per share, see "Recent Sales of Common Stock Below Net Asset Value" in this prospectus supplement and for additional information and hypothetical examples of these risks, see "Sales of Common Stock Below Net Asset Value" in this prospectus supplement and in the accompanying prospectus.

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

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

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

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

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

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

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

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

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) \$3.4 billion in total assets, (ii) an average cost of funds of 5.91%, (iii) \$1.1 billion in debt outstanding and (iv) \$2.3 billion of shareholders' equity.

Assumed Return on Our Portfolio (net of expenses)	(10)%	(5)%	0%	5%	10%
Corresponding Return to Stockholder	(17.6)%	(10.2)%	(2.8)%	4.6%	12.0%

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.

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

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

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

Overview

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt and our investments in collateralized loan obligation ("CLOs") is subordinated to senior loans and is generally unsecured.

We seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was \$2,663,965 and \$2,094,221 as of September 30, 2012 and June 30, 2012, respectively. During the three months ended September 30, 2012, our net cost of investments increased by \$598,297 or 28.5%, as a result of sixteen new investments, one follow-on investment and two revolver advances of \$737,105, accrued of payment-in-kind interest of \$1,873, structuring fees of \$8,959 and amortization of discounts and premiums of \$6,708, while we received full repayment on five investments, sold one investment for which we realized a gain of \$1,775, and received several partial prepayments, amortization payments and a revolver repayment totaling \$158,123.

Compared to the end of last fiscal year (ended June 30, 2012), net assets increased by \$371,352 or 24.6% during the three months ended September 30, 2012, from \$1,511,974 to \$1,883,326. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$371,452, dividend reinvestments of \$4,031, and another \$47,249 from operations. These increases, in turn, were offset by \$51,380 in dividend distributions to our stockholders. The \$47,249 increase in net assets resulting from operations is net of the following: net investment income of \$74,027, net realized gain on investments of \$1,775, and a decrease in net assets due to changes in net unrealized depreciation of investments of \$28,553.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

First Quarter Highlights

Investment Transactions

On July 5, 2012, we made a senior secured debt investment of \$28,000 to support the acquisition of Material Handling Services, LLC, d/b/a/ Total Fleet Solutions ("TFS"), a provider of forklift and other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.50% and has a final maturity of July 5, 2017.

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On July 16, 2012 we provided \$15,000 of secured second lien financing to Pelican Products, Inc. ("Pelican"), a leading provider of unbreakable, watertight protective cases and technically advanced professional lighting equipment. The second lien term loan bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of June 14, 2019.

On July 20, 2012, we provided \$12,000 of senior secured financing to EIG Investors Corp. ("EIG"), a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of October 22, 2018.

On July 20, 2012, we provided \$10,000 of senior secured financing to FPG, LLC ("FPG"), a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The note payable bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. ("Iron Horse") common stock in connection with the exercise of an equity buyout option, receiving \$2,040 of net proceeds and realizing a gain of approximately \$1,772 on the sale.

On July 27, 2012, we provided \$85,000 of subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. Capital, LLC ("H.I.G."). The new company, Arctic Glacier U.S.A., Inc. ("Arctic"), will continue to conduct business under the "Arctic Glacier" name and be a leading producer, marketer, and distributor of high-quality packaged ice to consumers in Canada and the United States. The unsecured subordinated term loan bears interest in cash at 12.0% and interest in kind of 3.0% and has a final maturity of July 27, 2019.

On August 2, 2012, we provided a \$27,000 secured loan to support the acquisition of New Star Metals, Inc. ("New Star"), a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company. The senior subordinated note bears interest in cash at greater of 11.5% or Libor plus 8.5% and interest in kind of 1.0% and has a final maturity of February 2, 2018.

On August 3, 2012, we provided \$120,000 senior secured financing, of which \$110,000 was funded at closing, to support the acquisition of InterDent, Inc. ("InterDent"), a leading provider of dental practice management services to dental professional corporations and associations in the United States, by funds managed by H.I.G. The Term Loan A note bears interest in cash at the greater of 8.0% or Libor plus 6.5% and has a final maturity of August 3, 2017. The Term Loan B note bears interest in cash at the greater of 13.0% or Libor plus 10.0% and has a final maturity of August 3, 2017. The senior secured revolver bears interest in cash at the greater of 10.5% or Libor plus 8.25% and has a final maturity of February 3, 2013.

On August 3, 2012, we provided \$44,000 of secured subordinated financing to support the refinancing of New Century Transportation, Inc. ("New Century"), a leading transportation and logistics company. The senior subordinated loan bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 3.0% and has a final maturity of February 3, 2018.

On August 3, 2012, we provided \$10,000 of senior secured financing to Pinnacle (US) Acquisition Co Limited ("Pinnacle Acquisition"), the largest multi-national software company focused on the delivery of analytical and information management solutions for the discovery and extraction of subsurface natural resources. The second lien term loan bears interest in cash at the greater of 10.5% or Libor plus 8.25% and has a final maturity of August 3, 2020.

On August 3, 2012, Pinnacle Treatment Centers, Inc. ("Pinnacle Treatment") repaid the \$17,475 loan receivable to us.

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On August 6, 2012, we made an investment of \$22,210 to purchase 62.9% of the subordinated notes in Halcyon Loan Advisors Funding 2012-I, Ltd. ("Halcyon").

On August 7, 2012, we made an investment of \$36,798 to purchase 95.0% of the subordinated notes in ING IM CLO 2012-II, Ltd. ("ING 2012-II").

On August 10, 2012, U.S. HealthWorks Holding Company, Inc. ("U.S. Healthworks") repaid the \$25,000 loan receivable to us.

On August 17, 2012, we made a secured second lien investment of \$38,500 to support the recapitalization of American Gilsonite Company ("AGC"). The secured note bears interest in cash at 11.5% and has a final maturity of September 1, 2017. After the financing, we received repayment of the \$37,732 loan previously outstanding on August 28, 2012.

On September 14, 2012, we invested an additional \$10,000 in Hoffmaster Group, Inc ("Hoffmaster"). The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of January 3, 2019.

On September 14, 2012, we made a secured investment of \$135,000 to support the recapitalization of Progexion Holdings, Inc ("Progexion"). Concurrent with the financing, we received repayment of the \$62,680 loans that were previously outstanding. The senior secured loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On September 20, 2012, Fischbein, LLC ("Fischbein") repaid the \$3,425 loan receivable to us.

On September 27, 2012, we made an investment of \$45,746 to purchase 95% of the subordinated notes in ING IM CLO 2012-III, Ltd ("ING 2012-III").

On September 28, 2012, we made an unsecured investment of \$10,400 to support the acquisition of Evanta Ventures, Inc. ("Evanta"), a diversified event management company. The subordinated note bears interest in cash at 12.0% and interest in kind of 1.0% and has a final maturity of September 28, 2018.

On September 28, 2012, we made a secured second lien investment of \$100,000 to support the recapitalization of United Sporting Companies, Inc. ("USC"), a national distributor of hunting, outdoor, marine and tackle products. The secured loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

Equity Issuance

During the period from July 2, 2012 to July 12, 2012, we sold 2,247,275 shares of our common stock at an average price of \$11.59 per share, and raised \$26,040 of gross proceeds, under the ATM Program. Net proceeds were \$25,779 after commissions to the broker-dealer on shares sold and offering costs.

On July 16, 2012, we issued 21,000,000 shares of our common stock at \$11.15 per share (or \$11.05 per share net proceeds excluding expenses), raising \$234,150 of gross proceeds.

On July 27, 2012, we issued 3,150,000 shares in connection with the exercise of an option granted with the July 12, 2012 offering of 21,000,000 shares which were delivered July 16, 2012, raising an additional \$35,123 of gross proceeds and \$34,808 of net proceeds.

On July 24, 2012, August 24, 2012 and September 21, 2012, we issued 205,834, 75,543 and 74,494 shares of our common stock in connection with the dividend reinvestment plan, respectively.

On July 30, 2012, we amended our charter to increase the shares of common stock authorized for issuance by us from 200,000,000 to 500,000,000 in the aggregate.

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During the period from September 13, 2012 to September 28, 2012, we sold 6,764,702 shares of our common stock at an average price of \$11.86 per share, and raised \$80,249 of gross proceeds, under the ATM Program. Net proceeds were \$79,446 after commissions to the broker-dealer on shares sold and offering costs.

Dividend

On August 21, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101625 per share for September 2012 to holders of record on September 28, 2012 with a payment date of October 24, 2012; and

\$0.101650 per share for October 2012 to holders of record on October 31, 2012 with a payment date of November 22, 2012.

Credit Facility

On July 27, 2012 and September 26, 2012, we closed an increase of \$15,000 and \$10,000 to our commitments to our credit facility, respectively. The commitments to the credit facility now stand at \$517,500.

Debt Issuance

During the period from July 6, 2012 to September 27, 2012, we issued approximately \$67,879 in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$66,691, as follows:

Date of Issuance	Gross Proceeds	Interest Rate	Maturity Date
July 6, 2012	\$ 2,778	6.45%	July 15, 2019
July 12, 2012	5,673	6.35%	July 15, 2019
July 19, 2012	6,810	6.30%	July 15, 2019
July 26, 2012	5,667	6.20%	July 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019
September 7, 2012	5,981	6.00%	September 15, 2019
September 13, 2012	5,879	5.95%	September 15, 2019
September 20, 2012	8,600	5.90%	September 15, 2019
September 27, 2012	8,946	5.85%	September 15, 2019

On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately \$193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate of 82.3451 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.14 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2018 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.1016 per share.

Investment Holdings

As of September 30, 2012, we continue to pursue our diversified investment strategy. At September 30 2012, approximately \$2,663,965 or 141.4% of our net assets are invested in 96 long-term portfolio investments and 9.7% of our net assets are invested in money market funds.

During the three months ended September 30, 2012, we originated \$747,937 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, and subordinated notes in CLOs, 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's annualized current yield decreased from 13.6% as of June 30, 2012 to 13.3% as of September 30, 2012 across all performing debt investments. Monetization of other equity positions that we hold is not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of September 30, 2012, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., Energy Solutions Holdings, Inc. ("Energy Solutions"), First Tower Holdings of Delaware LLC ("First Tower Delaware"), Integrated Contract Services, Inc. ("ICS"), Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. f/k/a Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

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

Level of Control	September 30, 2012				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 515,055	19.1%	\$ 529,785	19.9%	\$ 518,015	24.7%	\$ 564,489	27.0%
Affiliate	44,589	1.7%	45,255	1.7%	44,229	2.1%	46,116	2.2%
Non-control/Non-affiliate	2,137,966	79.2%	2,088,925	78.4%	1,537,069	73.2%	1,483,616	70.8%
Total Portfolio	\$ 2,697,610	100.0%	\$ 2,663,965	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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

Type of Investment	September 30, 2012				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Revolving Line of Credit	\$ 7,195	0.3%	\$ 6,871	0.3%	\$ 1,145	0.1%	\$ 868	0.0%
Senior Secured Debt	1,341,583	49.7%	1,282,198	48.1%	1,146,454	54.6%	1,088,019	52.0%
Subordinated Secured Debt	727,239	26.9%	670,628	25.1%	536,900	25.6%	480,147	22.9%
Subordinated Unsecured Debt	168,699	6.3%	169,258	6.4%	72,617	3.5%	73,195	3.5%
CLO Debt	27,358	1.0%	28,831	1.1%	27,258	1.3%	27,717	1.3%
CLO Residual Interest	325,424	12.1%	331,780	12.5%	214,559	10.2%	218,009	10.4%
Preferred Stock	31,323	1.2%	24,845	0.9%	31,323	1.5%	29,155	1.4%
Common Stock	61,191	2.3%	113,223	4.3%	61,459	2.9%	137,198	6.6%
Membership Interests	5,437	0.1%	12,247	0.4%	5,437	0.2%	13,844	0.7%
Overriding Royalty Interests		%	1,562	0.1%		%	1,623	0.1%
Escrows Receivable		%	14,183	0.5%		%	17,686	0.8%
Warrants	2,161	0.1%	8,339	0.3%	2,161	0.1%	6,760	0.3%
Total Portfolio	\$ 2,697,610	100.0%	\$ 2,663,965	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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

Level of Control	September 30, 2012				June 30, 2012			
	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	\$ 1,348,778	59.4%	\$ 1,289,069	59.7%	\$ 1,147,599	64.3%	\$ 1,088,887	65.2%
Second Lien	727,239	32.0%	670,628	31.2%	536,900	30.1%	480,147	28.7%
Unsecured	168,699	7.4%	169,258	7.8%	72,617	4.1%	73,195	4.4%
CLO Debt	27,358	1.2%	28,831	1.3%	27,258	1.5%	27,717	1.7%
Total Debt Securities	\$ 2,272,074	100.0%	\$ 2,157,786	100.0%	\$ 1,784,374	100.0%	\$ 1,669,946	100.0%

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

Geographic Location	September 30, 2012				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	\$ 100,316	3.7%	\$ 100,447	3.8%	\$ 15,134	0.7%	\$ 17,040	0.8%
Cayman Islands	352,782	13.1%	360,611	13.5%	241,817	11.5%	245,726	11.7%
Ireland	14,920	0.6%	15,000	0.6%	14,918	0.7%	15,000	0.7%
Midwest US	502,573	18.7%	455,960	17.1%	427,430	20.4%	377,139	18.0%
Northeast US	327,285	12.1%	349,785	13.1%	293,181	14.0%	313,437	15.0%
Southeast US	737,440	27.3%	722,306	27.2%	642,984	30.6%	634,945	30.4%
Southwest US	202,944	7.5%	219,410	8.2%	193,627	9.2%	234,433	11.2%
Western US	459,350	17.0%	440,446	16.5%	270,222	12.9%	256,501	12.2%
Total Portfolio	\$ 2,697,610	100.0%	\$ 2,663,965	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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

Industry	September 30, 2012				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	\$ 56	0.0%	\$	%	56	0.0%	\$	%
Automobile / Auto Finance	32,920	1.2%	33,151	1.2%	32,806	1.6%	32,478	1.6%
Business Services	31,040	1.2%	31,148	1.2%	3,164	0.2%	3,288	0.2%
Chemicals	57,855	2.1%	57,855	2.2%	58,104	2.8%	58,104	2.8%
Commercial Services	90,818	3.4%	90,818	3.4%	80,418	3.8%	80,407	3.8%
Consumer Finance	305,521	11.3%	305,521	11.5%	305,521	14.6%	305,521	14.6%
Consumer Services	218,755	8.1%	220,905	8.3%	146,335	7.0%	147,809	7.1%
Contracting	15,949	0.6%		%	15,949	0.8%		%
Diversified Financial Services	371,254	13.8%	379,083	14.2%	260,219	12.3%	264,128	12.6%
Diversified / Conglomerate Service		%		%		%	35	0.0%
Durable Consumer Products	287,980	10.7%	288,538	10.8%	153,327	7.3%	152,862	7.3%
Ecological	141	0.0%	269	0.0%	141	0.0%	240	0.0%
Electronics		%	148	0.0%		%	144	0.0%
Energy	63,245	2.3%	95,195	3.6%	63,245	3.0%	126,868	6.1%
Food Products	187,803	7.0%	181,377	6.8%	101,975	4.9%	96,146	4.5%
Healthcare	213,483	7.9%	216,554	8.2%	141,990	6.8%	143,561	6.9%
Insurance	83,242	3.1%	83,242	3.1%	83,461	4.0%	83,461	4.0%
Machinery	1,271	0.0%	3,126	0.1%	4,684	0.2%	6,485	0.3%
Manufacturing	94,936	3.5%	127,104	4.8%	95,191	4.5%	127,127	6.1%
Media	162,187	6.0%	156,990	5.9%	165,866	7.9%	161,843	7.7%
Metal Services and Minerals	27,043	1.0%	27,043	1.0%		%		%
Oil and Gas Equipment Services	7,202	0.3%	7,400	0.3%	7,188	0.3%	7,391	0.4%
Oil and Gas Production	130,749	4.8%	38,413	1.4%	130,928	6.2%	38,993	1.9%
Personal and Nondurable Consumer Products	39,351	1.5%	40,384	1.5%	39,351	1.8%	39,968	1.9%
Production Services		%		%	268	0.0%	2,040	0.1%
Property Management	51,620	1.9%	50,527	1.9%	51,770	2.5%	47,982	2.2%
Retail	63	0.0%	116	0.0%	63	0.0%	129	0.0%
Software & Computer Services	75,506	2.8%	76,719	2.9%	53,908	2.6%	54,711	2.6%
Specialty Minerals	38,500	1.4%	42,386	1.6%	37,732	1.8%	44,562	2.1%
Textiles and Leather	15,483	0.6%	15,949	0.6%	15,123	0.7%	17,161	0.8%
Transportation	93,637	3.5%	94,004	3.5%	50,530	2.4%	50,777	2.4%
Total Portfolio	\$ 2,697,610	100.0%	\$ 2,663,965	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

Portfolio Investment Activity

During the three months ended September 30, 2012, we acquired \$728,914 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$10,000, funded \$7,150 of revolver advances, and recorded PIK interest of \$1,873, resulting in gross investment originations of \$747,937 as discussed in the *First Quarter Highlights*.

In addition to the repayments noted in the *First Quarter Highlights*, during the three months ended September 30, 2012 we received principal amortization payments of \$3,388 on several loans, and \$5,100 of partial prepayments primarily related to Cargo Airport Services USA, LLC, NMMB and Northwestern Management Services, LLC ("Northwestern").

During the quarters ended September 30, 2012 and September 30, 2011, we recognized \$284 and \$837 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. There was no accelerated accretion during the three months ended September 30, 2012

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and September 30, 2011, respectively. We expect to recognize \$295 of normal accretion during the three months ended December 31, 2012.

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

Quarter-End	Acquisitions(1)	Dispositions(2)
September 30, 2012	\$ 747,937	\$ 158,123
June 30, 2012	573,314	146,292
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	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
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	\$ 3,997,250	\$ 1,315,800

(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.

Investment Valuation

In determining the fair value of our portfolio investments at September 30, 2012 the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of \$2,601,090 to \$2,776,523, excluding money market investments.

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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,

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determined appropriate yields to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of \$2,663,965, excluding money market investments.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$150,000 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.

AIRMALL USA, Inc.

AIRMALL is a leading developer and manager of airport retail operations. AIRMALL has developed and presently manages all or substantially all of the retail operations and food and beverage concessions at Baltimore/Washington International Thurgood Marshall Airport (BWI), Boston Logan International Airport (BOS), Cleveland Hopkins International Airport (CLE) and Pittsburgh International Airport (PIT). AIRMALL does so pursuant to long-term, infrastructure-like contracts with the respective municipal agencies that own and operate the airports.

On July 30, 2010, we invested \$52,420 of combined debt and equity as follows: \$30,000 senior term loan, \$12,500 senior subordinated note and \$9,920 preferred equity. We own 100% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

The Board of Directors increased the fair value of our investment in AIRMALL to \$50,527 as of September 30, 2012, a discount of \$1,093 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

Ajax Rolled Ring & Machine, Inc.

Ajax forges large seamless steel rings on two forging mills in the company's York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

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 September 30, 2012, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was \$20,057 and new debt was \$15,035 as of September 30, 2012.

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The Board of Directors increased the fair value of our investment in Ajax to \$45,587 as of September 30, 2012, a reduction of \$4,438 from its amortized cost, compared to the \$11,151 unrealized appreciation recorded at June 30, 2012.

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

Energy Solutions owns interests in other companies operating in the energy sector. These include operating offshore supply vessels and ownerships of a non-operating biomass plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in a gas gathering and processing system in the East Texas.

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. 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 Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. 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. As of September 30, 2012, these cash balances were \$82,301.

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 \$95,195 for our debt and equity positions at September 30, 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 September 30, 2012 and June 30, 2012, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at \$31,950 and \$63,623 above its amortized cost, respectively. We received a distribution of \$33,250 from Energy Solutions which was recorded as dividend income during the quarter ended September 30, 2012.

First Tower Holdings of Delaware LLC

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 150 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower, LLC ("First Tower") businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. During the three months ended June 30, 2012, we received \$8,075 in structuring fee income. As of September 30, 2012, First Tower had total assets of \$467,394 including \$413,377 of finance receivables net of unearned charges. As of September 30, 2012, First Tower's total debt outstanding to parties senior to us was \$239,924.

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The Board of Directors set the fair value of our investment in First Tower to \$287,953 as of September 30, 2012 and June 30, 2012, respectively, equal to its amortized cost.

Integrated Contract Services, Inc.

ICS is a company that was created to purchase the assets of ESA Environmental Specialists, Inc. ("ESA") out of bankruptcy in April 2007. ESA was a contract management company with core expertise in construction, environmental and engineering services and competed in the market for government contracts. Prior to January 2009, ICS owned the assets of ESA and 100% of the stock of The Healing Staff ("THS"). THS is a contractor focused on providing outsourced medical staffing solutions primarily to government agencies.

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

In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS and certain ESA assets. THS provides outsourced medical staffing and security staffing services to governmental and commercial enterprises. In November 2009, THS was informed that the U.S. Air Force would not exercise its option to renew its contract. THS continues to solicit new contracts to replace the revenue lost when the Air Force contract ended. As part of its strategy to recovery from the loss of the Air Force contract, in 2010 THS started a new business, Vets Securing America, Inc. ("VSA"), to provide out-sourced security guards staffed primarily using retired military veterans. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of \$1,708 and \$874, respectively, to support the ongoing operations of THS and VSA. In early May 2012, we made short-term secured debt investments of \$118 and \$42, respectively, to support the operations of THS and VSA, which short term debt was repaid in early June 2012. There were no additional fundings during the six months ended June 30, 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. In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider we agreed to subordinate our first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

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 zero at September 30, 2012 and June 30, 2012, respectively, a reduction of \$15,949 from its amortized cost.

Manx Energy, Inc.

Manx was formed for the purpose of rolling up the assets of two existing Prospect portfolio companies, Coalbed, LLC ("Coalbed") and Appalachian Energy Holdings, LLC ("AEH"), bringing them under new management, restructuring the outstanding debt, and infusing additional capital to allow for future growth. Coalbed is the owner of 100% of the outstanding equity interests of Coalbed

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Pipelines, LLC and Coalbed Operator, LLC. Coalbed was formed in October 2009 to acquire our outstanding senior secured loan and assigned interests in Conquest Cherokee, LLC ("Conquest"). Conquest's assets consisted primarily of coalbed methane reserves in the Cherokee Basin. AEH was formed in 2006 and is the owner of 100% of the outstanding equity interests of East Cumberland L.L.C., a provider of outsourced mine site development and construction services for coal production companies operating in Southern Appalachia, and C&S Oilfield and Pipeline Construction, a provider of support services to companies engaged in the exploration and production of oil and natural gas.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. 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 investment of \$750 in Manx to support ongoing operations. On June 30, 2012, Manx assigned the membership interests of Coalbed and AEH to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed company owned by us.

The Board of Directors decreased the fair value of our investment in Manx to zero as of September 30, 2012 and June 30, 2012, respectively, a reduction of \$11,027 from its amortized cost.

Wolf Energy Holdings, Inc.

Wolf Energy Holdings, Inc. ("Wolf") is a holding company formed to hold 100% of the outstanding membership interests of each of Coalbed and AEH. The membership interests of Coalbed and AEH, which were previously owned by Manx, were assigned to Wolf effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. In addition, effective June 29, 2012 C&J Cladding Holding Company, Inc. ("C&J") merged with and into Wolf, with Wolf surviving. At the time of the merger, C&J held the remaining undistributed proceeds from the sale of its membership interests in C&J Cladding, LLC. The merger was effectuated in connection with the broader simplification of our energy investment holdings.

The Board of Directors set the fair value of our investment in Wolf to zero as of September 30, 2012 and June 30, 2012, a reduction of \$7,991 from its amortized cost.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Two of our portfolio companies experienced such volatility and experienced meaningful fluctuations in valuation during the three months ended September 30, 2012 Ajax and R-V. The valuation of Ajax decreased due to declining operating results. The value of our equity position in Ajax has decreased to \$10,495 as of September 30, 2012, a premium of \$4,438 to its cost, compared to the \$11,151 unrealized gain recorded at June 30, 2012. The valuation of R-V has increased due to improved operating results. The value of our equity position in R-V has increased to \$29,030 as of September 30, 2012, a premium of \$22,261 to its cost, compared to the \$17,087 unrealized gain recorded at June 30, 2012. Six of the other controlled investments have been valued at discounts to the original investment. Four of the control investments are valued at the original investment amounts or higher. Overall, at September 30, 2012, the control investments are valued at \$14,730 above their amortized cost.

We hold three affiliate investments at September 30, 2012. The affiliate investments reported strong operating results with valuations remaining relatively consistent from June 30, 2012. Overall, at September 30, 2012, affiliate investments are valued \$666 above their amortized cost.

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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. Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. As of September 30, 2012 and June 30, 2012, two of our Non-control/Non-affiliate investments are valued at a significant discount to amortized cost H&M Oil & Gas, LLC ("H&M") and Stryker Energy, LLC ("Stryker") due to significant decreases in the operating results of the operating companies. Overall, at September 30, 2012, other Non-control/Non-affiliate investments are valued \$11,066 above their amortized cost, excluding our investments in H&M and Stryker.

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 and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012 and August 2012, Senior Unsecured Notes, and 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, Senior Unsecured Notes and InterNotes® amounts and outstanding borrowings at September 30, 2012 and June 30, 2012:

	As of September 30, 2012		As of June 30, 2012	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 517,500	\$	\$ 492,500	\$ 96,000
Senior Convertible Notes	\$ 647,500	\$ 647,500	\$ 447,500	\$ 447,500
Senior Unsecured Notes	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
InterNotes®	\$ 88,517	\$ 88,517	\$ 20,638	\$ 20,638

The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® at September 30, 2012:

	Total	Payments Due by Period			After 5 Years
		Less than 1 year	1 - 3 Years	3 - 5 Years	
Revolving Credit Facility	\$	\$	\$	\$	\$
Senior Convertible Notes	647,500			317,500	330,000
Senior Unsecured Notes	100,000				100,000
InterNotes®	88,517				88,517
Total contractual obligations	\$ 836,017	\$	\$	\$ 317,500	\$ 518,517

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities and preferred stock, or issuances of common equity. For flexibility, we maintain a universal shelf 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 \$3,000,000 less issuances to date (See *Recent Developments*). We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity

securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

Revolving Credit Facility

On June 11, 2010, we closed an extension and expansion of our existing credit facility with a syndicate of lenders through 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 \$517,500 under the 2012 Facility as of June 30, 2012. 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 September 30, 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 otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of September 30, 2012 and June 30, 2012, we had \$397,166 and \$451,252, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was zero and \$96,000, 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 \$517,500. At September 30, 2012, the investments used as collateral for the 2012 Facility had an aggregate market value of \$706,605, which represents 37.5% 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 holds all of these investments at market value as of September 30, 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 \$10,220 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 \$8,537 remains to be amortized.

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During the three months ended September 30, 2012 and September 30, 2011, we recorded \$2,168 and \$3,610 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 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds following underwriting expenses of approximately \$145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 88.0902 and 88.1030 shares of common stock, respectively, per \$1 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 price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (December 21, 2011) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes will be increased if monthly cash dividends paid to common shares exceed the rate of \$0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately \$167,325. 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 year ended June 30, 2012. Interest on the remaining \$167,500 of 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 September 30, 2012 of 78.3699 and 78.3835 shares, respectively, of common stock per \$1 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 price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (February 14, 2011) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101150 per share.

On April 16, 2012, we issued \$130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds following underwriting expenses of approximately \$126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 85.8442 shares of common stock per \$1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately \$11.65 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (April 16, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10150 per share.

On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately \$193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock

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at an initial conversion rate and conversion rate at September 30, 2012 of 82.3451 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.14 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (August 14, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.1016 per share.

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

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

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

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

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

In connection with the issuance of the Senior Convertible Notes, we incurred \$20,927 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$17,278 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

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During the three months ended September 30, 2012 and September 30, 2011, we recorded \$8,667 and \$5,350 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense, respectively.

Senior Unsecured Notes

On May 1, 2012, we issued \$100,000 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for net proceeds net of offering expenses of \$97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

In connection with the issuance of the 2022 Notes, we incurred \$3,200 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$3,111 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three months ended September 30, 2012, we recorded \$1,807 of interest costs and amortization of financing costs on the 2022 Notes as interest expense.

Prospect Capital InterNotes®

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

These notes will be our direct unsecured senior obligations and will rank equally with all of our unsecured senior indebtedness from time to time outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$2,184 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$2,139 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three months ended September 30, 2012, we issued \$67,879 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$66,691.

As of September 30, 2012, we have issued \$88,517 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$86,893. These notes were issued with stated interest rates ranging from 5.85% to 7.00% with a weighted average rate of 6.20%. These notes mature between June 15, 2019 and June 15, 2022. We issued an additional \$7,172 in aggregate principal amount of our Prospect Capital InterNotes® subsequent to September 30, 2012. (See *Recent Developments*.)

The following table shows our issuances to date:

Date of Issuance	Gross Proceeds	Interest Rate	Maturity Date
March 1, 2012	\$ 4,000	7.00%	March 15, 2022
March 8, 2012	1,465	6.90%	March 15, 2022
April 5, 2012	4,000	6.85%	April 15, 2022
April 12, 2012	2,462	6.70%	April 15, 2022
April 26, 2012	2,054	6.50%	April 15, 2022

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Date of Issuance	Gross Proceeds	Interest Rate	Maturity Date
June 14, 2012	2,657	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	June 15, 2019
July 6, 2012	2,778	6.45%	July 15, 2019
July 12, 2012	5,673	6.35%	July 15, 2019
July 19, 2012	6,810	6.30%	July 15, 2019
July 26, 2012	5,667	6.20%	July 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019
September 7, 2012	5,981	6.00%	September 15, 2019
September 13, 2012	5,879	5.95%	September 15, 2019
September 20, 2012	8,600	5.90%	September 15, 2019
September 27, 2012	8,946	5.85%	September 15, 2019
October 4, 2012	7,172	5.70%	October 15, 2019

Net Asset Value

During the three months ended September 30, 2012, we raised \$375,483 of additional equity, net of offering costs, by issuing 33,517,848 shares of our common stock. The following table shows the calculation of net asset value per share as of September 30, 2012 and June 30, 2012:

	As of September 30, 2012	As of June 30, 2012
Net Assets	\$ 1,883,326	\$ 1,511,974
Shares of common stock outstanding	173,151,718	139,633,870
Net asset value per share	\$ 10.88	\$ 10.83

At September 30, 2012, we had 173,151,718 of our common stock issued and outstanding.

Results of Operations

Net increase in net assets resulting from operations for the three months ended September 30, 2012 and September 30, 2011 was \$47,249 and \$39,900, respectively, representing \$0.29 and \$0.37 per weighted average share, respectively. The primary driver of the variability in the results is the recognition of realized gains and losses and changes in unrealized gains and losses in the investment portfolio. During the quarter ended September 30, 2012, we experienced net unrealized and realized losses of \$26,778, or approximately \$0.17 per weighted average share, primarily from significant write-downs of our investments in Ajax and Energy Solutions. These instances of unrealized depreciation were partially offset by unrealized appreciation in R-V. During the quarter ended September 30, 2011, we experienced net unrealized and realized gains of \$12,023, or approximately \$0.11 per weighted average share, primarily from significant write-ups of our investments in Ajax, NRG and R-V. These instances of unrealized appreciation were partially offset by unrealized depreciation in Arrowhead, Biotronic and Meatco, and the impairment of Deb Shops, Inc. ("Deb Shops") due to bankruptcy for which we recorded a realized loss for the full amount of the amortized cost. Net investment income increased on a weighted average per share basis from \$0.26 to \$0.46 for the three months ended September 30, 2011 and 2012, respectively. The increase in dividend income is primarily due to a \$29,750 increase in the level of dividends received from our investment in Energy Solutions.

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

Investment Income

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$123,636 and \$55,342 for the three months ended September 30, 2012 and September 30, 2011, respectively. During the three months ended September 30, 2012, the increase in investment income is primarily the result of a larger income producing portfolio and an increase in the level of dividends received from our investment in Energy Solutions.

The following table describes the various components of investment income and the related levels of debt investments:

	For The Three Months Ended September 30,	
	2012	2011
Interest income	\$ 78,310	\$ 42,387
Dividend income	36,208	7,050
Other income	9,118	5,905
 Total investment income	 \$ 123,636	 \$ 55,342
 Average debt principal of performing investments	 \$ 1,878,042	 \$ 1,312,759
 Weighted-average interest rate earned on performing debt portfolio	 13.46%	 12.63%

Average interest income producing assets have increased from \$1,312,759 for the three months ended September 30, 2011 to \$1,878,042 for the three months ended September 30, 2012. The average yield on interest bearing assets increased from 12.63% for the three months ended September 30, 2011 to 13.46% for the three months ended September 30, 2012. The increase in annual returns is primarily due to the acquisition of First Tower. Excluding our loans to First Tower, our annual return would have been 12.48% as of September 30, 2012.

Investment income is also generated from dividends and other income. Dividend income increased from \$7,050 for the three months ended September 30, 2011 to \$36,208 for the three months ended September 30, 2012. The increase in dividend income is primarily attributed to an increase in the level of dividends received from our investment in Energy Solutions. We received dividends from Energy Solutions of \$33,250 and \$3,500 during the three months ended September 30, 2012 and 2011, respectively. 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. We received dividends from NRG of \$3,200 during the three months ended

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September 30, 2011. There were no dividends from NRG received during the three months ended September 30, 2012.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Comparing the three months ended September 30, 2011 to the three months ended September 30, 2012, income from other sources increased from \$5,905 to \$9,118. This \$3,213 increase is primarily due to \$8,959 of structuring fees recognized during the three months ended September 30, 2012 primarily from the Arctic Glacier, Interdent, New Century and Progrexion originations, in comparison to \$5,519 of structuring fees recognized during the three months ended September 30, 2011.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate our Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions in accordance with our Administration Agreement with Prospect Administration. Operating expenses were \$49,609 and \$27,465 for the three months ended September 30, 2012 and September 30, 2011, respectively.

The base investment advisory expenses were \$13,228 and \$8,211 for the three months ended September 30, 2012 and September 30, 2011, respectively. This increase is directly related to our growth in total assets. For the three months ended September 30, 2012 and September 30, 2011, we incurred \$18,507 and \$6,969, respectively, of income incentive fees. The \$11,538 increase in the income incentive fee for the respective three-month period is driven by an increase in pre-incentive fee net investment income from \$34,846 for the three months ended September 30, 2011 to \$92,534 for the three months ended September 30, 2012, primarily due to an increase in interest income from a larger asset base and dividend income from Energy Solutions. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended September 30, 2012 and September 30, 2011, we incurred \$13,511 and \$8,960, respectively, of expenses related to our Syndicated Facility, InterNotes®, Senior Unsecured Notes and Senior Convertible Notes. These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken during those quarters. The table below describes the various expenses of our Syndicated Facility, InterNotes®, Senior

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Unsecured Notes and Senior Convertible Notes and the related indicators of leveraging capacity and indebtedness during these periods.

	For The Three Months Ended September 30,	
	2012	2011
Interest on borrowings	\$ 10,470	\$ 6,219
Amortization of deferred financing costs	1,774	2,086
Commitment and other fees	1,267	655
 Total	 \$ 13,511	 \$ 8,960
 Weighted-average debt outstanding	 \$ 710,676	 \$ 446,438
 Weighted-average interest rate	 5.89%	 5.57%
 Weighted-average interest rate including amortization of deferred financing costs	 6.89%	 7.44%
 Facility amount at beginning of period	 \$ 492,500	 \$ 325,000

The increase in interest expense for the three months ended September 30, 2012 is primarily due to the issuance of the 2022 notes and the Senior Convertible Notes on April 16, 2012 and August 14, 2012, for which we incurred \$4,922 of interest expense, collectively.

As our asset base has grown and we have added complexity to our capital raising activities, we have commensurately increased the size of our administrative and financial staff, accounting for a significant increase in the overhead allocation from Prospect Administration. Over the last two years, Prospect Administration has increased staffing levels along with costs passed through. The allocation of overhead expense from Prospect Administration was \$2,184 and \$1,116 for the three months ended September 30, 2012 and September 30, 2011, respectively. As our portfolio continues to grow, we expect to continue to increase the size of our administrative and financial staff on a basis that provides increasing returns to scale. Other allocated expenses from Prospect Administration will continue to increase along with the increase in staffing and asset base.

Total operating expenses, net of management fees, interest costs and allocation of overhead from Prospect Administration ("Other Operating Expenses"), were \$2,179 and \$2,209 for the three months ended September 30, 2012, and 2011, respectively.

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Our net investment income was \$74,027 and \$27,877 for the three months ended September 30, 2012 and September 30, 2011, respectively, or \$0.46 per share and \$0.26 per share, respectively. The \$46,150 increase for the three months ended September 30, 2012 is primarily due to increases of \$35,923 and \$29,158 in interest income and dividend income, respectively, due to the increased size of our portfolio for which we have recognized additional interest income and an increased level of dividends received from our investment in Energy Solutions. The \$46,150 increase in investment income is offset by an increase in operating expenses of \$22,144, primarily due to a \$16,555 increase in advisory fees due to the growing size of our portfolio and related income, and \$4,551 of additional interest and credit facility expenses. The per share increase for the three months ended September 30, 2012 is primarily due to a \$29,750 increase in the level of dividends received from our investment in Energy Solutions.

Net Realized Gains (Losses), Increase in Net Assets from Net Changes in Unrealized Appreciation/Depreciation

Net realized gains (losses) were \$1,775 and (\$14,607) for the three months ended September 30, 2012 and September 30, 2011, respectively. The net realized gain of \$1,775 for the three months ended September 30, 2012 was due primarily to the sale of our common stock in Iron Horse. Prior to September 30, 2011, Deb Shops filed for bankruptcy and a plan for reorganization was proposed. The plan, which is expected to be approved by the bankruptcy court, will eliminate our debt position with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of \$14,607 for the full amount of the amortized cost during the three months ended September 30, 2011.

Net increase in net assets from changes in unrealized (depreciation) appreciation was (\$28,553) and \$26,630 for the three months ended September 30, 2012 and September 30, 2011, respectively. For the three months ended September 30, 2012, the \$28,553 decrease was driven by significant write-downs of our investments in Ajax and Energy Solutions. These instances of unrealized depreciation were partially offset by unrealized appreciation in R-V. For the three months ended September 30, 2011, the \$26,630 increase in net assets from the net change in unrealized appreciation (depreciation) was driven by significant write-ups of our investments in Ajax, NRG and R-V. These instances of unrealized appreciation were partially offset by unrealized depreciation in Arrowhead, Biotronic and Meatco. During the quarter ended September 30, 2011, we experienced net unrealized and realized gains of \$12,023, or approximately \$0.11 per weighted average share, primarily from significant write-ups of our investments in Ajax, NRG and R-V. These instances of realized and unrealized appreciation were partially offset by unrealized depreciation in Arrowhead, Biotronic and Meatco.

Financial Condition, Liquidity and Capital Resources

For the three months ended September 30, 2012 and September 30, 2011, our operating activities used \$491,413 and \$132,097 of cash, respectively. There were no investing activities for the three months ended September 30, 2012 and September 30, 2011. Financing activities provided \$490,975 and \$132,580 of cash during the three months ended September 30, 2012 and September 30, 2011, respectively, which included the payments of dividends of \$43,932 and \$30,212, during the three months ended September 30, 2012 and September 30, 2011, respectively.

Our primary uses of funds have been to continue to invest in portfolio companies, through both debt and equity investments, repay outstanding borrowings and to make cash distributions to holders of our common stock.

Our primary sources of funds have been issuances of debt and equity. We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the three months ended September 30, 2012, we borrowed \$58,000 and made repayments totaling \$154,000 under our revolving credit facility. As of September 30, 2012, we had no outstanding borrowings on our revolving credit facility, \$647,500 outstanding on our Senior Convertible Notes, \$100,000 outstanding on our Senior Unsecured Notes and \$88,517 outstanding on InterNotes®. (See Note 5, Note 6 and Note 7 to our consolidated financial statements).

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of September 30, 2012 and June 30, 2012, we have \$183,274 and \$180,646 of undrawn revolver commitments to our portfolio companies, respectively.

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On October 21, 2011, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration we can issue up to \$11,784 of additional equity securities as of September 30, 2012.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC as detailed in *Recent Developments*. Under this Shelf Registration Statement, we can issue up to \$3,000,000 of additional equity securities.

We also continue to generate liquidity through public and private stock offerings. (See *Recent Developments*.)

On June 1, 2012, we entered into an equity distribution agreement with KeyBanc Capital Markets Inc. relating to sales by us through KeyBanc Capital Markets Inc., 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 July 2, 2012 to July 12, 2012, we sold 2,247,275 shares of our common stock at an average price of \$11.59 per share, and raised \$26,040 of gross proceeds, under the ATM Program. Net proceeds were \$25,779 after commissions to KeyBanc Capital Markets Inc. on shares sold.

On July 16, 2012, we issued 21,000,000 shares of our common stock at \$11.15 per share (or \$11.05 per share net proceeds excluding expenses), raising \$234,150 of gross proceeds.

On July 27, 2012, we issued 3,150,000 shares in connection with the exercise of an option granted with the July 12, 2012 offering of 21,000,000 shares which were delivered July 16, 2012, raising an additional \$35,123 of gross proceeds and \$34,808 of net proceeds.

Our Board of Directors, pursuant to the Maryland General Corporation Law, executed Articles of Amendment to increase the number of shares authorized for issuance from 200,000,000 to 500,000,000 in the aggregate. The amendment became effective July 30, 2012.

On September 10, 2012, we entered into a second equity distribution agreement with KeyBanc Capital Markets Inc. relating to sales by us through KeyBanc Capital Markets Inc. by means of at-the-market offerings from time to time, of up to 9,750,000 shares of our common stock. During the period from September 13, 2012 to September 28, 2012, we sold 6,764,702 shares of our common stock at an average price of \$11.86 per share, and raised \$80,249 of gross proceeds, under the program. Net proceeds were \$79,446 after commissions to KeyBanc Capital Markets Inc. on shares sold and offering costs.

During the three months ended September 30, 2012, we issued \$67,879 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$66,691. These notes were issued with stated interest rates ranging from 5.85% to 6.45% with a weighted average rate of 6.08%. These notes mature between July 15, 2019 and September 15, 2019.

Date of Issuance	Gross Proceeds	Interest Rate	Maturity Date
July 6, 2012	\$ 2,778	6.45%	July 15, 2019
July 12, 2012	5,673	6.35%	July 15, 2019
July 19, 2012	6,810	6.30%	July 15, 2019
July 26, 2012	5,667	6.20%	July 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019
September 7, 2012	5,981	6.00%	September 15, 2019
September 13, 2012	5,879	5.95%	September 15, 2019
September 20, 2012	8,600	5.90%	September 15, 2019
September 27, 2012	8,946	5.85%	September 15, 2019

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Off-Balance Sheet Arrangements

At September 30, 2012, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

During the period from October 1, 2012 to October 9, 2012, we sold 1,245,655 shares of our common stock at an average price of \$11.53 per share, and raised \$14,361 of gross proceeds, under the ATM Program. Net proceeds were \$14,217 after commissions to the broker-dealer on shares sold and offering costs.

On October 3, 2012, we made a senior secured investment of \$21,500 to support the acquisition of CP Well Testing, LLC, a leading provider of flowback services to oil and gas companies operating in Western Oklahoma and the Texas Panhandle.

On October 5, 2012, Northwestern repaid the \$15,092 loan receivable to us and we sold our 50 shares of Northwestern common stock for total proceeds of \$2,233, realizing a gain of \$1,862.

On October 11, 2012, we made a secured second lien investment of \$12,000 in Deltek, Inc., an enterprise software and information solutions provider for professional services firms, government contractors, and government agencies.

On October 12, 2012, we made a senior secured investment of \$42,000 to support the acquisition of Gulf Coast Machine and Supply Company, a preferred provider of value-added forging solutions to energy and industrial end markets.

On October 16, 2012, Blue Coat Systems, Inc. repaid the \$25,000 loan receivable to us.

On October 18, 2012, we made a follow-on equity investment of \$20,000 to First Tower Holdings of Delaware LLC, to support seasonal growth in finance receivables due to increased holiday borrowing activity among its customer base.

On October 18, 2012, Hi-Tech Testing Service, Inc. and Wilson Inspection X-Ray Services, Inc. repaid the \$7,200 loan receivable to us.

On October 19, 2012, Mood Media Corporation repaid the \$15,000 loan receivable to us.

On October 24, 2012, we made an investment of \$7,800 to acquire an industrial real estate property occupied by Filet-of-Chicken, a chicken processor in Georgia.

On October 24, 2012 we issued 83,200 shares of our common stock in connection with the dividend reinvestment plan.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$3,000,000 of additional equity securities.

On October 31, 2012, Shearer's Foods, Inc. repaid the \$37,999 loan receivable to us.

On November 5, 2012, we made an investment of \$39,475 to purchase 95.0% of the subordinated notes in ING IM CLO 2012-4, LTD.

On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's Foods, Inc., receiving \$6,022 of net proceeds and realizing a gain of approximately \$2,027 on the redemption.

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On November 7, 2012, we issued 35,000,000 shares of our common stock at \$11.10 per share (or \$10.96 per share net proceeds excluding expenses), raising \$383,600 of net proceeds.

On November 7, 2012, as revised by our announcement on December 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101675 per share for November 2012 to holders of record on November 30, 2012 with a payment date of December 20, 2012;

\$0.110000 per share for December 2012 to holders of record on December 31, 2012 with a payment date of January 23, 2013; and

\$0.110025 per share for January 2013 to holders of record on January 31, 2013 with a payment date of February 20, 2013.

On November 8, 2012, Potters Holdings II, L.P. repaid the \$15,000 loan receivable to us.

On November 9, 2012 we made a secured second lien investment of \$22,000 to support the recapitalization of EIG Investors Corp. Concurrent with the financing, we received a repayment of the \$12.0 million loan previously outstanding.

On November 15, 2012, Renaissance Learning, Inc. repaid the \$6,000 loan receivable to us.

On November 22, 2012, we issued 84,904 shares of our common stock in connection with the dividend reinvestment plan.

On November 26, 2012 we made a secured second lien investment of \$22,000 in Petroleum Place, Inc., a provider of enterprise resource planning software focused on the oil & gas industry.

On November 30, 2012 we made a secured second lien investment of \$9,500 to support the recapitalization of R-V Industries, Inc.

On December 3, 2012, VanDeMark Chemicals, Inc. repaid the \$29,658 loan receivable to us.

On December 6, 2012, we made an investment of \$38,291 to purchase 90% of the subordinated notes in Apidos CLO XI, LLC.

On December 7, 2012, Hudson Products Holdings, Inc. repaid the \$6,267 loan receivable to us.

On December 13, 2012, we completed a \$33,921 recapitalization of CCPI, Inc ("CCPI"), an international manufacturer of refractory materials and other consumable products for industrial applications. Through the recapitalization, Prospect acquired a controlling interest in CCPI for \$28,334 in cash and 467,928 unregistered shares of our common stock.

On December 14, 2012, we provided \$10,000 of first-lien financing to support the recapitalization of Prince Mineral Holding Corp., a leading global specialty mineral processor and consolidator.

On December 14, 2012, we made a \$3,000 follow-on investment in Focus Brands, Inc.

On December 17, 2012, we made a \$39,800 first-lien investment in Coverall Health-Based Cleaning Systems, a leading franchiser of commercial cleaning businesses.

On December 17, 2012, we made a \$38,150 first-lien follow-on investment in Material Handling Services, LLC, d/b/a/ Total Fleet Solutions, to support the acquisition of Miner Holding Company, Inc.

On December 17, 2012, we made a secured debt investment of \$30,000 to support the recapitalization of BNN Holdings Corp. After the financing, we received payment of the \$26,227 loan that was previously outstanding.

On December 19, 2012, we provided \$17,500 of senior secured second-lien financing to support the recapitalization of a retailer of food, beverages and general merchandise.

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On December 19, 2012, we provided \$23,200 of senior secured second-lien financing to support the recapitalization of TB Corp., a Mexican restaurant chain.

On December 19, 2012, we closed an increase of \$35,000 to our commitments to our credit facility. The commitments to the credit facility now stand at \$552,500.

On December 20, 2012, we issued 100,552 shares of our common stock in connection with the dividend reinvestment plan.

On December 20, 2012, we made a follow-on senior secured debt investment of \$19,500 to support the recapitalization of Progrexion Holdings, Inc. After the financing, we now hold \$154,500 of senior secured debt of Progrexion Holdings, Inc.

On December 21, 2012, ST Products, LLC repaid the \$23,162 loan receivable to us.

On December 21, 2012, SG Acquisition, Inc. repaid the \$83,242 loan receivable to us.

On December 21, 2012, we made a \$10,000 senior secured second-lien follow-on investment in Seaton Corp.

On December 21, 2012, we made a \$37,500 senior secured first-lien investment in leading provider of regional same day and next day distribution services for premier e-commerce and product supply businesses.

On December 21, 2012, we made a \$12,000 senior secured first-lien follow-on investment in FPG, LLC.

On December 21, 2012, we issued \$200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds following underwriting and other expenses of approximately \$193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate equivalent to a conversion price of approximately \$12.54 per share of common stock, subject to adjustment in certain circumstances.

During the period from October 4, 2012 to December 20, 2012, we issued \$68,184 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$66,186.

Critical Accounting Policies and Estimates

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

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X, and the American Institute of Certified Public Accountants' Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our September 30, 2012 and June 30, 2012 financial statements include our accounts and the accounts of

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Prospect Capital Funding, LLC, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

Investment Classification

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

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

Investment Valuation

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

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

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

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

In April 2009, the FASB issued ASC 820-10-65, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("ASC 820-10-65"). This update provides further clarification for ASC 820 in markets that are not active and provides additional guidance for determining when the volume of trading level of activity for an asset or liability has significantly decreased and for identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 820-10-65 did not have any effect on our net asset value, financial position or results of operations for the quarter ended September 30, 2012, as there was no change to the fair value measurement principles set forth in ASC 820.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASC 2010-06"). ASC 2010-06 amends ASC 820-10 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers' disclosures about postretirement benefit plan assets. ASC 2010-06 is effective December 15, 2009, except for the disclosure about purchase, sales, issuances and settlements in the roll forward of activity in level 3 fair value measurements. The adoption of ASC 2010-06 for the quarter ended September 30, 2012, did not have any effect on our financial statements.

Federal and State Income Taxes

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

If we do not distribute at least 98% of our annual income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceeds the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate for taxable years beginning before 2013 (but not for taxable years beginning thereafter, unless the relevant provisions are extended by legislation) to the extent of our current and accumulated earnings and profits, provided

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certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

We adopted FASB ASC 740, *Income Taxes* ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of September 30, 2012 and for the quarter then ended, we did not have a liability for any unrecognized tax benefits. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

Valuation of Other Financial Assets and Financial Liabilities

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

Senior Convertible Notes

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

Revenue Recognition

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

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

Interest income from investments in the "equity" class of security of CLO Funds (typically income notes or subordinated notes) is recorded based upon an estimation of an effective yield to expected

maturity utilizing assumed cash flows in accordance with ASC 325-40-35, *Beneficial Interests in Securitized Financial Assets*. Adjustments resulting from recording the interest income based on the effective yield are recorded to the cost basis of the investment. We monitor the expected cash inflows from our CLO equity investments, including the expected residual payments and the effective yield is determined and updated periodically.

Dividend income is recorded on the ex-dividend date.

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

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

Dividends and Distributions

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

Financing Costs

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

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

Guarantees and Indemnification Agreements

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

Per Share Information

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

Recent Accounting Pronouncements

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

In August 2012, the FASB issued Accounting Standards Update 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114 ("SAB No. 114"), Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22* ("ASU 2012-03"). The update amends various SEC paragraphs pursuant to the issuance of SAB No. 114 and is effective upon issuance. The adoption of the amended guidance in ASU 2012-03 did not have a significant effect on our financial statements.

In October 2012, the FASB issued Accounting Standards Update 2012-04, *Technical Corrections and Improvements* ("ASU 2012-04"). The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on our financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended September 30, 2012, we did not engage in hedging activities.

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USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be "at the market" as defined in Rule 415 under the 1933 Act, including sales made directly on the NASDAQ Global Select Market or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale, and may be for prices below our most recently determined net asset value per share. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all 17,500,000 shares of common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of \$11.00 per share for our common stock on the NASDAQ Global Select Market as of December 20, 2012, we estimate that the net proceeds of this offering will be approximately \$190.4 million after deducting the estimated Sales Manager commission and our estimated offering expenses.

We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, 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. We anticipate that substantially all of the net proceeds from this offering will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

As of December 20, 2012, we had no borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, approximately \$283.4 million was available to us for borrowing under our credit facility. Affiliates of the Sales Manager that are lenders under our credit facility may receive a portion of the net proceeds from offerings made pursuant to this prospectus supplement and the accompanying prospectus through the repayment of any borrowings. Interest on borrowings under the credit 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 credit facility equal to either 50 basis points if at least half of the credit facility is used or 100 basis points otherwise.

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CAPITALIZATION

The equity distribution agreement provides that we may offer and sell up to 17,500,000 shares of our common stock from time to time through the Sales Manager, as our agent for the offer and sale of such common stock. The table below assumes that we will sell all of the 17,500,000 shares at a price of \$11.00 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on December 20, 2012) but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than \$11.00, depending on the market price of our common stock at the time of any such sale and whether such sale is made at a discount to our most recently determined net asset value per share. The following table sets forth our capitalization as of September 30, 2012:

on an actual basis;

on an as adjusted basis giving effect to the issuance of 83,200, 84,904 and 100,552 shares in connection with our dividend reinvestment plan on October 24, 2012, November 22, 2012 and December 20, 2012, respectively, our issuance of 1,245,655 shares of common stock during the period from October 1, 2012 to October 9, 2012 under our ATM offering program, the issuance of 35,000,000 shares of common stock on November 7, 2012, the issuance of \$58.7 million aggregate principal amount of Prospect Capital InterNotes® since September 30, 2012, our issuance of 467,928 shares of common stock in connection with the CCPI investment and our offering of the 2019 Notes;

on an as further adjusted basis giving effect to the transactions noted above and the assumed sale of 17,500,000 shares of our common stock at a price of \$11.00 per share (the last reported sale price per share of our common stock on the NASDAQ Global Select Market on December 20, 2012) less commissions and expenses.

This table should be read in conjunction with "Use of Proceeds" and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial

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statements and notes thereto included in this prospectus supplement and the accompanying prospectus. The adjusted information is illustrative only.

	As of September 30, 2012		
	As Adjusted for Stock Issuances and Borrowings After September 30, 2012		
Actual			As further Adjusted for this Offering
(In thousands, except shares and per share data)			
(Unaudited)			
Long-term debt, including current maturities:			
Borrowings under senior credit facility(1)	\$	\$	\$
2015 Notes	150,000	150,000	150,000
2016 Notes	167,500	167,500	167,500
2017 Notes	130,000	130,000	130,000
2018 Notes	200,000	200,000	200,000
2019 Notes		200,000	200,000
2022 Notes	100,000	100,000	100,000
Prospect Capital InterNotes®	88,517	156,701	156,701
Amount owed to affiliates	12,045	12,045	12,045
Total long-term debt	848,062	1,116,246	1,116,246
Stockholders' equity:			
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 173,151,718 shares outstanding actual, 210,133,957 shares outstanding as adjusted and 227,633,957 shares outstanding as further adjusted)	173	210	228
Paid-in capital in excess of par value	1,920,251	2,326,034	2,516,391
Distributions in excess of net investment income	46,314	46,314	46,314
Accumulated realized losses on investments	(49,767)	(49,767)	(49,767)
Net unrealized appreciation on investments	(33,645)	(33,645)	(33,645)
Total stockholders' equity	1,883,326	2,289,146	2,479,521
Total capitalization	\$ 2,731,388	\$ 3,405,392	\$ 3,595,767

(1) As of September 30, 2012 and December 20, 2012, we had no borrowings under our credit facility.

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

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

- (1) The data for sales of shares below NAV pursuant to our previous equity distribution agreements are an estimate based on the last reported NAV adjusted and capital events occurring during the period since the last calculated NAV. All amounts presented are approximations based on the best available data at the time of issuance. Overall, the dilution from the issuance of shares below NAV in connection with the at-the-market program is estimated to be less than 1.5%.
- (2) Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or June 24, 2010 to June 30, 2010.
- (3) Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or July 1, 2010 to July 21, 2010.
- (4) Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or July 22, 2010 to August 24, 2010.
- (5) Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or September 10, 2010 to September 28, 2010.
- (6) Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or September 29, 2010 to September 30, 2010.
- (7) Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or October 1, 2010 to November 3, 2010.
- (8)

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

(9)

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

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Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of September 30, 2012.

Credit Facility	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
Fiscal 2013 (as of September 30, 2012, unaudited)	\$	N/A		
Fiscal 2012 (as of June 30, 2012)	96,000	\$ 22,668		
Fiscal 2011 (as of June 30, 2011)	84,200	18,065		
Fiscal 2010 (as of June 30, 2010)	100,300	8,093		
Fiscal 2009 (as of June 30, 2009)	124,800	5,268		
Fiscal 2008 (as of June 30, 2008)	91,167	5,712		
Fiscal 2007 (as of June 30, 2007)		N/A		
Fiscal 2006 (as of June 30, 2006)	28,500	4,799		
Fiscal 2005 (as of June 30, 2005)		N/A		
Fiscal 2004 (as of June 30, 2004)		N/A		

2015 Notes

Fiscal 2013 (as of September 30, 2012, unaudited)	\$ 150,000	\$ 18,129		
Fiscal 2012 (as of June 30, 2012)	150,000	14,507		
Fiscal 2011 (as of June 30, 2011)	150,000	10,140		

2016 Notes

Fiscal 2013 (as of September 30, 2012, unaudited)	\$ 167,500	\$ 16,235		
Fiscal 2012 (as of June 30, 2012)	167,500	12,992		
Fiscal 2011 (as of June 30, 2011)	172,500	8,818		

2017 Notes

Fiscal 2013 (as of September 30, 2012, unaudited)	\$ 130,000	\$ 20,918		
Fiscal 2012 (as of June 30, 2012)	130,000	16,739		

2018 Notes

Fiscal 2013 (as of September 30, 2012, unaudited)	\$ 200,000	\$ 13,597		
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2022 Notes

Fiscal 2013 (as of September 30, 2012, unaudited)	\$ 100,000	\$ 27,193		
Fiscal 2012 (as of June 30, 2012)	100,000	21,761		

Prospect Capital InterNotes®

Fiscal 2013 (as of September 30, 2012, unaudited)	\$ 88,517	\$ 30,721		
Fiscal 2012 (as of June 30, 2012)	20,638	105,442		

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All Senior Securities(5)

Fiscal 2013 (as of September 30, 2012, unaudited)	\$	836,017	\$	3,253
Fiscal 2012 (as of June 30, 2012)		664,138		3,277
Fiscal 2011 (as of June 30, 2011)		406,700		3,740

- (1) Total amount of each class of senior securities outstanding at the end of the period presented (in 000's).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) This column is inapplicable.
- (4) This column is inapplicable.
- (5) On February 16, 2012, we entered into a Selling Agent Agreement and began offering notes (the "Prospect Capital InterNotes Program"). Through December 20, 2012, we have sold \$156.7 million aggregate principal amount of notes under the Prospect Capital InterNotes Program. On December 21, 2012, we issued a total of \$200.0 million aggregate principal amount of 2019 Notes. Amounts sold under the Prospect Capital InterNotes Program after September 30, 2012 and the 2019 Notes are not reflected in the table above.

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DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

We have paid and intend to continue to distribute monthly 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 monthly distributions may from time to time be paid out of our capital rather than from earnings for the period 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,

98.2% 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. No such election was made in December 2009.

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

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock are subject to the same U.S. Federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan" in the accompanying prospectus. The tax consequences of distributions to stockholders are described in the accompanying prospectus under the label "Material U.S. Federal Income Tax Considerations". To the extent prudent and practicable, we intend to declare and pay dividends on a monthly basis.

With respect to the distributions paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies were treated as taxable income and accordingly, distributed to stockholders. For the fiscal year ended June 30, 2010, we recorded total distributions of approximately \$101.0 million. On June 18, 2010, we announced a change in dividend policy from quarterly to monthly dividends. For the fiscal year ending June 30, 2011, we recorded total distributions of approximately \$106.2 million. For the fiscal year ended June 30, 2012, we recorded total distributions of approximately \$141.4 million.

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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 per share. There can be no assurance, however, that such premium or discount, as applicable, to NAV per share will be maintained. Common stock of business development companies, like that of closed-end investment companies, frequently trades at a discount to current NAV per share. In the past, our common stock has traded at a discount to our NAV per share. The risk that our common stock may continue to trade at a discount to our NAV per share 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 Declared
	NAV(1)	High(2)	Low(2)			
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	10.10	12.31	9.93	21.9%	(1.7)%	0.40875
Third quarter	10.12	13.20	10.45	30.4%	3.3%	0.410
Fourth quarter	10.30	12.20	9.65	18.4%	(6.3)%	0.10
Twelve Months Ending June 30, 2011						
First quarter	\$ 10.24	\$ 10.00	\$ 9.18	(2.3)%	(10.4)%	\$ 0.301375
Second quarter	10.25	10.86	9.69	6.0%	(5.5)%	0.302625
Third quarter	10.33	12.33	10.72	19.4%	3.8%	0.303450
Fourth quarter	10.36	12.18	9.95	17.6%	(4.0)%	0.303675
Twelve Months Ending June 30, 2012						
First quarter	\$ 10.41	\$ 10.18	\$ 7.41	(2.2)%	(28.8)%	0.303900
Second quarter	10.69	9.88	7.99	(7.6)%	(25.3)%	0.304125
Third quarter	10.82	11.39	9.43	5.3%	(12.8)%	0.304350
Fourth quarter	10.83	11.39	10.55	5.2%	(2.5)%	0.304575
Twelve Months Ending June 30, 2013						
First quarter	\$ 10.88	\$ 12.21	\$ 10.83	12.2%	(0.5)%	0.304800
Second quarter (to December 20, 2012)	\$ (3)(4)	\$ 11.98	\$ 9.89	(4)	(4)	\$ 0.313325(5)

(1)

Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high or low sales price. The NAVs shown are based on outstanding shares of our common stock at the end of each period.

(2)

The High/Low Stock Price is calculated as of the closing price on a given day in the applicable quarter.

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- (3) Our most recently estimated NAV per share is \$10.89 on an as adjusted basis solely to give effect to our issuance of common stock since September 30, 2012 in connection with our dividend reinvestment plan, our issuance of 1,245,655 shares of common stock during the period from October 1, 2012 to October 9, 2012 under our ATM offering program, our issuance of 35,000,000 shares of common stock on November 7, 2012 and our issuance of 467,928 shares of common stock in connection with the CCPI investment, versus \$10.88 determined by us as of September 30, 2012. NAV per share as of December 31, 2012, may be higher or lower than \$10.89 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended.
- (4) NAV has not yet been finally determined for any day after September 30, 2012.
- (5) In June 2010, we changed our distribution policy from a quarterly payment to a monthly payment.
- On November 7, 2012, as revised by our announcement on December 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:
- 10.1675 cents per share for November 2012 (record date of November 30, 2012 and payment date of December 20, 2012);
and
- 11.0000 cents per share for December 2012 (record date of December 31, 2012 and payment date of January 23, 2013); and
- 11.0025 cents per share for January 2013 (record date of January 31, 2013 and payment date of February 20, 2013);
On December 20, 2012, the last reported sales price of our common stock was \$11.00 per share.
- As of December 20, 2012, we had approximately 140 stockholders of record.
- The below table sets forth each class of our outstanding securities as of December 20, 2012.

Title of Class	Amount Authorized	Amount Held by Registrant or for its Account	Amount Outstanding
Common Stock	500,000,000	0	210,134,837

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SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2012 annual meeting of stockholders held on December 7, 2012, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from NAV per share during the twelve-month period following such approval. In order to sell shares pursuant to this authorization a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, (b) in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares of common stock, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount, and (c) the number of shares sold on any given date does not exceed 25% of its outstanding common stock immediately prior to such sale.

We may make sales of our common stock at prices below our most recently determined NAV per share. Pursuant to the approval of our Board of Directors, we have made such sales in the past, including under the previous equity distribution agreements, and we may continue to do so under this prospectus supplement.

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

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

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

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

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

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

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

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

The leverage available to us.

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

We will not sell shares of common stock under a prospectus supplement to the registration statement (the "current registration statement") if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV at the time of the first offering is \$10.89 and we have 210.0 million shares of common stock outstanding, sale of 40.0 million shares of common stock at net proceeds to us of \$5.45 per share (an approximately 50% discount) would produce dilution

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of 7.99%. If we subsequently determined that our NAV per share was \$10.10 on the then 250.0 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 40.75 million shares of common stock at net proceeds to us of \$5.05 per share, which would produce dilution of 7.01%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

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

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

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

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

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

NAV per share used in the tables below is based on our most recently determined NAV per share as of September 30, 2012, as adjusted to give effect to our issuances of our common stock since September 30, 2012. The NAV per share used for purposes of providing information in the table below is thus an estimate and does not necessarily reflect actual NAV per share at the time sales are made. Actual NAV per share may be higher or lower based on potential changes in valuations of our portfolio securities, accruals of income, expenses and distributions declared and thus may be higher or lower at the assumed sales prices than shown below.

The tables below provide hypothetical examples of the impact that an offering at a price less than NAV per share may have on the NAV per share of shareholders and investors who do and do not participate in such an offering. However, the tables below do not show and are not intended to show any potential changes in market price that may occur from an offering at a price less than NAV per share and it is not possible to predict any potential market price change that may occur from such an offering.

Impact On Existing Stockholders Who Do Not Participate in the Offering

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

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

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The examples assume that the issuer has 210.0 million common shares outstanding, \$3,486,900,000 in total assets and \$1,200,000,000 in total liabilities. The current NAV and NAV per share are thus \$2,286,900,000 and \$10.89. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 10,500,000 shares of common stock (5% of the outstanding shares of common stock) at \$10.35 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 21,000,000 shares of common stock (10% of the outstanding shares of common stock) at \$9.80 per share after offering expenses and commissions (a 10% discount from NAV), (3) an offering of 52,500,000 shares of common stock (25% of the outstanding shares of common stock) at \$8.17 per share after offering expenses and commissions (a 25% discount from NAV) and (4) an offering of 52,500,000 shares of common stock (25% of the outstanding shares of common stock) at \$0.00 per share after offering expenses and commissions (a 100% discount from NAV).

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount		Example 4 25% Offering at 100% Discount	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price									
Price per Share to Public		\$ 10.47		\$ 9.91		\$ 8.25		\$	
Net Proceeds per Share to Issuer		\$ 10.35		\$ 9.80		\$ 8.17		\$	
Decrease to NAV									
Total Shares Outstanding	210,000,000	220,500,000	5.00%	231,000,000	10.00%	262,500,000	25.00%	262,500,000	25.00%
NAV per Share	\$ 10.89	\$ 10.86	(0.24)%	10.79	(0.91)%	\$ 10.35	(5.00)%	\$ 8.71	(20.00)%
Dilution to Nonparticipating Stockholder									
Shares Held by Stockholder A	210,000	210,000	0.00%	210,000	0.00%	210,000	0.00%	210,000	0.00%
Percentage Held by Stockholder A	0.10%	0.10%	(4.76)%	0.09%	(9.09)%	0.08%	(20.00)%	0.08%	(20.00)%
Total NAV Held by Stockholder A	\$ 2,286,900	\$ 2,281,455	(0.24)%	\$ 2,266,100	(0.91)%	\$ 2,172,555	(5.00)%	\$ 1,829,520	(20.00)%
Total Investment by Stockholder A (Assumed to be \$10.89 per Share on Shares Held Prior to Sale)									
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (5,445)		\$ (20,790)		\$ (114,345)		\$ (457,380)	
NAV per Share Held by Stockholder A		\$ 10.86		\$ 10.79		\$ 10.35		\$ 8.71	
Investment per Share Held by Stockholder A (Assumed to be \$10.89 per Share on Shares Held Prior to Sale)	\$ 10.89	\$ 10.89		\$ 10.89		\$ 10.89		\$ 10.89	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)									
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(0.24)%		(0.91)%		(5.00)%		(20.00)%

Impact On Existing Stockholders Who Do Participate in the Offering

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

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level of accretion will increase as the excess number of shares of common stock such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These shareholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

The following chart illustrates the level of dilution and accretion in the hypothetical 25% discount offering from the prior chart (Example 3) for a stockholder that acquires shares of common stock equal to (1) 50% of its proportionate share of the offering (i.e., 26,250 shares of common stock, which is 0.05% of an offering of 52.5 million shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e. 78,750 shares of common stock, which is 0.15% of an offering of 52.5 million shares of common stock rather than its 0.10% proportionate share). It is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

	50% Participation		150% Participation		
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per Share to Public		\$ 8.25		\$ 8.25	
Net Proceeds per Share to Issuer		\$ 8.17		\$ 8.17	
Decrease to NAV					
Total Shares Outstanding	210,000,000	262,500,000	25.00%	262,500,000	25.00%
NAV per Share	\$ 10.89	\$ 10.35	(5.00)%	\$ 10.35	(5.00)%
Dilution to Nonparticipating Stockholder					
Shares Held by Stockholder A	210,000	236,250	12.50%	288,750	37.50%
Percentage Held by Stockholder A	0.10%	0.09%	(10.00)%	0.11%	10.00%
Total NAV Held by Stockholder A	\$ 10.89	\$ 2,444,124	6.88%	\$ 2,987,263	30.63%
Total Investment by Stockholder A (Assumed to be \$10.89 per Share on Shares Held Prior to Sale)		\$ 2,503,564		\$ 2,936,891	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (59,440)		\$ 50,372	
NAV per Share Held by Stockholder A		\$ 10.35		\$ 10.35	
Investment per Share Held by Stockholder A (Assumed to be \$10.89 per Share on Shares Held Prior to Sale)		\$ 10.60		\$ 10.17	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.25)		\$ 0.18	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(2.37)%		1.72%

Impact On New Investors

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

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NAV per share compared to the price they pay for their shares of common stock. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical 5%, 10% and 25% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (0.10%) of the shares of common stock in the offering as Stockholder A in the prior examples held immediately prior to the offering. It is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price							
Price per Share to Public		\$ 10.47		\$ 9.91		\$ 8.25	
Net Proceeds per Share to Issuer		\$ 10.35		\$ 9.80		\$ 8.17	
Decrease to NAV							
Total Shares Outstanding	210,000,000	220,500,000	5.00%	231,000,000	10.00%	262,500,000	25.00%
NAV per Share	\$ 10.89	\$ 10.86	(0.24)%	\$ 10.79	(0.91)%	\$ 10.35	(5.00)%
Dilution to Nonparticipating Stockholder							
Shares Held by Stockholder A		10,500		21,000		52,500	
Percentage Held by Stockholder A	0.00%	0.00%		0.01%		0.02%	
Total NAV Held by Stockholder A	\$	\$ 114,073		\$ 226,611		\$ 543,139	
Total Investment by Stockholder A (Assumed to be \$10.89 per Share on Shares Held Prior to Sale)		\$ 109,927		\$ 208,102		\$ 433,327	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ 4,146		\$ 18,509		\$ 109,812	
NAV per Share Held by Stockholder A		\$ 10.86		\$ 10.79		\$ 10.35	
Investment per Share Held by Stockholder A (Assumed to be \$10.89 per Share on Shares Held Prior to Sale)		\$ 10.47		\$ 9.91		\$ 8.25	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ 0.39		\$ 0.88		\$ 2.10	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			3.77%		8.89%		25.34%
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SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary of U.S. federal income tax considerations supplements the discussion set forth under the heading "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus and is subject to the qualifications and assumptions set forth therein.

The following paragraph replaces the seventh paragraph under the heading "Material U.S. Federal Income Tax Considerations Taxation of Non-U.S. Stockholders" in the accompanying prospectus:

In addition, after December 31, 2013, withholding at a rate of 30% will be required on dividends in respect of, and after December 31, 2016, withholding at a rate of 30% will be required on gross proceeds from the sale of, shares of our stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in, and accounts maintained by, the institution to the extent such shares or accounts are held by certain U.S. persons or by certain non-U.S. entities that are wholly or partially owned by U.S. persons. Accordingly, the entity through which our shares are held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and gross proceeds from the sale of, our shares held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any "substantial U.S. owners" or (ii) provides certain information regarding the entity's "substantial U.S. owners," which we will in turn provide to the Secretary of the Treasury. Non-U.S. Stockholders are encouraged to consult with their tax advisers regarding the possible implications of these rules on their investment in our common stock.

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PLAN OF DISTRIBUTION

Upon written instructions from the Company, KeyBanc Capital Markets Inc. will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, the common stock under the terms and subject to the conditions set forth in the Sales Manager's equity distribution agreement. We will instruct the Sales Manager as to the amount of common stock to be sold by the Sales Manager. We may instruct the Sales Manager not to sell common stock if the sales cannot be effected at or above the price designated by the Company in any instruction. We or the Sales Manager may suspend the offering of shares of common stock upon proper notice and subject to other conditions. Due to a lock up restriction we entered into in connection with our recent offering of the 2019 Notes, we are limited to offering only up to 1,000,000 shares of our common stock per day until January 17, 2013.

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

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

The Sales Manager will receive from us a commission to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of all shares of common stock sold through it as Sales Manager under the equity distribution agreement. We estimate that the total expenses for the offering, excluding compensation payable to the Sales Manager under the terms of the equity distribution agreement, will be approximately \$200,000. This estimate includes the reimbursement by the Company of the reasonable fees and expenses of the Sales Manager and its counsel in connection with the transactions contemplated by the equity distribution agreement, provided that such fees and expenses will not exceed an aggregate amount of \$95,000.

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

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

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

The Sales Manager and its respective affiliates may perform commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and

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expenses. The Sales Manager and its respective affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business.

The principal business address of KeyBanc Capital Markets Inc. is 127 Public Square, 4th Floor, Cleveland, OH 44114.

LEGAL MATTERS

Certain legal matters regarding the common stock offered hereby will be passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden, Arps"), New York, New York, and Venable LLP, as special Maryland counsel, Baltimore, Maryland. Troutman Sanders LLP will pass on certain matters for the Sales Manager. Skadden, Arps and Venable LLP each have from time to time acted as counsel for us and our subsidiaries and may do so in the future.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the notes offered by this prospectus supplement. The registration statement contains additional information about us and the notes being registered by this prospectus supplement. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2012, are available free of charge by contacting us at 10 East 40th Street, 44th floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

September 30, 2012 and June 30, 2012

(in thousands, except share and per share data)

	September 30, 2012 (Unaudited)	June 30, 2012 (Audited)
Assets (Note 4)		
Investments at fair value:		
Control investments (amortized cost of \$515,055 and \$518,015, respectively)	\$ 529,785	\$ 564,489
Affiliate investments (amortized cost of \$44,589 and \$44,229, respectively)	45,255	46,116
Non-control/Non-affiliate investments (amortized cost of \$2,137,966 and \$1,537,069, respectively)	2,088,925	1,483,616
Total investments at fair value (amortized cost of \$2,697,610 and \$2,099,313, respectively, Note 3)	2,663,965	2,094,221
Investments in money market funds	182,158	118,369
Total investments	2,846,123	2,212,590
Cash	2,387	2,825
Receivables for:		
Interest, net	31,369	14,219
Dividends	1	1
Other	773	783
Prepaid expenses	879	421
Deferred financing costs	31,065	24,415
Total Assets	2,912,597	2,255,254
Liabilities		
Credit facility payable (Note 4)		96,000
Senior convertible notes (Note 5)	647,500	447,500
Senior unsecured notes (Note 6)	100,000	100,000
Prospect Capital InterNotes® (Note 7)	88,517	20,638
Due to broker	145,746	44,533
Dividends payable	17,597	14,180
Due to Prospect Administration (Note 11)	310	658
Due to Prospect Capital Management (Note 11)	11,735	7,913
Accrued expenses	14,263	9,648
Other liabilities	3,603	2,210
Total Liabilities	1,029,271	743,280
Net Assets	\$ 1,883,326	\$ 1,511,974
Components of Net Assets		
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 173,151,718 and 139,633,870 issued and outstanding, respectively) (Note 8)	\$ 173	\$ 140
Paid-in capital in excess of par (Note 8)	1,920,251	1,544,801
Undistributed net investment income	46,314	23,667
Accumulated realized losses on investments	(49,767)	(51,542)
Unrealized depreciation on investments	(33,645)	(5,092)
Net Assets	\$ 1,883,326	\$ 1,511,974

Net Asset Value Per Share	\$	10.88	\$	10.83
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See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

For The Three Months Ended September 30, 2012 and 2011

(in thousands, except share and per share data)

(Unaudited)

	For Three Months Ended September 30,	
	2012	2011
Investment Income		
Interest income: (Note 3)		
Control investments	\$ 17,919	\$ 6,165
Affiliate investments	1,651	2,402
Non-control/Non-affiliate investments	45,027	33,320
CLO fund securities	13,713	500
Total interest income	78,310	42,387
Dividend income:		
Control investments	33,250	6,700
Non-control/Non-affiliate investments	2,955	349
Money market funds	3	1
Total dividend income	36,208	7,050
Other income: (Note 9)		
Control investments	2	6
Affiliate investments	8	61
Non-control/Non-affiliate investments	9,108	5,838
Total other income	9,118	5,905
Total Investment Income	123,636	55,342
Operating Expenses		
Investment advisory fees:		
Base management fee (Note 11)	13,228	8,211
Income incentive fee (Note 11)	18,507	6,969
Total investment advisory fees	31,735	15,180
Interest and credit facility expenses	13,511	8,960
Legal fees	622	432
Valuation services	376	302
Audit, compliance and tax related fees	432	340
Allocation of overhead from Prospect Administration (Note 11)	2,184	1,116
Insurance expense	93	79
Directors' fees	75	64
Other general and administrative expenses	581	992
Total Operating Expenses	49,609	27,465
Net Investment Income	74,027	27,877

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Net realized gain (loss) on investments (Note 3)	1,775	(14,607)
Net change in unrealized (depreciation) appreciation on investments (Note 3)	(28,553)	26,630
Net Increase in Net Assets Resulting from Operations	\$ 47,249	\$ 39,900
Net increase in net assets resulting from operations per share (Note 10 and Note 14)	\$ 0.29	\$ 0.37
Dividends declared per share	\$ 0.30	\$ 0.30

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For The Three Months Ended September 30, 2012 and 2011

(in thousands, except share data)

(Unaudited)

	For The Three Months Ended September 30,	
	2012	2011
Increase in Net Assets from Operations:		
Net investment income	\$ 74,027	\$ 27,877
Net realized gain (loss) on investments	1,775	(14,607)
Net change in unrealized (depreciation) appreciation on investments	(28,553)	26,630
Net Increase in Net Assets Resulting from Operations	47,249	39,900
Dividends to Shareholders	(51,380)	(33,221)
Capital Share Transactions:		
Proceeds from capital shares sold, net of underwriting costs	372,083	15,060
Less: Offering costs of public share offerings	(631)	(137)
Reinvestment of dividends	4,031	2,817
Net Increase in Net Assets Resulting from Capital Share Transactions	375,483	17,740
Total Increase in Net Assets	371,352	24,419
Net assets at beginning of period	1,511,974	1,114,357
Net Assets at End of Period	\$ 1,883,326	\$ 1,138,776
Capital Share Activity:		
Shares sold	33,161,977	1,500,000
Shares issued through reinvestment of dividends	355,871	310,393
Net increase in capital share activity	33,517,848	1,810,393
Shares outstanding at beginning of period	139,633,870	107,606,690
Shares Outstanding at End of Period	173,151,718	109,417,083

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Three Months Ended September 30, 2012 and 2011

(in thousands, except share data)

(Unaudited)

	For The Three Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 47,249	\$ 39,900
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operations:		
Net realized (gain) loss on investments	(1,775)	14,607
Net change in unrealized appreciation (depreciation) on investments	28,553	(26,630)
Amortization of discounts and premiums	(6,708)	(928)
Amortization of deferred financing costs		