PROSPECT CAPITAL CORP
Form 497
November 25, 2009

Table of Contents

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

PROSPECTUS SUPPLEMENT
(To Prospectus dated November 9, 2009)

6,256,797 Shares

Common Stock

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

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

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

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

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

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

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

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

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

Prospectus Supplement dated November 25, 2009

Table of Contents

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

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

PROSPECTUS

Table of Contents

PROSPECTUS SUMMARY

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

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

The Company

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

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

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

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

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

Table of Contents

Recent Developments

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

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

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

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

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

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

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

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

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

Litigation Relating to the Merger

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

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

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

Table of Contents

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

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

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

The Offering

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

Fees and Expenses

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

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

Example

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

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

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

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

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

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

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

Table of Contents

USE OF PROCEEDS

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

Table of Contents

SELLING STOCKHOLDERS

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

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

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

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

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

Table of Contents

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

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

this prospectus supplement will be held by the selling stockholders.

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

Represents less than 1.0%

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

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

S-9

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(26)

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

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

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

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

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

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

Table of Contents

CAPITALIZATION

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

on an actual basis;

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

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

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

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

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

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

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

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

RECENT SALES OF COMMON STOCK BELOW NET ASSET VALUE

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

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

DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

S-15

Table of Contents

SELECTED CONDENSED FINANCIAL DATA OF PROSPECT

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

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

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

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

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

(3) Includes dividends from certain equity investments.

Table of Contents

SELECTED FINANCIAL DATA OF PATRIOT

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

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

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

S-17

Table of Contents

(1) On July 27, 2005, Patriot terminated the consulting agreements pursuant to which these fees were incurred.

(2) Patriot s capital structure at December 31, 2004 reflected a higher percentage of leverage than it is permitted to incur as a business development company. Patriot used a portion of the net proceeds it received from its initial public offering to repay all of its outstanding indebtedness, including the $3.4 million prepayment penalty, at the time of its initial public offering. Patriot is generally only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

(3) The prepayment penalty was incurred in connection with the repayment in full and termination of our $120.0 million financing agreement.

(4) Computed using actual interest income earned for the fiscal year, including amortization of deferred financing fees and original issue discount, divided by the weighted average fair value of debt investments.

Table of Contents

UNAUDITED SELECTED PRO FORMA CONSOLIDATED FINANCIAL DATA

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

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

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

	At Sept. 30, 2009
Assets and Liabilities Data:	
Investment securities	$ 705,953
Cash	72,341
Other assets	14,929
Total assets	793,223
Borrowings	106,138
Other liabilities	14,144
Total liabilities	120,282
Net assets	$ 672,941

UNAUDITED PRO FORMA PER SHARE DATA

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

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

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

(1) The historical distributions declared per share for Prospect and Patriot is computed by dividing the distributions declared for the year ended June 30, 2009 by their respective historical weighted average shares outstanding. The pro forma combined distributions declared is the distributions per share as declared by Prospect.

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

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

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

Table of Contents

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

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

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

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

Note on Forward Looking Statements

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

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

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

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the Securities and Exchange Commission (SEC), including any annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

General

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

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

Table of Contents

Pending Acquisition

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

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

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

Market Conditions

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

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

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

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

Table of Contents

Critical Accounting Policies and Estimates

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

Basis of Consolidation

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

Investment Classification

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

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

Investment Valuation

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

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

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

1) Each portfolio company or investment is reviewed by our investment professionals with the independent valuation firm engaged by our Board of Directors;

2) the independent valuation firm conducts independent appraisals and makes their own independent assessment;

3) the audit committee of our Board of Directors reviews and discusses the preliminary valuation of our Investment Adviser and that of the independent valuation firm; and

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

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

Federal and State Income Taxes

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

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

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

Revenue Recognition

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

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

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

Dividend income is recorded on the ex-dividend date.

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

Statement of Assets and Liabilities Overview

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

The aggregate fair value of our portfolio investments was $510,798 and $547,168 as of September 30, 2009 and June 30, 2009, respectively. During the three months ended September 30, 2009, our net cost of investments decreased by $17,674, or 3.3%, primarily from the repayment of two investments. At September 30, 2009, we were invested in 29 long-term portfolio investments.

Table of Contents

Investment Activity

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

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

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

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

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

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

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

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

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

Quarter-End	Acquisitions(1)	Dispositions(2)
September 30, 2009	$ 6,066	$ 24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523

September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	$ 816,595	$ 258,883

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

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

Investment Holdings

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Valuation

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

In determining the range of value for debt instruments, management and the independent valuation firm generally shadow rated the investment and then based upon the range of ratings, determined appropriate yields to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of $510,798, excluding money market investments.

Our investments are generally lower middle market companies, outside of the financial sector, with less than $30,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments. In addition, the middle market relies on less leverage than the large capitalization marketplace, which we believe will result in less financial distress.

During the three months ended September 30, 2009, there has been a general improvement in the markets in which we operate and market rates of interest demanded for middle market loans have decreased. As a result, many of our debt investments have seen an increase in value. The fair value is limited on the high side to the loans par value, plus any prepayment penalties that would be imposed. Many of the debt investments in this category have not seen a significant change in value as they were previously valued at or near par value. These investments include: American Gilsonite Company, Biotronic, Castro Cheese Company, Inc., H&M Oil & Gas, LLC, IEC/ARS, Maverick Healthcare, LLC, NRG Manufacturing, Inc., Qualitest Pharmaceuticals, Inc., Regional Management Corp., Resco, Shearer s Foods, Inc., Stryker Energy, LLC, TriZetto Group and Unitek.

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

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

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

Gas Solutions Holdings, Inc.

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

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

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

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

Integrated Contract Services, Inc.

ICS is an investment that we made in April 2007. Prior to January 2009, ICS owned the assets of ESA Environmental Specialists, Inc. (ESA) and 100% of the stock of The Healing Staff (THS). ESA originally defaulted under our contract governing our investment in ESA, prompting us to commence foreclosure actions with respect to certain ESA assets in respect of which we have a priority lien. In response to our actions, ESA filed voluntarily for reorganization under the bankruptcy code on August 1, 2007. On September 20, 2007 the

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

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

Yatesville Coal Holdings, Inc.

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

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

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

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt is currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and our equity capital is currently comprised entirely of common equity.

On June 25, 2009, we completed a first closing on an expanded $250,000 syndicated revolving credit facility (the Facility). The new Facility, for which five lenders have closed on $195,000 to date, includes an accordion feature which allows the Facility to accept up to an aggregate total of $250,000 of commitments for which we continue to solicit additional commitments from other lenders for the additional $55,000. The revolving period of the Facility extends through June 2010, with an additional one year amortization period after the completion of the revolving period. As of September 30, 2009 and June 30, 2009, we had zero and $124,800 of borrowings outstanding under our credit facility, respectively.

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

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

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

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

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

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

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

Results of Operations

For the three months ended September 30, 2009 and September 30, 2008, the net (decrease) increase in net assets resulting from operations was ($6,378) and $13,998, respectively, representing ($0.13) and $0.47 per share, respectively. We experienced a net realized and unrealized loss of ($18,696) or approximately ($0.38) per share in the three months ended September 30, 2009. This compares with the net realized and unrealized loss of ($9,504) during the three months ended September 30, 2008 or approximately ($0.33) per share.

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

Investment Income

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

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

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

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

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

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

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

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), credit facility costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate our Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions in accordance with our Administration Agreement with Prospect Administration. Operating expenses were $9,199 and $12,297 for the three months ended September 30, 2009 and September 30, 2008, respectively.

The base management fee was $3,209 and $2,823 for the three months ended September 30, 2009 and September 30, 2008, respectively. The increase in this expense for the three months ended September 30, 2009 is directly related to our growth in total assets. For the three months ended September 30, 2009 and September 30, 2008, we incurred $3,080 and $5,875, respectively, of income incentive fees. The $2,795 decrease in the income incentive fee for the respective three-month period is driven by a decrease in premanagement fee net investment income from $29,377 for the three months ended September 30, 2008 to $15,398 for the three months ended September 30, 2009, primarily the result of the settlement of net profits interest in IEC/ARS in the 2008 period. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

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

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

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

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

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

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

Net realized (loss) gains were zero and $1,645 for the three months ended September 30, 2009 and September 30, 2008, respectively. The net realized gain of $1,645 for the three months ended September 30, 2008 was due primarily to the sale of the warrants related to Deep Down, Inc.

Net decrease in net assets from changes in unrealized appreciation/depreciation was $18,696 and $11,149 for the three months ended September 30, 2009 and September 30, 2008, respectively. For the three months ended September 30, 2009, the $18,696 decrease in net assets from the net change in unrealized appreciation/depreciation was driven primarily by write-downs of our investments in Ajax, AEH, C&J, Conquest, Deb Shops, and Yatesville. For the three months ended September 30, 2008, the $11,149 decrease in net assets from the net change in unrealized appreciation/depreciation was driven by significant write-downs in our investments in CCEI, Deb Shops, Iron Horse and by the disposition of Deep Down, Inc. which had been previously valued above cost. These instances of unrealized depreciation were partially offset by unrealized appreciation in C&J, GSHI, and Yatesville.

Financial Condition, Liquidity and Capital Resources

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

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

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

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

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

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

Off-Balance Sheet Arrangements

At September 30, 2009, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Developments Since the End of the Fiscal Quarter

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

SALES OF COMMON STOCK BELOW NET ASSET VALUE

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

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

- The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;
- The relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;
- Whether the estimated offering price would closely approximate the market value of our shares;
- The potential market impact of being able to raise capital during the current financial market difficulties;
- The nature of any new investors anticipated to acquire shares in the offering;
- The anticipated rate of return on and quality, type and availability of investments; and
- The leverage available to us.

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

We will not sell shares under a prospectus supplement to the post-effective amendment to the registration statement of which this prospectus forms a part (the current amendment) if the cumulative dilution to our NAV per share from offerings under the current amendment exceeds 15%. This limit would be measured separately for each offering pursuant to the current amendment by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV at the time of the first offering is $10.70 and we have 55 million shares outstanding, sale of 13 million shares at net proceeds to us of $5.35 per share (a 50% discount) would produce dilution of 9.56%. If we subsequently determined that our NAV per share increased to $12.00 on the then 68 million shares outstanding and then made an additional offering, we could, for example, sell approximately an additional 8.3 million shares at net proceeds to us of $6.00 per share, which would produce dilution of 5.44%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

Table of Contents

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

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

- existing shareholders who do not purchase any shares in the offering
- existing shareholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering
- new investors who become shareholders by purchasing shares in the offering.

Impact On Existing Stockholders Who Do Not Participate in the Offering

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

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

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

Table of Contents

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	% Change	Example 2 10% Offering at 10% Discount Following Sale	% Change	Example 3 20% Offering at 20% Discount Following Sale	% Change
fering Price							
ce per Share to Public		$ 10.70		$ 10.14		$ 9.01	
t Proceeds per Share to uer		$ 10.17		$ 9.63		$ 8.56	
crease to NAV							
tal Shares Outstanding	55,000,000	57,750,000	5.00%	60,500,000	10.00%	66,000,000	20.00%
V per Share	$ 10.70	$ 10.67	(0.24)%	$ 10.60	(0.91)%	$ 10.34	(3.33)
lution to nparticipating ockholder							
ares Held by ockholder A	55,000	55,000	0.00%	55,000	0.00%	55,000	0.00%
rcentage Held by ockholder A	0.10%	0.10%	(4.76)%	0.09%	(9.09)%	0.08%	(16.67)
tal NAV Held by ockholder A	$ 588,500	$ 587,099	(0.24)%	$ 583,150	(0.91)%	$ 568,883	(3.33)
tal Investment by ockholder A (Assumed be $10.70 per Share)	$ 588,500	$ 588,500		$ 588,500		$ 588,500	
tal Dilution to ockholder A (Total V Less Total vestment)		$ (1,401)		$ (5,350)		$ (19,617)	
V per Share Held by ockholder A		$ 10.67		$ 10.60		$ 10.34	
vestment per Share ld by Stockholder A ssumed to be .70 per Share on ares Held Prior to Sale)	$ 10.70	$ 10.70		$ 10.70		$ 10.70	
lution per Share Held Stockholder A (NAV r Share Less Investment r Share)		$ (0.03)		$ (0.10)		$ (0.36)	
rcentage Dilution to ockholder A (Dilution r Share Divided by vestment per Share)			(0.24)%		(0.91)%		(3.33)

Impact On Existing Stockholders Who Do Participate in the Offering

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

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

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

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

Impact On New Investors

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

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

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	% Change	Example 2 10% Offering at 10% Discount Following Sale	% Change	Example 3 20% Offering at 20% Discount Following Sale	% Change
ffering Price							
ice per Share to Public		$ 10.70		$ 10.14		$ 9.01	
et Proceeds per Share to suer		$ 10.17		$ 9.63		$ 8.56	
ecrease/Increase to AV							
otal Shares Outstanding	55,000,000	57,750,000	5%	60,500,000	10%	66,000,000	20%
AV per Share	$ 10.70	$ 10.67	(0.24)%	$ 10.60	(0.91)%	$ 10.34	(3.33)%
ilution/Accretion to ew Investor A							
ares Held by Investor	0	2,750		5,500		11,000	
rcentage Held by vestor A	0.00%	0.00%		0.01%		0.02%	
otal NAV Held by vestor A	$ 0	$ 29,355		$ 58,315		$ 113,777	
otal Investment by vestor A (At Price to ublic)		$ 29,425		$ 55,753		$ 99,116	
otal Dilution/Accretion Investor A (Total NAV ess Total Investment)		$ (70)		$ 2,562		$ 14,661	
AV per Share Held by vestor A		$ 10.67		$ 10.60		$ 10.34	
vestment per Share eld by Investor A	$ 0	$ 10.70		$ 10.14		$ 9.01	
ilution/Accretion per hare Held by Investor A AV per Share Less vestment per Share)		$ (0.03)		$ 0.46		$ 1.33	
rcentage ilution/Accretion to vestor A Dilution/Accretion per hare Divided by vestment per Share)			(0.24)%		4.60%		14.79%

Renewing our Authorization to Sell Shares Below NAV

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

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

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

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

PLAN OF DISTRIBUTION

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

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

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

The selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions. In connection with these transactions, broker-dealers or other financial institutions may engage in short sales of the shares in the course of hedging positions they assume with the selling stockholders. The selling stockholders may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to these broker-dealers or other financial institutions of shares, which such broker-dealer or other financial institution may resell under this prospectus supplement (as amended or supplemented to reflect such transaction). The selling stockholders may also engage in short sales of shares

Table of Contents

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

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

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

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

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

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

LEGAL MATTERS

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

AVAILABLE INFORMATION

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

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

INDEX TO FINANCIAL STATEMENTS

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
September 30, 2009 and June 30, 2009

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

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

See notes to consolidated financial statements.

F-1

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
For The Three Months Ended September 30, 2009 and 2008

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

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

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For The Three Months Ended September 30, 2009 and 2008

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

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Three Months Ended September 30, 2009 and 2008

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

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

See notes to consolidated financial statements.

F-4

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2009 and June 30, 2009

Portfolio Investments(1)	Locale/Industry		Par Value/ Shares/ Ownership %	September 30, 2009 Cost	Fair Value(2)	% of Net Assets
			(In thousands, except share data)			
Control Investments (25.00% or greater of voting control)						
Ajax Rolled Ring & Machine	South Carolina/ Manufacturing					
Unrestricted common shares (7 total unrestricted common shares issued and outstanding and 681.86 restricted common shares issued and outstanding)			6	$	$	0.0%
Series A convertible preferred shares (7,182.6 total preferred shares issued and outstanding)			6,142.6	6,057		0.0%
Subordinated secured note Tranche B, 11.50% plus 6.00% PIK, 4/01/2013(3),(4)		$	11,855	11,855	8,192	1.3%
Senior secured note Tranche A, 10.50%, 4/01/2013(3),(5)		$	21,377	21,377	21,377	3.5%
Total				39,289	29,569	4.8%
C&J Cladding LLC	Texas/Metal Services					
Warrant, common units, expiring 3/30/2014 (1,000 total company units outstanding)			400	580	3,067	0.5%
Change Clean Energy Holdings, Inc. (CCEHI)(7)	Maine/Biomass Power					
CCEHI common shares (1,000 total common shares issued and outstanding)			1,000	2,826	2,530	0.4%
Gas Solutions Holdings, Inc.(3),(8)	Texas/Gas Gathering and Processing					
Common shares (100 total common shares outstanding)			100	5,003	55,187	9.1%
Junior secured note, 18.00%, 12/23/2018		$	5,000	5,000	5,000	0.8%

Senior secured note, 18.00%, 12/22/2018	$	25,000	25,000	25,000	4.1%
Total			35,003	85,187	14.0%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership %	September 30, 2009 Cost	Fair Value(2)	% of Net Assets
		(In thousands, except share data)			
Integrated Contract Services, Inc.(9)	North Carolina/Contracting				
Common stock (100 total common shares outstanding)		49	$ 679	$	0.0%
Series A preferred shares (10 total Series A preferred shares outstanding)		10			0.0%
Junior secured note, stated rate 7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due		$ 14,003	14,003	4,001	0.7%
Senior secured note, stated rate 7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due		$ 800	800	800	0.1%
Senior demand note, 15.00%, 12/31/09(10)		$ 1,170	1,170	1,170	0.2%
Total			16,652	5,971	1.0%
Iron Horse Coiled Tubing, Inc.	Alberta, Canada/Production Services				
Common shares (2,231 total class A common shares outstanding)		1,781	268		0.0%
Senior secured note, 15.00%, 12/31/2009		$ 9,250	9,250	2,213	0.4%
Bridge loan, 15.00% plus 3.00% PIK, 12/31/2009		$ 11,003	11,003	10,695	1.8%
Total			20,521	12,908	2.2%
NRG Manufacturing, Inc.	Texas/ Manufacturing				
Common shares (1,000 total common shares issued and		800	2,317	19,015	3.1%

outstanding)						
Senior secured note, 16.50%, 8/31/2011(3),(11)		$	13,080	13,080	13,080	2.2%
Total				15,397	32,095	5.3%
R-V Industries, Inc.	Pennsylvania/Manufacturing					
Common shares (1,000,000 total common shares issued and outstanding)			545,107	5,086	11,502	1.9%
Warrants, common shares, expiring 6/30/2017 (1,000,000 total common shares outstanding)			200,000	1,682	4,220	0.7%
Total				6,768	15,722	2.6%
Yatesville Coal Holdings, Inc.(12)	Kentucky/Mining and Coal Production					
Common stock (1,000 total common shares outstanding)			1,000	427		0.0%
Junior secured note, 15.75%, in non-accrual status effective 1/01/2009, matures 12/31/2010		$	41,423	41,423	994	0.2%
Senior secured note, 15.75%, in non-accrual status effective 1/01/2009, matures 12/31/2010		$	10,000	10,000	10,000	1.6%
Total				51,850	10,994	1.8%
Total Control Investments				188,886	198,043	32.6%

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership %	Cost (September 30, 2009)	Fair Value(2) (September 30, 2009)	% of Net Assets (September 30, 2009)
		(In thousands except share data)			
Affiliate Investments (5.00% to 24.99% of voting control)					
Appalachian Energy Holdings LLC(13)	West Virginia/ Construction Services				
Warrants Class A common units, expiring 2/13/2016 (86,843 total fully-diluted class A common units outstanding)		6,065	$ 176	$	0.0%
Warrants Class A common units, expiring 6/17/2018 (86,843 total fully-diluted class A common units outstanding)		6,025	172		0.0%
Warrants Class A common units, expiring 11/30/2018 (86,843 total fully-diluted class A common units outstanding)		25,000			0.0%
Series A preferred equity (1,075 total series A preferred equity units outstanding)		200	82		0.0%
Series B preferred equity (794 total series B preferred equity units outstanding)		241	241		0.0%
Series C preferred equity (500 total series C preferred equity units outstanding)		500	500		0.0%
Senior Secured Debt Tranche B, 14.00% plus 3.00% PIK plus 3.00% default interest, non-accrual status effective 11/01/2008, past due		$ 2,087	1,960		0.0%
Senior Secured Debt Tranche A, 14.00% plus 3.00% PIK plus 3.00% default interest, non-accrual status effective 11/01/2008, matures 1/31/2011		$ 2,034	1,897	1,123	0.2%

Total				5,028	1,123	0.2%
Biotronic NeuroNetwork	Michigan/ Healthcare					
Preferred shares (85,000 total preferred shares outstanding)(14)			9,925.455	2,300	3,653	0.6%
Senior secured note, 11.50% plus 1.00% PIK, 2/21/2013(3),(15)		$	26,227	26,227	27,014	4.4%
Total				28,527	30,667	5.0%
Total Affiliate Investments				33,555	31,790	5.2%
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
American Gilsonite Company	Utah/Specialty Minerals					
Membership interest units in AGC/PEP, LLC(16)			99.9999%	1,031	3,084	0.5%
Senior subordinated note, 12.00% plus 3.00% PIK, 3/14/2013(3)		$	14,783	14,783	15,078	2.5%
Total				15,814	18,162	3.0%

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership %	September 30, 2009 Cost	Fair Value(2)	% of Net Assets
		(In thousands except share data)			
Non-control/Non-affiliate Investments (continued)					
Castro Cheese Company, Inc.(3)	Texas/Food Products				
Junior secured note, 11.00% plus 2.00% PIK, 2/28/2013		$ 7,577	$ 7,459	$ 7,608	1.2%
Conquest Cherokee, LLC(17)	Tennessee/Oil and Gas Production				
Overriding Royalty Interests				362	0.1%
Net profits interest, 10.00% payable on equity distributions					0.0%
Senior secured note, 13.00%, in non-accrual status effective 4/01/2009 plus 4.00% default interest, past due(18)		$ 10,450	10,441	4,963	0.8%
Total			10,441	5,325	0.9%
Deb Shops, Inc.	Pennsylvania/Retail				
Second lien debt, 1.00% plus 13.00% PIK, 10/23/2014		$ 15,805	15,440	4,236	0.7%
Diamondback Operating, LP	Oklahoma/Oil and Gas Production				
Net profits interest, 15.00% payable on equity distributions(20)				438	0.1%
Freedom Marine Services LLC(3),(21)	Louisiana/ Shipping Vessels				
Net profits interest, 22.50% payable on equity distributions					0.0%
Subordinated secured note, 12.00% plus 4.00% PIK, 12/31/2011(22)		$ 7,309	7,241	6,469	1.1%

Total				7,241	6,469	1.1%
H&M Oil & Gas, LLC(21)	Texas/Oil and Gas Production					
Net profits interest, 8.00% payable on equity distributions					1,519	0.3%
Senior secured note, 13.00%, 6/30/2010(23)		$	49,661	49,661	49,284	8.1%
Total				49,661	50,803	8.4%
IEC Systems LP (IEC) / Advanced Rig Services LLC (ARS)(3),(24)	Texas/Oilfield Fabrication					
IEC senior secured note, 12.00% plus 3.00% PIK, 11/20/2012		$	20,810	20,810	21,226	3.5%
ARS senior secured note, 12.00% plus 3.00% PIK, 11/20/2012		$	12,482	12,482	12,731	2.1%
Total				33,292	33,957	5.6%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership %	September 30, 2009 Cost	Fair Value(2)	% of Net Assets
		(In thousands except share data)			
Non-control/Non-affiliate Investments (continued)					
Maverick Healthcare, LLC	Arizona/ Healthcare				
Common units (79,000,000 total class A common units outstanding)		1,250,000	$	$	0.0%
Preferred units (79,000,000 total preferred units outstanding)		1,250,000	1,252	1,549	0.3%
Second lien debt, 12.50% plus 3.50% PIK, 4/30/2014(3)		$ 12,779	12,779	12,904	2.1%
Total			14,031	14,453	2.4%
Miller Petroleum, Inc.(25)	Tennessee/Oil and Gas Production				
Warrants, common shares, expiring 5/04/2010 to 9/30/2014 (18,324,356 total common shares outstanding)		2,026,606	150	312	0.1%
Qualitest Pharmaceuticals, Inc.(3),(26)	Alabama/ Pharmaceuticals				
Second lien debt, 8.10%, 4/30/2015		$ 12,000	11,951	11,684	1.9%
Regional Management Corp.(3)	South Carolina/ Financial Services				
Second lien debt, 12.00% plus 2.00% PIK, 6/29/2012		$ 25,554	25,554	23,365	3.8%
Resco Products, Inc.(3),(27)	Pennsylvania/ Manufacturing				
Second lien debt, 8.37%, 6/22/2014		$ 9,750	9,599	9,750	1.6%
Shearer s Foods, Inc.	Ohio/Food Products				
Membership interest units in Mistral Chip Holdings, LLC (45,300 total membership units outstanding)(28)		2,000	2,000	3,762	0.6%
		$ 18,000	18,000	18,360	3.0%

Second lien debt, 14.00%, 10/31/2013(3)						
Total				20,000	22,122	3.6%
Stryker Energy, LLC(29)	Ohio/Oil and Gas Production					
Overriding Royalty Interests					2,825	0.5%
Subordinated secured revolving credit facility, 12.00%, 12/01/2011(3),(30)		$	29,500	29,185	28,468	4.7%
Total				29,185	31,293	5.2%

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership%	Cost	Fair Value(2)	% of Net Assets
		September 30, 2009 (In thousands except share data)			
Non-control/Non-affiliate Investments (continued)					
TriZetto Group(3)	California/ Healthcare				
Subordinated unsecured note, 12.00% plus 1.50% PIK, 10/01/2016		$ 15,262	$ 15,125	$ 16,410	2.7%
Unitek(3),(31)	Pennsylvania/ Technical Services				
Second lien debt, 13.08%, 12/31/2013		$ 11,500	11,366	11,730	1.9%
Wind River Resources Corp. and Wind River II Corp.(21)	Utah/Oil and Gas Production				
Net profits interest, 5.00% payable on equity distributions				130	0.0%
Senior secured note, stated rate 13.00% plus 3.00% default interest, in non-accrual status effective 12/01/2008, matures 7/31/2010(32)		$ 15,000	15,000	12,718	2.1%
Total			15,000	12,848	2.1%
Total Non-control/Non-affiliate Investments			291,309	280,965	46.3%
Total Portfolio Investments			513,750	510,798	84.1%
Money Market Funds					
Fidelity Institutional Money Market Funds Government Portfolio (Class I)		61,864,980	61,865	61,865	10.2%
Fidelity Institutional Money Market Funds Government Portfolio (Class I)(3)		23,278,164	23,278	23,278	3.8%

Total Money Market Funds	85,143	85,143	14.0%
Total Investments	$ 598,893	$ 595,941	98.1%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership%	Cost	June 30, 2009 Fair Value(2)	% of Net Assets
		(In thousands except share data)			
Control Investments (25.00% or greater of voting control)					
Ajax Rolled Ring & Machine	South Carolina/ Manufacturing				
Unrestricted common shares (7 total unrestricted common shares issued and outstanding and 681.85 restricted common shares issued and outstanding)		6	$	$	0.0%
Series A convertible preferred shares (7,192.6 total preferred shares issued and outstanding)		6,142.6	6,057		0.0%
Subordinated secured note Tranche B, 11.50% plus 6.00% PIK, 4/01/2013(3),(4)		$ 11,675	11,675	10,151	1.9%
Senior secured note Tranche A, 10.50%, 4/01/2013(3),(5)		$ 21,487	21,487	21,487	4.0%
Total			39,219	31,638	5.9%
C&J Cladding LLC	Texas/Metal Services				
Warrant, common units, expiring 3/30/2014 (1,000 total company units outstanding)		400	580	3,825	0.7%
Senior secured note, 14.00%, 3/30/2012(3),(6)		$ 3,150	2,722	3,308	0.6%
Total			3,302	7,133	1.3%
Change Clean Energy Holdings, Inc. (CCEHI)(7)	Maine/Biomass Power				
CCEHI common shares (1,000 total common shares issued and outstanding)		1,000	2,530	2,530	0.5%
Gas Solutions Holdings, Inc.(3),(8)	Texas/Gas Gathering and Processing				

Common shares (100 total common shares outstanding)		100	5,003	55,187	10.4%
Junior secured note, 18.00%, 12/23/2018	$	5,000	5,000	5,000	0.9%
Senior secured note, 18.00%, 12/22/2018	$	25,000	25,000	25,000	4.7%
Total			35,003	85,187	16.0%

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership%	June 30, 2009 Cost	Fair Value(2)	% of Net Assets
		(In thousands except share data)			
Control Investments (continued)					
Integrated Contract Services, Inc.(9)	North Carolina/ Contracting				
Common stock (100 total common shares outstanding)		49	$ 679	$	0.0%
Series A preferred shares (10 total Series A preferred shares outstanding)		10			0.0%
Junior secured note, stated rate 7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due		$ 14,003	14,003	3,030	0.6%
Senior secured note, stated rate 7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due		$ 800	800	800	0.1%
Senior demand note, 15.00%, 6/30/2009(10)		$ 1,170	1,170	1,170	0.2%
Total			16,652	5,000	0.9%
Iron Horse Coiled Tubing, Inc.	Alberta, Canada/ Production Services				
Common shares (2,231 total class A common shares outstanding)		1,781	268		0.0%
Senior secured note, 15.00%, 12/31/2009		$ 9,250	9,250	3,004	0.6%
Bridge loan, 15.00% plus 3.00% PIK, 12/31/2009		$ 9,826	9,826	9,602	1.8%
Total			19,344	12,606	2.4%
NRG Manufacturing, Inc.	Texas/ Manufacturing				
Common shares (1,000 total common shares issued and outstanding)		800	2,317	19,294	3.6%
		$ 13,080	13,080	13,080	2.5%

Senior secured note, 16.50%, 8/31/2011(3),(11)						
Total				15,397	32,374	6.1%
R-V Industries, Inc.	Pennsylvania/ Manufacturing					
Common shares (750,000 total common shares issued and outstanding)			545,107	5,086	12,267	2.3%
Warrants, common shares, expiring 6/30/2017 (200,000 total common shares outstanding)			200,000	1,682	4,500	0.8%
Total				6,768	16,767	3.1%
Yatesville Coal Holdings, Inc.(12)	Kentucky/Mining and Coal Production					
Common stock (1,000 total common shares outstanding)			1,000	427		0.0%
Junior secured note, 15.72%, in non-accrual status effective 1/01/2009, matures 12/31/2010		$	38,463	38,463	3,097	0.6%
Senior secured note, 15.72%, in non-accrual status effective 1/01/2009, matures 12/31/2010		$	10,000	10,000	10,000	1.9%
Total				48,890	13,097	2.5%
Total Control Investments				187,105	206,332	38.7%

See notes to consolidated financial statements.

F-12

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership%	Cost	Fair Value(2)	% of Net Assets
		June 30, 2009 (In thousands except share data)			
Affiliate Investments (5.00% to 24.99% of voting control)					
Appalachian Energy Holdings LLC(13)	West Virginia/ Construction Services				
Warrants Class A common units, expiring 2/13/2016 (86,843 total fully-diluted class A common units outstanding)		6,065	$ 176	$	0.0%
Warrants Class A common units, expiring 6/17/2018 (86,843 total fully-diluted class A common units outstanding)		6,025	172		0.0%
Warrants Class A common units, expiring 11/30/2018 (86,843 total fully-diluted class A common units outstanding)		25,000			0.0%
Series A preferred equity (1,075 total series A preferred equity units outstanding)		200	82		0.0%
Series B preferred equity (794 total series B preferred equity units outstanding)		241	241		0.0%
Series C preferred equity (500 total series C preferred equity units outstanding)		500	500		0.0%
Senior Secured Debt Tranche B, 14.00% plus 3.00% PIK plus 3.00% default interest, non-accrual status effective 11/01/2008, past due		$ 2,050	1,955	356	0.1%
Senior Secured Debt Tranche A, 14.00% plus 3.00% PIK plus 3.00% default interest, non-accrual status effective 11/01/2008, matures 1/31/2011		$ 1,997	1,891	2,052	0.4%
Total			5,017	2,408	0.5%

Biotronic NeuroNetwork	Michigan/ Healthcare					
Preferred shares (85,000 total preferred shares outstanding)(14)			9,925.455	2,300	2,839	0.5%
Senior secured note, 11.50% plus 1.00% PIK, 2/21/2013(3),(15)		$	26,227	26,227	27,007	5.1%
Total				28,527	29,846	5.6%
Total Affiliate Investments				33,544	32,254	6.1%
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
American Gilsonite Company	Utah/Specialty Minerals					
Membership interest units in AGC PEP, LLC(16)			99.9999%	1,031	3,851	0.7%
Senior subordinated note, 12.00% plus 3.00% PIK, 3/14/2013(3)		$	14,783	14,783	15,073	2.8%
Total				15,814	18,924	3.5%

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership%	Cost	June 30, 2009 Fair Value(2)	% of Net Assets
		(In thousands except share data)			
Non-control/Non-affiliate Investments (continued)					
Castro Cheese Company, Inc.(3)	Texas/Food Products				
Junior secured note, 11.00% plus 2.00% PIK, 2/28/2013		$ 7,538	$ 7,413	$ 7,637	1.4%
Conquest Cherokee, LLC(17)	Tennessee/Oil and Gas Production				
Overriding Royalty Interests				565	0.1%
Senior secured note, 13.00%, in non-accrual status effective 4/01/2009 plus 4.00% default interest, past due(18)		$ 10,200	10,191	6,855	1.3%
Total			10,191	7,420	1.4%
Deb Shops, Inc.(19)	Pennsylvania/ Retail				
Second lien debt, 8.67%, 10/23/2014		$ 15,000	14,623	6,272	1.2%
Diamondback Operating, LP	Oklahoma/Oil and Gas Production				
Net profits interest, 15.00% payable on equity distributions(20)				458	0.1%
Freedom Marine Services LLC(3),(21)	Louisiana/ Shipping Vessels				
Net profits interest, 22.50% payable on equity distributions				229	0.0%
Subordinated secured note, 12.00% plus 4.00% PIK, 12/31/2011(22)		$ 7,234	7,160	7,152	1.4%
Total			7,160	7,381	1.4%

H&M Oil & Gas, LLC(3),(21)	Texas/Oil and Gas Production					
Net profits interest, 8.00% payable on equity distributions					1,682	0.3%
Senior secured note, 13.00%, 6/30/2010(23)		$	49,688	49,688	49,697	9.3%
Total				49,688	51,379	9.6%
IEC Systems LP (IEC) / Advanced Rig Services LLC (ARS)(3),(24)	Texas/Oilfield Fabrication					
IEC senior secured note, 12.00% plus 3.00% PIK, 11/20/2012		$	21,411	21,411	21,839	4.1%
ARS senior secured note, 12.00% plus 3.00% PIK, 11/20/2012		$	12,836	12,836	13,092	2.5%
Total				34,247	34,931	6.6%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership%	Cost	June 30, 2009 Fair Value(2)	% of Net Assets
		(In thousands except share data)			
Non-control/Non-affiliate Investments (continued)					
Maverick Healthcare, LLC	Arizona/ Healthcare				
Common units (79,000,000 total class A common units outstanding)		1,250,000	$	$	0.0%
Preferred units (79,000,000 total preferred units outstanding)		1,250,000	1,252	1,300	0.2%
Second lien debt, 12.00% plus 1.50% PIK, 4/30/2014(3)		$ 12,691	12,691	12,816	2.4%
Total			13,943	14,116	2.6%
Miller Petroleum, Inc.(25)	Tennessee/Oil and Gas Production				
Warrants, common shares, expiring 5/04/2010 to 6/30/2014 (15,811,856 total common shares outstanding)		1,935,523	150	241	0.1%
Peerless Manufacturing Co.(3)	Texas/ Manufacturing				
Subordinated secured note, 11.50% plus 3.50% PIK, 4/29/2013		$ 20,000	20,000	20,400	3.8%
Qualitest Pharmaceuticals, Inc.(3),(26)	Alabama/ Pharmaceuticals				
Second lien debt, 8.10%, 4/30/2015		$ 12,000	11,949	11,452	2.2%
Regional Management Corp.(3)	South Carolina/ Financial Services				
Second lien debt, 12.00% plus 2.00% PIK, 6/29/2012		$ 25,424	25,424	23,073	4.3%
Resco Products, Inc.(3),(27)	Pennsylvania/ Manufacturing				

Second lien debt, 8.67%, 6/22/2014		$	9,750	9,594	9,750	1.8%
Shearer s Foods, Inc.	Ohio/Food Products					
Membership interest units in Mistral Chip Holdings, LLC (45,300 total membership units outstanding)(28)			2,000	2,000	3,419	0.6%
Second lien debt, 14.00%, 10/31/2013(3)		$	18,000	18,000	18,360	3.5%
Total				20,000	21,779	4.1%
Stryker Energy, LLC(29)	Ohio/Oil and Gas Production					
Overriding Royalty Interests					2,918	0.6%
Subordinated secured revolving credit facility, 12.00%, 12/01/2011(3),(30)		$	29,500	29,154	29,554	5.5%
Total				29,154	32,472	6.1%

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Portfolio Investments(1)	Locale/Industry	Par Value/ Shares/ Ownership%	Cost	Fair Value(2)	% of Net Assets
		June 30, 2009 (In Thousands except share data)			
Non-control/Non-affiliate Investments (continued)					
TriZetto Group(3)	California/ Healthcare				
Subordinated unsecured note, 12.00% plus 1.50% PIK, 10/01/2016		$ 15,205	$ 15,065	$ 16,331	3.1%
Unitek(3),(31)	Pennsylvania/ Technical Services				
Second lien debt, 13.08%, 12/31/2013		$ 11,500	11,360	11,730	2.2%
Wind River Resources Corp. and Wind River II Corp.(21)	Utah/Oil and Gas Production				
Net profits interest, 5.00% payable on equity distributions				192	0.0%
Senior secured note, stated rate 13.00% plus 3.00% default interest, in non-accrual status effective 12/01/2008, matures 7/31/2010(32)		$ 15,000	15,000	12,644	2.4%
Total			15,000	12,836	2.4%
Total Non-control/Non-affiliate Investments			310,775	308,582	57.9%
Total Portfolio Investments			531,424	547,168	102.7%
Money Market Funds					
Fidelity Institutional Money Market Funds Government Portfolio (Class I)		94,752,972	94,753	94,753	17.8%
		3,982,278	3,982	3,982	0.7%

Fidelity Institutional Money Market Funds Government Portfolio (Class I)(3)			
Total Money Market Funds	98,735	98,735	18.5%
Total Investments	$ 630,159	$ 645,903	121.2%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Endnote Explanations for the Consolidated Schedule of Investments as of September 30, 2009 and June 30, 2009

(1) The securities in which Prospect Capital Corporation (we , us or our) has invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended, or the Securities Act. These securities may be resold only in transactions that are exempt from registration under the Securities Act.

(2) Fair value is determined by or under the direction of our Board of Directors (see Note 2).

(3) Security, or portion thereof, is held as collateral for the credit facility with Rabobank Nederland (see Note 11). The market values of these investments at September 30, 2009 and June 30, 2009 were $373,911 and $434,069, respectively; they represent 62.7% and 67.2% of total investments at fair value, respectively.

(4) Interest rate is the greater of 11.5% or 3-month LIBOR plus 8.5%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(5) Interest rate is the greater of 10.5% or 3-month LIBOR plus 7.5%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(6) Interest rate is the greater of 14.0% or 12-Month LIBOR plus 7.5%; rate reflected is as of June 30, 2009.

(7) There are several entities involved in the Biomass investment. We own 100 shares of common stock in Worcester Energy Holdings, Inc. (WEHI), representing 100% of the issued and outstanding common stock. WEHI, in turn, owns 51 membership certificates in Biochips LLC (Biochips), which represents a 51% ownership stake.

We own 282 shares of common stock in Worcester Energy Co., Inc. (WECO), which represents 51% of the issued and outstanding common stock. We own directly 1,665 shares of common stock in Change Clean Energy Inc. (CCEI), f/k/a Worcester Energy Partners, Inc., which represents 51% of the issued and outstanding common stock and the remaining 49% is owned by WECO. CCEI owns 100 shares of common stock in Precision Logging and Landclearing, Inc. (Precision), which represents 100% of the issued and outstanding common stock.

During the quarter ended March 31, 2009, we created two new entities in anticipation of the foreclosure proceedings against the co-borrowers (WECO, CCEI and Biochips) Change Clean Energy Holdings, Inc. (CCEHI) and DownEast Power Company, LLC (DEPC). We own 1,000 shares of CCEHI, representing 100% of the issued and outstanding stock, which in turn, owns a 100% of the membership interests in DEPC.

On March 11, 2009, we foreclosed on the assets formerly held by CCEI and Biochips with a successful credit bid of $6,000 to acquire the assets. The assets were subsequently assigned to DEPC.

WECO, CCEI and Biochips are joint borrowers on the term note issued to Prospect Capital. Effective July 1, 2008, this loan was placed on non-accrual status.

Biochips, WECO, CCEI, Precision and WEHI currently have no material operations and no significant assets. As of June 30, 2009, our Board of Directors assessed a fair value of $0 for all of these equity positions and the loan position. We determined that the impairment of both CCEI and CCEHI as of June 30, 2009 was other than temporary and recorded a realized loss for the amount that the amortized cost exceeds the fair value at June 30, 2009. Our Board of Directors set the value of the remaining CCEHI investment at $2,530 as of September 30, 2009 and June 30, 2009.

(8) Gas Solutions Holdings, Inc. is a wholly-owned investment of us.

(9) Entity was formed as a result of the debt restructuring of ESA Environmental Specialist, Inc. In early 2009, we foreclosed on the two loans on non-accrual status and purchased the underlying personal and real property. We own 1,000 shares of common stock in The Healing Staff (THS), f/k/a Lisamarie

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

Fallon, Inc. representing 100% ownership. We own 1,500 shares of Vets Securing America, Inc. (VSA), representing 100% ownership. VSA is a holding company for the real property of Integrated Contract Services, Inc. (ICS) purchased during the foreclosure process.

(10) Loan is with THS an affiliate of ICS.

(11) Interest rate is the greater of 16.5% or 12-Month LIBOR plus 11.0%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(12) On June 30, 2008, we consolidated our holdings in four coal companies into Yatesville Coal Holdings, Inc. (Yatesville), and consolidated the operations under one management team. In the transaction, the debt that we held of C&A Construction, Inc. (C&A), Genesis Coal Corp. (Genesis), North Fork Collieries LLC (North Fork) and Unity Virginia Holdings LLC (Unity) were exchanged for newly issued debt from Yatesville, and our ownership interests in C&A, E&L Construction, Inc. (E&L), Whymore Coal Company Inc. (Whymore), Genesis and North Fork were exchanged for 100% of the equity of Yatesville. This reorganization allows for a better utilization of the assets in the consolidated group.

At September 30, 2009 and at June 30, 2009, Yatesville owned 100% of the membership interest of North Fork. In addition, Yatesville held a $9,272 and $8,062, respectively, note receivable from North Fork as of those two respective dates.

At September 30, 2009 and at June 30, 2009, Yatesville owned 90% and 87%, respectively, of the common stock of Genesis and held a note receivable of $20,880 and $20,802, respectively, as of those two respective dates.

Yatesville held a note receivable of $4,261 from Unity at September 30, 2009 and at June 30, 2009.

There are several entities involved in Yatesville s investment in Whymore at June 30, 2009. As of June 30, 2009, Yatesville owned 10,000 shares of common stock or 100% of the equity and held a $14,973 senior secured debt receivable from C&A, which owns the equipment. Yatesville owned 10,000 shares of common stock or 100% of the equity of E&L, which leases the equipment from C&A, employs the workers, is listed as the operator with the Commonwealth of Kentucky, mines the coal, receives revenues and pays all operating expenses. Yatesville owned 4,900 shares of common stock or 49% of the equity of Whymore, which applies for and holds permits on behalf of E&L. Yatesville also owned 4,285 Series A convertible preferred shares in each of C&A, E&L and Whymore. Whymore and E&L are guarantors under the C&A credit agreement with Yatesville.

In August 2009, Yatesville sold its 49% ownership interest in the common shares of Whymore to the 51% holder of the Whymore common shares (Whymore Purchaser). All reclamation liability was transferred to the Whymore Purchaser. In September 2009, Yatesville completed an auction for all of its equipment.

(13) There are several entities involved in the Appalachian Energy Holdings LLC (AEH) investment. We own warrants, the exercise of which will permit us to purchase 37,090 Class A common units of AEH at a nominal cost and in near-immediate fashion. We own 200 units of Series A preferred equity, 241 units of Series B preferred equity, and 500 units of Series C preferred equity of AEH. The senior secured notes are with C&S

Operating LLC and East Cumberland L.L.C., both operating companies owned by AEH.

(14) On a fully diluted basis represents, 11.677% of voting common shares.

(15) Interest rate is the greater of 11.5% or 6-month LIBOR plus 7.0%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(16) We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,038 out of a total of 83,694 shares (including 4,510 vested an unvested management options) of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

(17) In addition to the stated returns, we hold overriding royalty interests on which we receive payment based upon operations of the borrower and net profits interest of 10.00% on equity distributions which will be realized upon sale of the borrower or a sale of the interests.

(18) Interest rate is the greater of 13.0% or 12-Month LIBOR plus 7.5% not to exceed 14.50%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(19) Interest rate is 3-Month LIBOR plus 8.0%; rate reflected is as of June 30, 2009.

(20) In January 2009, our loan was repaid in full and we retained a 15.0% net profits interest payable on equity distributions.

(21) In addition to the stated returns, we also hold net profits interest which will be realized upon sale of the borrower or a sale of the interests.

(22) Interest rate is the greater of 12.0% or 3-Month LIBOR plus 6.11%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(23) Interest rate is the greater of 13.0% or 12-Month LIBOR plus 7.5%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(24) Interest rate is the greater of 12.0% or 12-month LIBOR plus 6.0%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(25) Total common shares outstanding of 18,324,356 as of September 15, 2009 from Miller Petroleum, Inc. s Quarterly Report on Form 10-Q filed on September 21, 2009 as applicable to our September 30, 2009 reporting date. Total common shares outstanding of 15,811,856 as of March 11, 2009 from Miller s Quarterly Report on Form 10-Q filed on March 16, 2009.

(26) Interest rate is 3-Month LIBOR plus 7.5%; rate reflected is as of the reporting date June 30, 2009 or June 30, 2008, as applicable.

(27) Interest rate is 3-Month LIBOR plus 8.0%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(28) Mistral Chip Holdings, LLC owns 45,300 shares out of 50,500 total shares outstanding of Chip Holdings, Inc., the parent company of Shearer s Foods, Inc., before adjusting for management options.

(29) In addition to the stated returns, we also hold overriding royalty interests on which we receive payment based upon operations of the borrower.

(30) Interest rate is the greater of 12.0% or 12-Month LIBOR plus 7.0%; rate reflected is as of the reporting date June 30, 2009 or June 30, 2008, as applicable.

(31) Interest rate is the greater of 13.08% or 3-Month LIBOR plus 7.25%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

(32) Interest rate is the greater of 13.0% or 12-month LIBOR plus 7.5% not to exceed 14.0%; rate reflected is as of the reporting date September 30, 2009 or June 30, 2009, as applicable.

See notes to consolidated financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)
(In thousands, except share and per share data)

Note 1. Organization

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

We were formerly known as Prospect Energy Corporation, a Maryland corporation. We were organized on April 13, 2004 and were funded in an initial public offering (IPO), completed on July 27, 2004. We are a closed-end investment company that has filed an election to be treated as a Business Development Company (BDC), under the Investment Company Act of 1940 (the 1940 Act). As a BDC, we have qualified and have elected to be treated as a regulated investment company (RIC), under Subchapter M of the Internal Revenue Code. We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, project financings, recapitalizations, and other purposes.

On May 15, 2007, we formed a wholly-owned subsidiary, Prospect Capital Funding, LLC, a Delaware limited liability company, for the purpose of holding certain of our loan investments in the portfolio which are used as collateral for our credit facility.

Note 2. Significant Accounting Policies

The following are significant accounting policies consistently applied by us:

Basis of Presentation

The accompanying interim financial statements, which are not audited, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 6 or 10 of Regulation S-X, as appropriate. The financial results of our portfolio investments are not consolidated in the interim financial statements.

Use of Estimates

The preparation of GAAP financial statements requires us 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, creditworthiness of our portfolio companies and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

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 financial statements include our accounts and the accounts of

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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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;

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

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted) calculated based on an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company s ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of financial ratios of peer companies that are public, M&A comparables, the principal market and enterprise values, among other factors.

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

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

Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by 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. The changes to GAAP from the application of ASC 820 relate to the definition of fair value, framework for measuring fair value, and the expanded disclosures about fair value measurements. ASC 820 applies to fair value measurements already required or permitted by other standards. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

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

Valuation of Other Financial Assets and Financial Liabilities

In February 2007, FASB issued ASC Subtopic 820-10-05-1, *The Fair Value Option for Financial Assets and Financial Liabilities* (ASC 820-10-05-1). 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 adopted this statement on July 1, 2008 and have elected not to value other assets and liabilities at fair value as would be permitted by ASC 820-10-05-1.

Revenue Recognition

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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 principal or interest payments are past due 90 days or more or when there is reasonable doubt that principal or interest will be collected. 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.

Federal and State Income Taxes

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

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

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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the effective interest method over the stated life of the facility.

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 FASB 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. ASC 460 did not have a material effect on the financial statements. Refer to Note 3, Note 7 and Note 10 for further discussion of guarantees and indemnification agreements.

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. Diluted net increase or decrease in net assets resulting from operations per share are not presented as there are no potentially dilutive securities outstanding.

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements to conform to the presentation as of and for the three months ended September 30, 2009.

Recent Accounting Pronouncements

In March 2008, the FASB issued ASC 815, *Derivatives and Hedging* (ASC 815). ASC 815 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why the entity uses derivatives, how derivatives are accounted for, and how derivatives affect an entity s results of operations, financial position, and cash flows. ASC 815 is effective for interim and annual periods beginning after November 15, 2008. For the three months ended September 30, 2009, our adoption of ASC 815 did not impact results of operations or financial condition.

In May 2009, the FASB issued ASC 855, *Subsequent Events* (ASC 855). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. We evaluated all events or transactions that occurred after September 30, 2009 up

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

through November 25, 2009, the date we issued the accompanying financial statements. During this period, we did not have any material recognizable subsequent events other than those disclosed in our financial statements.

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB Codification which supersedes all existing accounting standard documents and will become the single source of authoritative non-governmental U.S. GAAP. All other accounting literature not included in the Codification will be considered non-authoritative. The Codification did not change GAAP but reorganizes the literature. ASC 105 is effective for interim and annual periods ending after September 15, 2009. We have conformed our financial statements and related Notes to the new Codification for the quarter ended September 30, 2009.

In August 2009, the FASB issued Accounting Standards Update ASU 2009-05, *Measuring Liabilities at Fair Value, to amend FASB Accounting Standards Codification ASC 820, Fair Value Measurements and Disclosures* (ASC 820), to clarify how entities should estimate the fair value of liabilities. ASC 820, as amended, includes clarifying guidance for circumstances in which a quoted price in an active market is not available, the effect of the existence of liability transfer restrictions, and the effect of quoted prices for the identical liability, including when the identical liability is traded as an asset. The amended guidance in ASC 820 on measuring liabilities at fair value is effective for the first interim or annual reporting period beginning after August 28, 2009, with earlier application permitted. Our management does not believe that the adoption of the amended guidance in ASC 820 will have a significant effect on our financial statements.

Note 3. Portfolio Investments

At September 30, 2009, we had invested in 29 long-term portfolio investments, which had an amortized cost of $513,750 and a fair value of $510,798 and at June 30, 2009, we had invested in 30 long-term portfolio investments, which had an amortized cost of $531,424 and a fair value of $547,168.

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

The fair values of our portfolio investments as of September 30, 2009 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total

Investments at fair value				
Control investments	$	$	$ 198,043	$ 198,043
Affiliate investments			31,790	31,790
Non-control/non-affiliate investments			280,965	280,965
			510,798	510,798
Investments in money market funds		85,143		85,143
Total assets reported at fair value	$	$ 85,143	$ 510,798	$ 595,941

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aggregate values of Level 3 portfolio investments changed during the three months ended September 30, 2009 as follows:

	Fair Value Measurements Using Unobservable Inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-Control/ Non-Affiliate Investments	Total
Fair value as of June 30, 2009	$ 206,332	$ 32,254	$ 308,582	$ 547,168
Total realized losses				
Change in unrealized depreciation	(9,484)	(475)	(7,751)	(17,710)(1)
Purchases, issuances, settlements and other, net	1,195	11	(19,866)	(18,660)
Transfers within Level 3				
Transfers in (out) of Level 3				
Fair value as of September 30, 2009	$ 198,043	$ 31,790	$ 280,965	$ 510,798

(1) Relates to assets held at September 30, 2009

At September 30, 2009 and June 30, 2009, five loan investments were on non-accrual status: AEH, Conquest Cherokee, LLC (Conquest), ICS, Wind River Resources Corp. and Wind River II Corp. (Wind River), and Yatesville. The loan principal of these loans amounted to $95,797 and $92,513 as of September 30, 2009 and June 30, 2009, respectively. The fair values of these investments represent approximately 5.7% and 7.3% of our net assets as of September 30, 2009 and June 30, 2009, respectively. For the three months ended September 30, 2009 and September 30, 2008, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to $4,448 and $1,989, respectively. At September 30, 2009, we held one asset on which payment of interest was past-due more than 90 days for which we continue to accrue interest. The principal balance of such loan is $20,253 and the accrued interest receivable is $1,237 at September 30, 2009. We expect full repayment of principal and interest on this loan.

GSHI has indemnified us against any legal action arising from its investment in Gas Solutions, LP. We have incurred approximately $2,093 from the inception of the investment in GSHI through September 30, 2009 for fees associated with a legal action, and GSHI has reimbursed us for the entire amount. Of the $2,093 reimbursement, $277 was reflected as dividend income: control investments in the Consolidated Statements of Operations for the three months ended September 30, 2008. There were no such legal fees incurred or reimbursed for the three months ended September 30, 2009. Additionally, certain other expenses incurred by us which are attributable to GSHI have been reimbursed by GSHI and are reflected as dividend income: control investments in the Consolidated Statements of Operations. For the three months ended September 30, 2009 and September 30, 2008, such reimbursements totaled as $1,231 and $1,620, respectively.

The original cost basis of debt placements and equity securities acquired totaled to approximately $6,066 and $70,456 during the three months ended September 30, 2009 and September 30, 2008, respectively. Debt repayments and sales of equity securities with a cost basis of approximately $24,241 and $10,949 were received during the three months ended September 30, 2009 and September 30, 2008, respectively.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Other Investment Income

Other investment income consists of structuring fees, overriding royalty interests, settlement of net profit interests, deal deposits, administrative agent fee, and other miscellaneous and sundry cash receipts. Income from such sources for the three months ended September 30, 2009 and September 30, 2008 were as follows:

Income Source	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008
Structuring and amendment fees	$ 405	$ 687
Overriding royalty interests	44	158
Settlement of net profits interests		12,576
Deal deposit		82
Administrative agent fee	15	17
Other Investment Income	$ 464	$ 13,520

Note 5. Equity Offerings and Related Expenses

We issued 11,431,797 shares of our common stock in public and private offerings during the three months ended September 30, 2009. We did not issue any common stock during the three months ended September 30, 2008. The proceeds raised, the related underwriting fees, the offering expenses and the prices at which these shares were issued are as follows:

Issuances of Common Stock	Number of Shares Issued	Gross Proceeds Raised	Underwriting Fees	Offering Expenses	Offering Price
July 7, 2009	5,175,000	$ 46,575	$ 2,329	$ 200	$ 9.000
August 20, 2009(1)	3,449,686	$ 29,322		$ 117	$ 8.500
September 24, 2009(1)	2,807,111	$ 25,264		$ 840	$ 9.000

(1) Concurrent with the sale of these shares, we entered into a registration rights agreement in which we granted the purchasers certain registration rights with respect to the shares. We will use our reasonable best efforts to file with the SEC within sixty (60) days a post-effective amendment to the registration statement on Form N-2 and will also use our reasonable best efforts to cause such post-effective amendment to be declared effective no later than December 15, 2009. Under the registration rights agreement, we may be obligated to make liquidated

damages payments to holders upon the occurrence of certain events.

Our shareholders equity accounts at September 30, 2009 and June 30, 2009 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, private offerings, the exercise of over-allotment options on the part of the underwriters and our dividend reinvestment plan. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On October 9, 2008, our Board of Directors approved a share repurchase plan under which we may repurchase up to $20,000 of our common stock at prices below our net asset value as reported in our financial statements published for the year ended June 30, 2008. We have not made any purchases of our common stock during the period from October 9, 2008 to September 30, 2009 pursuant to this plan.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Net Decrease (Increase) in Net Assets per Common Share

The following information sets forth the computation of net (decrease) increase in net assets resulting from operations per common share for the three months ended September 30, 2009 and September 30, 2008, respectively.

	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008
Net (decrease) increase in net assets resulting from operations	$ (6,378)	$ 13,998
Weighted average common shares outstanding	49,804,906	29,520,379
Net (decrease) increase in net assets resulting from operations per common share	$ (0.13)	$ 0.47

Note 7. Related Party Agreements and Transactions

Investment Advisory Agreement

We have entered into an investment advisory and management agreement with Prospect Capital Management (the Investment Advisory Agreement) under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, our Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and (iii) closes and monitors investments we make.

Prospect Capital Management s services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% on our gross assets (including amounts borrowed). For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

The total base management fees incurred to the favor of the Investment Adviser for the three months ended September 30, 2009 and September 30, 2008 were $3,209, and $2,823, respectively.

The incentive fee has two parts. The first part, the income incentive fee, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assets at the end of the immediately preceding calendar quarter, is compared to a hurdle rate of 1.75% per quarter (7.00% annualized).

The net investment income used to calculate this part of the incentive fee is also included in the amount of the gross assets used to calculate the 2.00% base management fee. We pay the Investment Adviser an income incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

- 100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate); and

- 20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).

These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in its portfolio. For the purpose of this calculation, an investment is defined as the total of all rights and claims which maybe asserted against a portfolio company arising from our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equals the sum of the differences between the aggregate net sales price of each investment and the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate realized capital losses equal the sum of the amounts by which the aggregate net sales price of each investment is less than the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the aggregate valuation of each investment and the aggregate cost basis of such investment as of the applicable calendar year-end . At the end of the applicable calendar year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis and then reducing this amount by the aggregate unrealized capital depreciation. If this number is positive, then the capital gains incentive fee payable is equal to 20.00% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception.

For the three months ended September 30, 2009 and September 30, 2008, $3,080 and $5,875, respectively, of income incentive fees were incurred. No capital gains incentive fees were incurred for the three months ended September 30, 2009 and September 30, 2008.

Administration Agreement

We have also entered into an Administration Agreement with Prospect Administration, LLC (Prospect Administration) under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our chief compliance officer and chief financial officer and their respective staffs. For the three months ended September 30, 2009 and 2008, the reimbursement was approximately $840 and $588, respectively. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. The Administration Agreement may be terminated by either party without penalty upon 60 days written notice to the other party. Prospect Administration is a wholly owned subsidiary of our Investment Adviser.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Administration and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Administration s services under the Administration Agreement or otherwise as administrator for us.

Prospect Administration, pursuant to the approval of our Board of Directors, engaged Vastardis Fund Services LLC (Vastardis) to serve as our sub-administrator to perform certain services required of Prospect Administration. Under the sub-administration agreement, Vastardis provided us with office facilities, equipment, clerical, bookkeeping and record keeping services at such facilities. Vastardis also conducted relations with custodians, depositories, transfer agents, dividend disbursing agents, other stockholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. Vastardis provided reports to the Administrator and the Directors of its performance of obligations and furnished advice and recommendations with respect to such other aspects of our business and affairs as it shall determine to be desirable. Under the sub-administration agreement, Vastardis also provided the service of William E. Vastardis as our Chief Financial Officer (CFO). We compensated Vastardis for providing us these services by the payment of an asset-based fee with a $400 annual minimum, payable monthly. Our service agreement was amended on September 28, 2008 so that Mr. Vastardis no longer served as our CFO effective as of November 11, 2008. At that time, Brian H. Oswald, a managing director at Prospect Administration, assumed the role of CFO.

On April 30, 2009 we gave a 60-day notice to Vastardis of termination of our agreement to provide sub-administration services effective June 30, 2009. We entered into a new consulting services agreement for the period from July 1, 2009 until the filing of our Form 10-K for the year ended June 30, 2009. We paid Vastardis a total of $30 for services rendered in conjunction with preparation of Form 10-K under the new agreement. All services previously provided by Vastardis were assumed by Prospect Administration beginning on July 1, 2009 for the fiscal year ending June 30, 2010 and thereafter.

Managerial Assistance

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We billed $200 and $215 of managerial assistance fees for the three months ended September 30, 2009 and June 30, 2009, respectively, of which $129 and $60 remains on the consolidated statement of assets and liabilities as of September 30, 2009, and June 30, 2009, respectively. These fees are paid to the Administrator when received. We simultaneously accrue a payable to the Administrator for the same amounts, which remain on the consolidated statements of assets and liabilities.

Note 8. Financial Highlights

	For the Three Months Ended September 30, 2009	2008
Per Share Data(1):		
Net asset value at beginning of period	$ 12.40	$ 14.55
Net investment income	0.25	0.80
Realized gain		0.05
Net unrealized depreciation	(0.38)	(0.38)
Net decrease in net assets as a result of public offerings	(0.77)	
Dividends declared and paid	(0.39)	(0.39)
Net asset value at end of period	$ 11.11	$ 14.63
Per share market value at end of period	$ 10.71	$ 12.81
Total return based on market value(2)	20.83%	0.25%
Total return based on net asset value(2)	(7.00)%	3.71%
Shares outstanding at end of period	54,672,155	29,520,379
Average weighted shares outstanding for period	49,804,906	29,520,379
Ratio/Supplemental Data:		
Net assets at end of period	$ 607,246	$ 431,439
Annualized ratio of operating expenses to average net assets	7.59%	11.38%
Annualized ratio of net operating income to average net assets	10.02%	12.09%

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended June 30, 2009	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2005
Per Share Data(1):					
Net asset value at beginning of period	$ 14.55	$ 15.04	$ 15.31	$ 14.59	$ (0.01)
Costs related to the initial public offering				0.01	(0.21)
Costs related to the secondary public offering		(0.07)	(0.06)		
Net investment income	1.87	1.91	1.47	1.21	0.34
Realized (loss) gain	(1.24)	(0.69)	0.12	0.04	
Net unrealized appreciation (depreciation)	0.48	(0.05)	(0.52)	0.58	0.90
Net (decrease) increase in net assets as a result of public offering	(2.11)		0.26		13.95
Dividends declared and paid	(1.15)	(1.59)	(1.54)	(1.12)	(0.38)
Net asset value at end of period	$ 12.40	$ 14.55	$ 15.04	$ 15.31	$ 14.59
Per share market value at end of period	$ 9.20	$ 13.18	$ 17.47	$ 16.99	$ 12.60
Total return based on market value(2)	(22.04)%	(15.90)%	12.65%	44.90%	(13.46)%
Total return based on net asset value(2)	(4.81)%	7.84%	7.62%	12.76%	7.40%
Shares outstanding at end of period	42,943,084	29,520,379	19,949,065	7,069,873	7,055,100
Average weighted shares outstanding for period	31,559,905	23,626,642	15,724,095	7,056,846	7,055,100
Ratio/Supplemental Data:					
Net assets at end of period	$ 532,596	$ 429,623	$ 300,048	$ 108,270	$ 102,967
Annualized ratio of operating expenses to average net assets	9.03%	9.62%	7.36%	8.19%	5.52%
Annualized ratio of net investment income to average net assets	13.14%	12.66%	9.71%	7.90%	8.50%

(1) Financial highlights are based on weighted average shares.

(2) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

Note 9. Revolving Credit Agreements

On June 6, 2007, we closed on a $200,000 three-year revolving credit facility (as amended on December 31, 2007) with Rabobank Nederland (Rabobank) as administrative agent and sole lead arranger (the Rabobank Facility). Until November 14, 2008, interest on the Rabobank Facility was charged at LIBOR plus 175 basis points; thereafter, under the terms of a commitment letter with Rabobank to arrange and structure a new rated credit facility, we agreed to an immediate increase in the current borrowing rate on the Rabobank Facility to LIBOR plus 250 basis points. Additionally, Rabobank charged a fee on the unused portion of the facility. This fee is assessed at the rate of 37.5 basis points per annum of the amount of that unused portion.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On June 25, 2009, we completed a first closing on an expanded $250,000 revolving credit facility (the Syndicated Facility). The new Syndicated Facility, which had $195,000 and $175,000 total commitments as of September 30, 2009 and June 30, 2009, respectively, includes an accordion feature which allows the Syndicated Facility to accept up to an aggregate total of $250,000 of commitments for which we continue to solicit additional commitments from other lenders for the additional $55,000 as of September 30, 2009. The revolving period extends through June 24, 2010. If not renewed or extended by the participant banks, a one year amortization period would commence whereby we may not borrow additional funds. Thereafter for ten years, all principal, interest and fee payments received in conjunction with collateral pledged to the Syndicated Facility, less a monthly servicing fee payable to us, are required to be used to repay outstanding borrowings under the Syndicated Facility. Any remaining outstanding borrowings would be due and payable on the commitment termination date, which is currently June 24, 2011.

The Syndicated 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 Syndicated 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 Syndicated Facility. The Syndicated Facility also requires the maintenance of a minimum liquidity requirement. At September 30, 2009 and June 30, 2009, we were in compliance with the applicable covenants.

Interest on borrowings under the credit facility is one-month LIBOR plus 400 basis points, subject to a minimum Libor floor of 200 basis points. Additionally, the banks charge a fee on the unused portion of the credit facility equal to 100 basis points. As of September 30, 2009 and June 30, 2009, we had zero and $124,800 outstanding under our credit facility, respectively. As of September 30, 2009 and June 30, 2009, $89,391 and $946 was available to us for additional borrowing under our credit facility, respectively. As we make additional investments which are eligible to be pledged under the credit facility, we will generate additional availability to the extent such investments are eligible to be placed into the borrowing base. At September 30, 2009 and June 30, 2009, the investments used as collateral for the Syndicated Facility had an aggregate market value of $373,911 and $434,069, which represents 61.5% and 81.5% of net assets, respectively.

In connection with the origination and amendment of the Syndicated Facility, we incurred approximately $6,922 of fees which are being amortized over the term of the facility.

Note 10. Commitments and Off-Balance Sheet Risks

From time to time, we provide guarantees for portfolio companies for payments to counterparties, usually as an alternative to investing additional capital. Currently, an agreement for one contingent indemnification is outstanding related to a North Fork Collieries LLC (North Fork), a consolidated entity of Yatesville. The contingent indemnification obligation arose from our acquisition of the assets of Traveler Coal, LLC (Traveler), through our subsidiary, North Fork. Specifically, as part of that acquisition, we have agreed, subject to the satisfaction of certain conditions, to indemnify the seller of those assets for personal guarantees that seller had extended on behalf of Traveler. As of September 30, 2009, the amount of this contingency is approximately $1,300.

We also provide indemnifications to Prospect Administration in accordance with our respective agreements with that service provider. These indemnifications are described in further detail in Note 7.

Note 11. Litigation

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment,

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources.

On December 6, 2004, Dallas Gas Partners, L.P. (DGP) served us with a complaint filed November 30, 2004 in the U.S. District for the Southern District of Texas, Galveston Division. DGP alleges that DGP was defrauded and that we breached our fiduciary duty to DGP and tortiously interfered with DGP s contract to purchase Gas Solutions, Ltd. (a subsidiary of our portfolio company, GSHI) in connection with our alleged agreement in September 2004 to loan DGP funds with which DGP intended to buy Gas Solutions, Ltd. for approximately $26,000. The complaint sought relief not limited to $100,000. On November 30, 2005, U.S. Magistrate Judge John R. Froeschner of the U.S. District Court for the Southern District of Texas, Galveston Division, issued a recommendation that the court grant our Motion for Summary Judgment dismissing all claims by DGP. On February 21, 2006, U.S. District Judge Samuel Kent of the U.S. District Court for the Southern District of Texas, Galveston Division issued an order granting our Motion for Summary Judgment dismissing all claims by DGP, against us. On May 16, 2007, the Court also granted us summary judgment on DGP s liability to us on our counterclaim for DGP s breach of a release and covenant not to sue. On January 4, 2008, the Court, Judge Melinda Harmon presiding, granted our motion to dismiss all DGP s claims asserted against certain of our officers and affiliates. On August 20, 2008, Judge Harmon entered a Final Judgment dismissing all of DGP s claims. DGP appealed to the U.S. Court of Appeals for the Fifth Circuit, which affirmed the Final Judgment on June 24, 2009. DGP then moved for rehearing on July 8, 2009, which the Fifth Circuit denied on August 6, 2009. Our damage claims against DGP remain pending.

In May 2006, based in part on unfavorable due diligence and the absence of investment committee approval, we declined to extend a loan for $10,000 to a potential borrower (plaintiff). Plaintiff was subsequently sued by its own attorney in a local Texas court for plaintiff s failure to pay fees owed to its attorney. In December 2006, plaintiff filed a cross-action against us and certain affiliates (the defendants) in the same local Texas court, alleging, among other things, tortuous interference with contract and fraud. We petitioned the United States District Court for the Southern District of New York (the District Court) to compel arbitration and to enjoin the Texas action. In February 2007, our motions were granted. Plaintiff appealed that decision. On July 24, 2008, the Second Circuit Court of Appeals affirmed the judgment of the District Court. The arbitration commenced in July 2007 and concluded in late November 2007. Post-hearing briefings were completed in February 2008. On April 14, 2008, the arbitrator rendered an award in our favor, rejecting all of plaintiff s claims. On April 18, 2008, we filed a petition before the District Court to confirm the award. On October 8, 2008, the District Court granted the Company s petition to confirm the award, confirmed the awards and subsequently entered judgment thereon in favor of the Company in the amount of $2,288. After filing a defective notice of appeal to the United States Court of Appeals for the Second Circuit on November 5, 2008, plaintiff s counsel resubmitted a new notice of appeal on January 9, 2009. The plaintiff subsequently requested that the Company agree to stipulate to the withdrawal of plaintiff s appeal to the Second Circuit. Such a stipulation was filed with the Second Circuit on or about April 14, 2009. Based on this stipulation, the Second Circuit issued a mandate terminating the appeal, which was transmitted to the District Court on April 23, 2009. Post-judgment discovery against plaintiff is continuing and we have filed a motion for sanctions against plaintiff s counsel which will be scheduled for argument in November 2009.

Note 12. Proposed Merger

On August 3, 2009, we announced that we had entered into a definitive agreement to acquire Patriot Capital Funding, Inc. (NASDAQ: PCAP) (Patriot) for approximately $197,000 comprised of our common stock and cash to repay all Patriot debt, anticipated to be $110,500 when the acquisition closes. Our common shares will be exchanged at a ratio of approximately 0.3992 for each Patriot share, or 8,616,467 shares of our common stock for 21,584,251 Patriot shares, with such exchange ratio decreased for any tax distributions Patriot may declare before closing. In return, we will acquire assets with an amortized cost of approximately

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$311,000 for approximately $197,000, based on an estimate of our common stock price of $10 per share and the anticipated debt outstanding at the closing, the value of either may change prior to the closing. We, in conjunction with an independent valuation agent, have determined that the fair value of the assets is approximate to the anticipated purchase price and do not anticipate recording any material gain on the consummation of the transaction.

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

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

Note 13. Selected Quarterly Financial Data (Unaudited)

Quarter Ended	Investment Income Total	Investment Income Per Share(1)	Net Investment Income Total	Net Investment Income Per Share(1)	Net Realized and Unrealized Gains (Losses) Total	Net Realized and Unrealized Gains (Losses) Per Share(1)	Net Increase (Decrease) in Net Assets from Operations Total	Net Increase (Decrease) in Net Assets from Operations Per Share(1)
September 30, 2006	$ 6,432	$ 0.65	$ 3,274	$ 0.33	$ 690	$ 0.07	$ 3,964	$ 0.40
December 31, 2006	8,171	0.60	4,493	0.33	(1,553)	(0.11)	2,940	0.22
March 31, 2007	12,069	0.61	7,015	0.36	(2,039)	(0.10)	4,976	0.26
June 30, 2007	14,009	0.70	8,349	0.42	(3,501)	(0.18)	4,848	0.24
September 30, 2007	15,391	0.77	7,865	0.39	685	0.04	8,550	0.43
December 31, 2007	18,563	0.80	10,660	0.46	(14,346)	(0.62)	(3,686)	(0.16)
March 31, 2008	22,000	0.92	12,919	0.54	(14,178)	(0.59)	(1,259)	(0.05)
June 30, 2008	23,448	0.85	13,669	0.50	10,317	0.38	23,986	0.88
September 30, 2008(2)	35,799	1.21	23,502	0.80	(9,504)	(0.33)	13,998	0.47
December 31, 2008	22,213	0.75	11,960	0.40	(5,436)	(0.18)	6,524	0.22
March 31, 2009	20,669	0.69	11,720	0.39	3,611	0.12	15,331	0.51
June 30, 2009	21,800	0.59	11,981	0.32	(12,730)	(0.34)	(749)	(0.02)
September 30, 2009	21,517	0.43	12,318	0.25	(18,696)	(0.38)	(6,378)	(0.13)

(1) Per share amounts are calculated using weighted average shares during period.

(2)

Additional income for this quarter was driven by other investment income from the settlement of net profits interests on IEC Systems LP and Advanced Rig Services LLC. See Note 4.

Note 14. Subsequent Events

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

Table of Contents

Patriot Capital Funding, Inc.

Consolidated Balance Sheets

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Investments at fair value:		
Non-control/non-affiliate investments (cost of $206,077,578 2009, $269,577,008 2008)	**$ 190,913,655**	$ 240,486,620
Affiliate investments (cost of $52,120,596 2009, $53,129,533 2008)	**45,953,070**	51,457,082
Control investments (cost of $47,032,697 2009, $43,192,484 2008)	**20,565,598**	30,427,046
Total investments	**257,432,323**	322,370,748
Cash and cash equivalents	**5,062,075**	6,449,454
Restricted cash	**8,025,982**	22,155,073
Interest receivable	**1,200,833**	1,390,285
Other assets	**1,193,669**	1,897,086
TOTAL ASSETS	**$ 272,914,882**	$ 354,262,646
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Borrowings	**$ 112,706,453**	$ 162,600,000
Interest payable	**656,954**	514,125
Dividends payable		5,253,709
Accounts payable, accrued expenses and other	**3,620,996**	5,777,642
TOTAL LIABILITIES	**116,984,403**	174,145,476
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred stock, $.01 par value, 1,000,000 shares authorized; no shares issued and outstanding		
Common stock, $.01 par value, 49,000,000 shares authorized; 20,950,501 and 20,827,334 shares issued and outstanding at September 30, 2009, and December 31, 2008, respectively	**209,506**	208,274
Paid-in capital	**235,333,314**	234,385,063
Accumulated net investment income (loss)	**5,097,676**	(1,912,061)
Distributions in excess of net investment income		(1,758,877)
Net realized loss on investments	**(33,722,252)**	(4,053,953)
Net realized loss on interest rate swaps	**(3,251,026)**	
Net unrealized depreciation on interest rate swaps		(3,097,384)
Net unrealized depreciation on investments	**(47,736,739)**	(43,653,892)

TOTAL STOCKHOLDERS EQUITY		**155,930,479**		180,117,170
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$**	**272,914,882**	$	354,262,646
NET ASSET VALUE PER COMMON SHARE	**$**	**7.44**	$	8.65

See Notes to Consolidated Financial Statements.

Table of Contents

Patriot Capital Funding, Inc.

Consolidated Statements of Operations

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Unaudited)			
INVESTMENT INCOME				
Interest and dividends:				
Non-control/non-affiliate investments	**$ 5,991,449**	$ 6,477,906	**$ 18,430,839**	$ 21,909,910
Affiliate investments	**1,476,296**	1,994,624	**4,215,461**	7,007,546
Control investments	**332,501**	966,986	**1,282,578**	1,645,111
Total interest and dividend income	**7,800,246**	9,439,516	**23,928,878**	30,562,567
Fees:				
Non-control/non-affiliate investments	**86,334**	105,464	**334,151**	343,550
Affiliate investments	**41,739**	282,518	**180,462**	358,966
Control investments	**9,909**	72,487	**78,067**	113,737
Total fee income	**137,982**	460,469	**592,680**	816,253
Other investment income:				
Non-control/non-affiliate investments	**112,357**	17,833	**121,161**	300,076
Affiliate investments		307,245		307,245
Control investments		4,357		142,383
Total other investment income	**112,357**	329,435	**121,161**	749,704
Total Investment Income	**8,050,585**	10,229,420	**24,642,719**	32,128,524
EXPENSES				
Compensation expense	**748,280**	834,779	**2,508,241**	3,440,278
Interest expense	**2,404,776**	1,789,755	**6,768,583**	5,774,508
Professional fees	**2,822,671**	340,388	**4,169,297**	1,011,119
General and administrative expense	**926,591**	706,715	**2,427,985**	2,140,238
Total Expenses	**6,902,318**	3,671,637	**15,874,106**	12,366,143
Net Investment Income	**1,148,267**	6,557,783	**8,768,613**	19,762,381
NET REALIZED GAIN (LOSS) AND NET UNREALIZED APPRECIATION (DEPRECIATION)				
Net realized loss on investments non-control/non-affiliate	**(2,461,200)**	(2,500)	**(2,873,909)**	(86,267)

Net realized gain on investments affiliate				458,405				458,405
Net realized loss on investments control		**(15,193,626)**				**(26,794,390)**		(350,000)
Net realized loss on interest rate swaps		**(3,251,026)**				**(3,251,026)**		
Net unrealized depreciation on investments non-control/non-affiliate		**(990,698)**		(2,054,709)		**(5,948,006)**		(10,684,608)
Net unrealized depreciation on investments affiliate		**(1,301,399)**		(2,808,033)		**(4,495,048)**		(8,470,041)
Net unrealized appreciation (depreciation) on investments control		**15,079,424**		(2,285,030)		**6,360,207**		(1,212,632)
Net unrealized appreciation (depreciation) on interest rate swaps		**2,235,647**		(182,011)		**3,097,384**		34,772
Net Realized Gain (Loss) and Net Unrealized Appreciation (Depreciation)		**(5,882,878)**		(6,873,878)		**(33,904,788)**		(20,310,371)
NET LOSS	**$**	**(4,734,611)**	$	(316,095)	**$**	**(25,136,175)**	$	(547,990)
Loss per share, basic and diluted	**$**	**(0.23)**	$	(0.02)	**$**	**(1.20)**	$	(0.03)
Weighted average shares outstanding, basic and diluted		**20,950,501**		20,702,485		**20,943,734**		20,682,167

See Notes to Consolidated Financial Statements.

F-37

Table of Contents

Patriot Capital Funding, Inc.

Consolidated Statements of Changes in Net Assets

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Unaudited)	
Operations:		
Net investment income	**$ 8,768,613**	$ 19,762,381
Net realized gain (loss) on investments	**(29,668,299)**	22,138
Net realized loss on interest rate swaps	**(3,251,026)**	
Net unrealized depreciation on investments	**(4,082,847)**	(20,367,281)
Net unrealized appreciation on interest rate swaps	**3,097,384**	34,772
Net decrease in net assets from operations	**(25,136,175)**	(547,990)
Stockholder transactions:		
Distributions to stockholders from net investment income		(19,762,381)
Distributions in excess of net investment income		(778,609)
Net decrease in net assets from stockholder distributions		(20,540,990)
Capital share transactions:		
Common stock listing fees		(23,585)
Issuance of common stock under dividend reinvestment plan	**359,500**	535,062
Stock option compensation	**589,984**	568,891
Net increase in net assets from capital share transactions	**949,484**	1,080,368
Total decrease in net assets	**(24,186,691)**	(20,008,612)
Net assets at beginning of period	**180,117,170**	221,597,684
Net assets at end of period	**$ 155,930,479**	$ 201,589,072
Net asset value per common share	**$ 7.44**	$ 9.74
Common shares outstanding at end of period	**20,950,501**	20,702,485

See Notes to Consolidated Financial Statements.

Table of Contents

Patriot Capital Funding, Inc.

Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2009	2008
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	**$ (25,136,175)**	$ (547,990)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	**491,794**	439,159
Change in interest receivable	**189,452**	237,506
Realized (gain) loss on sale of investments	**29,668,299**	(22,138)
Realized loss on sale of interest rate swaps	**3,251,026**	
Unrealized depreciation on investments	**4,082,847**	20,367,281
Unrealized appreciation on interest rate swaps	**(3,097,384)**	(34,772)
Payment-in-kind interest and dividends	**(3,459,359)**	(4,275,711)
Stock-based compensation expense	**589,984**	568,891
Change in unearned income	**(760,464)**	108,349
Change in interest payable	**142,829**	(334,317)
Change in other assets	**117,874**	(262,351)
Change in accounts payable, accrued expenses and other	**(810,288)**	(1,865,883)
Net cash provided by operating activities	**5,270,435**	14,378,024
CASH FLOWS FROM INVESTING ACTIVITIES:		
Funded investments	**(10,273,464)**	(60,267,723)
Principal repayments on investments	**41,222,305**	86,432,830
Proceeds from sale of investments	**4,552,011**	11,309,638
Purchases of furniture and equipment		(6,295)
Net cash provided by investing activities	**35,500,852**	37,468,450
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	**7,500,000**	76,904,117
Repayments on borrowings	**(57,393,547)**	(87,604,117)
Payments on interest rate swaps	**(1,500,000)**	
Common stock listing fees		(23,585)
Dividends paid	**(4,894,210)**	(19,926,056)
Deferred offering costs		(145,941)
Deferred financing costs		(1,030,972)
Decrease (increase) in restricted cash	**14,129,091**	(19,810,123)
Net cash used for financing activities	**(42,158,666)**	(51,636,677)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,387,379)**		209,797
CASH AND CASH EQUIVALENTS AT:				
Beginning of Period		**6,449,454**		789,451
End of Period	**$**	**5,062,075**	$	999,248
Supplemental information:				
Interest paid	**$**	**6,230,570**	$	6,108,825
Non-cash investing activities:				
Conversion of debt to equity	$		$	5,734,567
Non-cash financing activities:				
Dividends reinvested in common stock	**$**	**359,500**	$	535,062
Dividends declared but not paid				6,894,520

See Notes to Consolidated Financial Statements.

Table of Contents

Patriot Capital Funding, Inc.

Consolidated Schedule of Investments
September 30, 2009
(unaudited)

Company(1) (Industry)	Company Description	Investment	Principal	Cost	Value
Control investments:					
Aylward Enterprises, LLC(5) *(Machinery)*	Manufacturer of packaging equipment	Revolving Line of Credit (5.3%, Due 2/12)(3)	$ 4,000,000	$ 3,955,707	$ 3,955,707
		Senior Secured Term Loan A (6.0%, Due 2/12)(3)	8,085,938	8,019,598	1,301,299
		Senior Subordinated Debt (22.0%, Due 8/12)(2)	7,731,663	6,747,301	
		Subordinated Member Note (8.0%, Due 2/13)(2)	160,909	148,491	
		Membership Interest (1,250,000 units)(4)		1,250,000	
Fischbein, LLC *(Machinery)*	Designer and manufacturer of packaging equipment	Senior Subordinated Debt (18.5%, Due 5/13)(2)(3)	3,626,635	3,608,764	3,608,764
		Membership Interest Class A (2,800,000 units)(4)		2,800,000	2,738,800
Nupla Corporation *(Home & Office Furnishings, Housewares & Durable Consumer Products)*	Manufacturer and marketer of professional high-grade fiberglass-handled striking and digging tools	Revolving Line of Credit (9.3%, Due 9/12)(3)	1,093,276	1,082,468	1,082,468
		Senior Secured Term Loan A (10.0%, Due 9/12)(3)	5,139,064	5,108,295	5,108,295
		Senior Subordinated Debt (15.0%, Due 3/13)(2)(3)	3,162,122	3,142,795	386,356
		Preferred Stock Class A		564,638	

		(475 shares)(2)			
		Preferred Stock Class B (1,045 shares)(2)		1,131,921	
		Common Stock (1,140,584 shares)(4)		80,100	
Sidump r Trailer Company, Inc. *(Automobile)*	Manufacturer of side dump trailers	Revolving Line of Credit (7.3%, Due 1/11)(3)	950,000	934,432	934,432
		Senior Secured Term Loan A (7.3%, Due 1/11)(3)	2,047,500	2,036,677	1,449,477
		Senior Secured Term Loan B (8.8%, Due 1/11)(3)	2,320,625	2,301,926	
		Senior Secured Term Loan C (16.5%, Due 7/11)(2)(3)	2,578,751	2,253,829	
		Senior Secured Term Loan D (7.3%, Due 7/11)	1,700,000	1,700,000	
		Preferred Stock (49,635.5 shares)(2)		165,730	
		Common Stock (64,050 shares)(4)		25	
Total Control investments (represents 8.0% of total investments at fair value)				$ 47,032,697	$ 20,565,598

Patriot Capital Funding, Inc.

Consolidated Schedule of Investments (Continued)

Company(1) (Industry)	**Company Description**	**Investment**	**Principal**	**Cost**	**Value**
Affiliate investments:					
Boxercraft Incorporated *(Textiles & Leather)*	Supplier of spiritwear and campus apparel	Revolving Line of Credit (9.0%, Due 9/13)(3)	$ 800,000	$ 778,452	$ 778,452
		Senior Secured Term Loan A (9.5%, Due 9/13)(3)	4,320,135	4,277,785	4,277,785
		Senior Secured Term Loan B (10.0%, Due 9/13)(3)	4,923,823	4,874,659	4,874,659
		Senior Secured Term Loan C (18.5%, Due 3/14)(2)(3)	6,888,400	6,831,019	6,831,019
		Preferred Stock (1,000,000 shares)(4)		1,105,556	760,856
		Common Stock (10,000 shares)(4)		100	
KTPS Holdings, LLC *(Textiles & Leather)*	Manufacturer and distributor of specialty pet products	Revolving Line of Credit (10.5%, Due 1/12)(3)	1,500,000	1,490,039	1,490,039
		Senior Secured Term Loan A (10.5%, Due 1/12)(3)	3,696,940	3,667,226	3,667,226
		Senior Secured Term Loan B (12.0%, Due 1/12)(3)	450,000	446,327	446,327
		Senior Secured Term Loan C (18.0%, Due 3/12)(2)(3)	4,653,485	4,626,001	4,346,001
		Membership Interest Class A (730.02 units)(4)		730,020	
		Membership Interest Common (199,795.08 units)(4)			
Smart, LLC(5) *(Diversified/Conglomerate Service)*	Provider of tuition management services	Membership Interest Class B (1,218 units)(4)		1,280,403	

		Membership Interest Class D (1 unit)(4)		290,333	
Sport Helmets Holdings, LLC(5) *(Personal & Nondurable Consumer Products)*	Manufacturer of protective headgear	Senior Secured Term Loan A (4.3%, Due 12/13)(3)	4,031,250	3,988,310	3,493,710
		Senior Secured Term Loan B (4.9%, Due 12/13)(3)	7,443,750	7,356,056	6,442,786
		Senior Subordinated Debt Series A (15.0%, Due 6/14)(2)(3)	7,160,461	7,071,499	6,026,299
		Senior Subordinated Debt Series B (15.0%, Due 6/14)(2)	1,306,811	1,306,811	1,116,111
		Common Stock (20,000 shares)(4)		2,000,000	1,401,800
Total Affiliate investments (represents 17.8% of total investments at fair value)				$ 52,120,596	$ 45,953,070

F-41

Patriot Capital Funding, Inc.

Consolidated Schedule of Investments (Continued)

Company(1) (Industry)	**Company Description**	**Investment**	**Principal**	**Cost**	**Value**
Non-control/non-affiliate investments:					
ADAPCO, Inc. *(Ecological)*	Distributor of specialty chemicals and contract application services	Revolving Line of Credit (10.3%, Due 7/11)(3)	$ 800,000	$ 788,688	$ 788,688
		Senior Secured Term Loan A (10.3%, Due 6/11)(3)	7,465,625	7,436,141	7,436,141
		Common Stock (5,000 shares)(4)		500,000	187,400
Aircraft Fasteners International, LLC *(Machinery)*	Distributor of fasteners and related hardware for use in aerospace, electronics and defense industries	Senior Secured Term Loan (4.0%, Due 11/12)(3)	5,273,000	5,208,351	5,004,551
		Junior Secured Term Loan (14.0%, Due 5/13)(2)(3)	5,387,135	5,334,639	5,267,639
		Convertible Preferred Stock (32,000 shares)(2)		240,737	391,613
Allied Defense Group, Inc. *(Aerospace & Defense)*	Diversified defense company	Common Stock (27,968 shares)(4)		463,168	145,900
Arrowhead General Insurance Agency, Inc.(6) *(Insurance)*	Insurance agency and program specialist	Junior Secured Term Loan (12.8%, Due 2/13)(2)(3)	5,052,366	5,052,366	3,826,463
Borga, Inc. *(Mining, Steel, Iron & Nonprecious Metals)*	Manufacturer of pre-fabricated metal building systems	Revolving Line of Credit (8.0%, Due 5/10)(3)	800,000	797,323	797,323
		Senior Secured Term Loan B (11.5%, Due 5/10)(3)	1,617,921	1,608,969	1,608,969
		Senior Secured Term Loan C (19.0%, Due	8,366,831	8,348,093	2,155,096

		5/10)(2)(3)			
		Common Stock Warrants (33,750 warrants)(4)		17,841	
Caleel + Hayden, LLC(5) *(Personal & Nondurable Consumer Products)*	Provider of proprietary branded professional skincare and cosmetic products to physicians and spa communities	Junior Secured Term Loan B (9.8%, Due 11/11)(3)	9,946,551	9,867,666	9,867,666
		Senior Subordinated Debt (16.5%, Due 11/12)(3)	6,250,000	6,201,664	6,264,164
		Common Stock (7,500 shares)(4)		750,000	689,000
		Options in Mineral Fusion Natural Brands, LLC (11,662 options)(4)			
CS Operating, LLC(5) *(Buildings & Real Estate)*	Provider of maintenance, repair and replacement of HVAC, electrical, plumbing, and foundation repair	Revolving Line of Credit (10.5%, Due 1/13)(3)	200,000	195,890	195,890
		Senior Secured Term Loan A (9.5%, Due 7/12)(3)	1,517,564	1,502,240	1,502,240
		Senior Subordinated Debt (16.5%, Due 1/13)(2)(3)	2,742,862	2,717,458	2,717,458

Patriot Capital Funding, Inc.

Consolidated Schedule of Investments (Continued)

Company(1) (Industry)	Company Description	Investment	Principal	Cost	Value
Copernicus Group *(Healthcare, Education & Childcare)*	Provider of clinical trial review services	Revolving Line of Credit (11.5%, Due 10/13)(3)	150,000	133,780	133,780
		Senior Secured Term Loan A (11.5%, Due 10/13)(3)	7,425,000	7,327,081	7,327,081
		Senior Subordinated Debt (18.0%, Due 4/14)(3)	12,546,282	12,387,096	10,855,296
		Preferred Stock Series A (1,000,000)(4)		1,000,000	558,300
Custom Direct, Inc.(6) *(Printing & Publishing)*	Direct marketer of checks and other financial products and services	Senior Secured Term Loan (3.0%, Due 12/13)(3)	1,782,598	1,569,445	1,381,507
		Junior Secured Term Loan (6.3%, Due 12/14)(3)	2,000,000	2,000,000	1,150,000
Dover Saddlery, Inc. *(Retail Stores)*	Equestrian products catalog retailer	Common Stock (30,974 shares)(4)		148,200	67,166
EXL Acquisition Corp. *(Electronics)*	Manufacturer of lab testing supplies	Senior Secured Term Loan A (3.9%, Due 3/11)(3)	2,159,783	2,149,712	1,992,612
		Senior Secured Term Loan B (4.2%, Due 3/12)(3)	4,202,073	4,164,654	3,858,953
		Senior Secured Term Loan C (4.7%, Due 3/12)(3)	2,591,740	2,561,719	2,373,120
		Senior Secured Term Loan D (15.0%, Due	6,170,807	6,127,206	6,127,206

		3/12)(3)			
		Common Stock Class A (2,475 shares)(4)		2,475	402,539
		Common Stock Class B (25 shares)(2)		297,993	304,448
Fairchild Industrial Products, Co. *(Electronics)*	Manufacturer of industrial controls and power transmission products	Preferred Stock Class A (378.4 shares)(2)		372,765	379,868
		Common Stock Class B (27.5 shares)(4)		121,598	260,000
Hudson Products Holdings, Inc.(6) *(Mining, Steel, Iron & Nonprecious Metals)*	Manufactures and designs air-cooled heat exchanger equipment	Senior Secured Term Loan (8.0%, Due 8/15)(3)	7,425,000	7,229,085	6,125,660
Impact Products, LLC *(Machinery)*	Distributor of janitorial supplies	Junior Secured Term Loan (6.3%, Due 9/12)(3)	8,837,500	8,792,956	8,525,556
		Senior Subordinated Debt (15.0%, Due 9/12)(3)	5,547,993	5,523,924	5,523,924

Table of Contents

Patriot Capital Funding, Inc.

Consolidated Schedule of Investments (Continued)

Company(1) (Industry)	Company Description	Investment	Principal	Cost	Value
Label Corp Holdings, Inc.(6) *(Printing & Publishing)*	Manufacturer of prime labels	Senior Secured Term Loan (7.9%, Due 8/14)(3)	5,836,416	5,590,057	5,019,293
LHC Holdings Corp. *(Healthcare, Education & Childcare)*	Provider of home healthcare services	Senior Secured Term Loan A (4.3%, Due 11/12)(3)	3,276,942	3,245,173	2,898,073
		Senior Subordinated Debt (14.5%, Due 5/13)(3)	4,565,000	4,525,929	4,525,929
		Membership Interest (125,000 units)(4)		125,000	182,100
Mac & Massey Holdings, LLC *(Grocery)*	Broker and distributor of ingredients to manufacturers of food products	Senior Subordinated Debt (15.8%, Due 2/13)(2)(3)	8,303,730	8,280,201	8,280,201
		Common Stock (250 shares)(4)		235,128	469,976
Northwestern Management Services, LLC *(Healthcare, Education & Childcare)*	Provider of dental services	Revolving Line of Credit (5.8%, Due 12/12)(3)	125,000	118,159	118,159
		Senior Secured Term Loan A (4.3%, Due 12/12)(3)	5,049,874	5,012,776	4,696,776
		Senior Secured Term Loan B (4.8%, Due 12/12)(3)	1,228,125	1,218,838	1,142,038
		Junior Secured Term Loan (15.0%, Due 6/13)(2)(3)	2,904,561	2,884,791	2,785,091
				500,000	450,500

		Common Stock (500 shares)(4)			
Prince Mineral Company, Inc. *(Metals & Minerals)*	Manufacturer of pigments	Junior Secured Term Loan (5.5%, Due 12/12)(3)	11,200,000	11,078,557	11,078,557
		Senior Subordinated Debt (14.0%, Due 7/13)(2)(3)	12,126,568	12,032,680	12,032,680
Quartermaster, Inc. *(Retail Stores)*	Retailer of uniforms and tactical equipment to law enforcement and security professionals	Revolving Line of Credit (5.9%, Due 12/10)(3)	3,000,000	2,988,297	2,988,297
		Senior Secured Term Loan A (5.7%, Due 12/10)(3)	2,271,000	2,256,498	2,256,498
		Senior Secured Term Loan B (7.0%, Due 12/10)(3)	2,525,000	2,514,665	2,514,665
		Senior Secured Term Loan C (15.0%, Due 12/11)(2)(3)	3,477,752	3,459,794	3,459,794
R-O-M Corporation *(Automobile)*	Manufacturer of doors, ramps and bulk heads for fire trucks and food transportation	Senior Secured Term Loan A (3.0%, Due 2/13)(3)	5,470,000	5,699,316	5,189,516
		Senior Secured Term Loan B (4.5%, Due 5/13)(3)	8,314,875	8,238,981	7,500,480
		Senior Subordinated Debt (15.0%, Due 8/13)(3)	7,208,688	7,131,815	7,131,815
Total Non-control /non-affiliate investments (represents 74.2% of total investments at fair value)				$ 206,077,578	$ 190,913,655
Total Investments				$ 305,230,871	$ 257,432,323

(1) Affiliate investments are generally defined under the Investment Company Act of 1940, as amended (the 1940 Act), as companies in which the Company owns at least 5% but not more than 25% of the voting

Table of Contents

Patriot Capital Funding, Inc.

Consolidated Schedule of Investments (Continued)

securities of the company. Control investments are generally defined under the 1940 Act as companies in which the Company owns more than 25% of the voting securities of the company or has greater than 50% representation on its board.

(2) Amount includes payment-in-kind (PIK) interest or dividends.

(3) Pledged as collateral under the Company s Amended Securitization Facility. See Note 7 to Consolidated Financial Statements.

(4) Non-income producing.

(5) Some of the investments listed are issued by an affiliate of the listed portfolio company.

(6) Syndicated investment which has been originated by another financial institution and broadly distributed.

See Notes to Consolidated Financial Statements

F-45

Table of Contents

PATRIOT CAPITAL FUNDING, INC.

Consolidated Schedule of Investments
December 31, 2008

Company(1) (Industry)	Company Description	Investment	Principal	Cost	Value
Control investments:					
Encore Legal Solutions, Inc. *(Printing & Publishing)*	Legal document management services	Junior Secured Term Loan A (6.2%, Due 12/10)(2)(3)	$ 4,020,456	$ 4,007,366	$ 3,537,910
		Junior Secured Term Loan B (9.2%, Due 12/10)(2)(3)	7,390,687	7,355,975	6,492,888
		Common Stock (30,000 shares)(4)	5,159,567	326,900	
Fischbein, LLC *(Machinery)*	Designer and manufacturer of packaging equipment	Senior Subordinated Debt (16.5%, Due 5/13)(2)(3)	3,492,760	3,471,147	3,540,987
		Membership Interest Class A (2,800,000 units)(4)		2,800,000	3,876,000
Nupla Corporation *(Home & Office Furnishings, Housewares & Durable Consumer Products)*	Manufacturer and marketer of professional high-grade fiberglass-handled striking and digging tools	Revolving Line of Credit (7.3%, Due 9/12)(3)	870,000	856,425	856,425
		Senior Secured Term Loan A (8.0%, Due 9/12)(3)	5,354,688	5,315,741	5,166,852
		Senior Subordinated Debt (15.0%, Due 3/13)(2)(3)	3,123,084	3,102,059	2,192,375
		Preferred Stock Class A (475 shares)(2)		550,584	15,900
		Preferred Stock Class B (1,045 shares)(2)		1,101,001	1,101,500
		Common Stock (1,140,584 shares)(4)		80,000	
			950,000	934,432	934,432

Sidump r Trailer Company, Inc. *(Automobile)*	Manufacturer of side dump trailers	Revolving Line of Credit (7.3%, Due 1/11)(3)			
		Senior Secured Term Loan A (7.3%, Due 1/11)(3)	2,047,500	2,036,677	2,036,677
		Senior Secured Term Loan B (8.8%, Due 1/11)(3)	2,320,625	2,301,926	
		Senior Secured Term Loan C (16.5%, Due 7/11)(2)(3)	2,406,374	2,253,829	
		Senior Secured Term Loan D (7.3%, Due 7/11)	1,700,000	1,700,000	348,200
		Preferred Stock (49,635.5 shares)(2)		165,730	
		Common Stock (64,050 shares)(4)		25	
Total Control investments (represents 9.4% of total investments at fair value)				$ 43,192,484	$ 30,427,046

F-46

PATRIOT CAPITAL FUNDING, INC.

Consolidated Schedule of Investments (Continued)

Company(1) (Industry)	Company Description	Investment	Principal	Cost	Value
Affiliate investments:					
Boxercraft Incorporated *(Textiles & Leather)*	Supplier of spiritwear and campus apparel	Senior Secured Term Loan A (8.0%, Due 9/13)(3)	5,328,125	5,273,766	5,273,766
		Senior Secured Term Loan B (8.5%, Due 9/13)(3)	5,486,250	5,429,567	5,429,567
		Senior Subordinated Debt (16.8%, Due 3/14)(2)(3)	6,591,375	6,524,347	6,524,347
		Preferred Stock (1,000,000 shares)(4)		1,029,722	849,500
		Common Stock (10,000 shares)(4)		100	
KTPS Holdings, LLC *(Textiles & Leather)*	Manufacturer and distributor of specialty pet products	Revolving Line of Credit (5.0%, Due 1/12)(3)	1,000,000	986,840	986,840
		Senior Secured Term Loan A (5.1%, Due 1/12)(3)	4,996,875	4,950,978	4,951,005
		Senior Secured Term Loan B (12.0%, Due 1/12)(3)	465,000	460,265	460,265
		Junior Secured Term Loan (15.0%, Due 3/12)(2)(3)	4,207,806	4,172,076	4,172,076
		Membership Interest Class A (730.02 units)(4)		730,020	721,200
		Membership Interest Common (199,795.08 units)(4)			
Smart, LLC(5) *(Diversified/Conglomerate Service)*	Provider of tuition management services	Membership Interest Class B (1,218 units)(4)		1,280,403	311,500
		Membership Interest Class D		290,333	312,000

		(1 unit)(4)			
Sport Helmets Holdings, LLC(5) *(Personal & Nondurable Consumer Products)*	Manufacturer of protective headgear	Senior Secured Term Loan A (5.9%, Due 12/13)(3)	4,500,000	4,445,614	4,282,314
		Senior Secured Term Loan B (6.4%, Due 12/13)(3)	7,500,000	7,400,148	7,128,048
		Senior Subordinated Debt Series A (15.0%, Due 6/14)(2)(3)	7,000,000	6,896,866	6,896,866
		Senior Subordinated Debt Series B (15.0%, Due 6/14)(2)	1,258,488	1,258,488	1,258,488
		Common Stock (20,000 shares)(4)		2,000,000	1,899,300
Total Affiliate investments (represents 16.0% of total investments at fair value)				$ 53,129,533	$ 51,457,082

Table of Contents

PATRIOT CAPITAL FUNDING, INC.

Consolidated Schedule of Investments (Continued)

ompany(1) ndustry)	**Company Description**	**Investment**	**Principal**	**Cost**	**Value**
on-control/non-affiliate investments:					
DAPCO, Inc. *cological)*	Distributor of specialty chemicals and contract application services	Senior Secured Term Loan A (11.5%, Due 6/11)(3)	$ 8,103,125	$ 8,056,102	$ 8,056,10
		Common Stock (5,000 shares)(4)		500,000	108,80
rcraft Fasteners International, LLC *Machinery)*	Distributor of fasteners and related hardware for use in aerospace, electronics and defense industries	Senior Secured Term Loan (4.1%, Due 11/12)(3)	5,528,000	5,446,932	5,208,63
		Junior Secured Term Loan (14.0%, Due 5/13)(2)(3)	5,306,249	5,242,761	5,242,76
		Convertible Preferred Stock (32,500 shares)(2)		273,397	503,60
lied Defense Group, Inc. *erospace & Defense)*	Diversified defense company	Common Stock (4,000 shares)(4)		463,168	173,60
rowhead General Insurance Agency, c.(6) *surance)*	Insurance agency and program specialist	Junior Secured Term Loan (7.7%, Due 2/13)(3)	5,000,000	5,000,000	4,048,20
ylward Enterprises, LLC(5) *Machinery)*	Manufacturer of packaging equipment	Revolving Line of Credit (10.0%, Due 2/12)(3)	$ 3,700,000	$ 3,647,158	$ 3,647,15
		Senior Secured Term Loan A (11.6%, Due 2/12)(3)	8,085,938	7,999,958	3,572,32
		Senior Subordinated Debt (22.0%, Due 8/12)(2)	7,328,591	6,747,301	
		Subordinated Member Note (8.0%, Due 2/13)(2)	151,527	148,491	
		Membership Interest (1,250,000 units)(4)		1,250,000	
orga, Inc. *Mining, Steel, Iron & Nonprecious*	Manufacturer of pre-fabricated metal	Revolving Line of Credit	800,000	793,950	793,95

etals)	building systems	(4.9%, Due 5/10)(3)			
		Senior Secured Term Loan A (5.4%, Due 5/09)(3)	328,116	325,903	325,90
		Senior Secured Term Loan B (8.4%, Due 5/10)(3)	1,635,341	1,617,095	1,617,09
		Senior Secured Term Loan C (16.0%, Due 5/10)(2)(3)	8,117,266	8,074,916	8,074,91
		Common Stock Warrants (33,750 warrants)(4)		14,805	
leel + Hayden, LLC(5) *ersonal & Nondurable Consumer oducts)*	Provider of proprietary branded professional skincare and cosmetic products to physicians and spa communities	Junior Secured Term Loan B (4.7%, Due 11/11)(3)	10,771,562	10,668,072	10,668,07
		Senior Subordinated Debt (14.5%, Due 11/12)(3)	6,250,000	6,190,008	6,252,60
		Common Stock (7,500 shares)(4)		750,000	862,10

Table of Contents

PATRIOT CAPITAL FUNDING, INC.

Consolidated Schedule of Investments (Continued)

Company(1) (Industry)	**Company Description**	**Investment**	**Principal**	**Cost**	**Value**
CDW Corporation(6) *(Electronics)*	Direct marketer of computer and peripheral equipment	Senior Secured Term Loan (6.7%, Due 10/14)	2,000,000	1,780,924	920,000
CS Operating, LLC(5) *(Buildings & Real Estate)*	Provider of maintenance, repair and replacement of HVAC, electrical, plumbing, and foundation repair	Revolving Line of Credit (6.8%, Due 1/13)(3)	200,000	194,564	194,564
		Senior Secured Term Loan A (6.6%, Due 7/12)(3)	1,855,064	1,832,122	1,832,122
		Senior Subordinated Debt (16.5%, Due 1/13)(2)(3)	2,616,863	2,586,496	2,586,496
Copernicus Group *(Healthcare, Education & Childcare)*	Provider of clinical trial review services	Revolving Line of Credit (8.8%, Due 10/13)(3)	150,000	130,753	130,753
		Senior Secured Term Loan A (9.0%, Due 10/13)(3)	8,043,750	7,917,470	7,917,470
		Senior Subordinated Debt (16.0%, Due 4/14)(3)	12,112,000	11,926,408	11,926,408
		Preferred Stock Series A (1,000,000 shares)(4)		1,000,000	1,033,000
Copperhead Chemical Company, Inc. *(Chemicals, Plastics & Rubber)*	Manufacturer of bulk pharmaceuticals	Senior Subordinated Debt (21.0%, Due 1/13)(2)(3)	3,693,195	3,664,655	3,664,655
Custom Direct, Inc.(6) *(Printing & Publishing)*	Direct marketer of checks and other financial products and services	Senior Secured Term Loan (4.2%, Due 12/13)(3)	1,847,386	1,603,118	1,330,100
		Junior Secured Term Loan (7.5%, Due 12/14)(3)	2,000,000	2,000,000	880,000
				148,200	41,500

Dover Saddlery, Inc. *(Retail Stores)*	Equestrian products catalog retailer	Common Stock (30,974 shares)(4)			
Employbridge Holding Company(5)(6) *(Personal, Food & Miscellaneous Services)*	A provider of specialized staffing services	Junior Secured Term Loan (10.4%, Due 10/13)(3)	3,000,000	3,000,000	1,050,000
EXL Acquisition Corp. *(Electronics)*	Manufacturer of lab testing supplies	Senior Secured Term Loan A (6.6%, Due 3/11)(3)	3,278,998	3,258,757	3,072,159
		Senior Secured Term Loan B (6.9%, Due 3/12)(3)	4,499,911	4,452,650	4,196,539
		Senior Secured Term Loan C (7.4%, Due 3/12)(3)	2,775,439	2,737,602	2,579,563
		Senior Secured Term Loan D (15.0%, Due 3/12)(3)	6,557,997	6,501,063	6,501,063
		Common Stock Class A (2,475 shares)(4)		2,475	269,000
		Common Stock Class B (25 shares)(2)		279,222	281,900

Table of Contents

PATRIOT CAPITAL FUNDING, INC.

Consolidated Schedule of Investments (Continued)

Company(1) (Industry)	Company Description	Investment	Principal	Cost	Value
Fairchild Industrial Products, Co. *(Electronics)*	Manufacturer of industrial controls and power transmission products	Senior Secured Term Loan A (5.8%, Due 7/10)(3)	1,690,402	1,678,459	1,652,157
		Senior Secured Term Loan B (7.7%, Due 1/11)(3)	4,477,500	4,448,975	4,379,475
		Senior Subordinated Debt (14.8%, Due 7/11)(3)	5,460,000	5,418,066	5,418,066
		Preferred Stock Class A (378.4 shares)(2)		353,573	353,573
		Common Stock Class B (27.5 shares)(4)		121,598	410,000
Hudson Products Holdings, Inc.(6) *(Mining, Steel, Iron & Nonprecious Metals)*	Manufactures and designs air-cooled heat exchanger equipment	Senior Secured Term Loan (8.0%, Due 8/15)(3)	7,481,250	7,265,876	6,433,900
Impact Products, LLC *(Machinery)*	Distributor of janitorial supplies	Junior Secured Term Loan (7.0%, Due 9/12)(3)	8,893,750	8,839,775	8,418,625
		Senior Subordinated Debt (15.0%, Due 9/12)(3)	5,547,993	5,517,791	5,517,791
Keltner Enterprises, LLC(5) *(Oil & Gas)*	Distributor of automotive oils, chemicals and parts	Senior Subordinated Debt (14.0%, Due 12/11)(3)	3,850,000	3,840,677	3,840,677
Label Corp Holdings, Inc.(6) *(Printing & Publishing)*	Manufacturer of prime labels	Senior Secured Term Loan (8.0%, Due 8/14)(3)	6,483,750	6,176,385	5,592,200
L.A. Spas, Inc. *(Chemicals, Plastics & Rubber)*	Manufacturer of above ground spas	Revolving Line of Credit (8.8%, Due 12/09)(3)	1,000,000	990,794	990,794
		Senior Secured Term Loan (8.8%, Due 12/09)(3)	4,165,430	4,092,364	4,092,364
			8,011,600	7,907,534	599,193

		Senior Subordinated Debt (17.5%, Due 1/10)(2)(3)			
		Common Stock (250,000 shares)(4)		100	
		Common Stock Warrants (13,828 warrants)(4)		3,963	
LHC Holdings Corp. *(Healthcare, Education & Childcare)*	Provider of home healthcare services	Senior Secured Term Loan A (4.5%, Due 11/12)(3)	4,100,403	4,057,774	3,927,171
		Senior Subordinated Debt (14.5%, Due 5/13)(3)	4,565,000	4,517,936	4,517,936
		Membership Interest (1,25,000 units)(4)		125,000	159,500
Mac & Massey Holdings, LLC *(Grocery)*	Broker and distributor of ingredients to manufacturers of food products	Senior Subordinated Debt (16.5%, Due 2/13)(2)(3)	7,942,142	7,913,369	7,913,369
		Common Stock (250 shares)(4)		242,820	365,200
Northwestern Management Services, LLC *(Healthcare, Education & Childcare)*	Provider of dental services	Senior Secured Term Loan A (4.5%, Due 12/12)(3)	5,580,000	5,531,693	5,531,693
		Senior Secured Term Loan B (5.0%, Due 12/12)(3)	1,237,500	1,226,436	1,226,436
		Junior Secured Term Loan (15.0%, Due 6/13)(2)(3)	2,839,310	2,815,535	2,815,535

PATRIOT CAPITAL FUNDING, INC.

Consolidated Schedule of Investments (Continued)

Company(1) (Industry)	Company Description	Investment	Principal	Cost	Value
		Common Stock (500 shares)(4)		500,000	315,200
Prince Mineral Company, Inc. *(Metals & Minerals)*	Manufacturer of pigments	Junior Secured Term Loan (5.5%, Due 12/12)(3)	11,275,000	11,131,129	10,750,129
		Senior Subordinated Debt (14.0%, Due 7/13)(2)(3)	12,034,071	11,918,351	11,703,780
Quartermaster, Inc. *(Retail Stores)*	Retailer of uniforms and tactical equipment to law enforcement and security professionals	Revolving Line of Credit (6.7%, Due 12/10)(3)	1,750,000	1,731,275	1,731,275
		Senior Secured Term Loan A (6.8%, Due 12/10)(3)	3,225,250	3,197,369	3,197,369
		Senior Secured Term Loan B (8.1%, Due 12/10)(3)	2,543,750	2,526,377	2,526,377
		Senior Secured Term Loan C (15.0%, Due 12/11)(2)(3)	3,399,818	3,375,763	3,375,763
R-O-M Corporation *(Automobile)*	Manufacturer of doors, ramps and bulk heads for fire trucks and food transportation	Senior Secured Term Loan A (3.4%, Due 2/13)(3)	6,640,000	6,582,627	6,266,127
		Senior Secured Term Loan B (4.9%, Due 5/13)(3)	8,379,000	8,290,058	7,890,766
		Senior Subordinated Debt (15.0%, Due 8/13)(3)	9,100,000	9,011,070	9,011,070

Total Non-control/non-affiliate investments (represents 74.6% of total investments at fair value)	$ 269,577,008	$ 240,486,620
Total Investments	$ 365,899,025	$ 322,370,748

(1) Affiliate investments are generally defined under the Investment Company Act of 1940, as amended (the 1940 Act), as companies in which the Company owns at least 5% but not more than 25% of the voting securities of the company. Control investments are generally defined under the 1940 Act as companies in which the Company owns more than 25% of the voting securities of the company or has greater than 50% representation on its board.

(2) Amount includes payment-in-kind (PIK) interest or dividends.

(3) Pledged as collateral under the Company s Amended Securitization Facility. See Note 7 to Consolidated Financial Statements.

(4) Non-income producing.

(5) Some of the investments listed are issued by an affiliate of the listed portfolio company.

(6) Syndicated investment which has been originated by another financial institution and broadly distributed.

See Notes to Consolidated Financial Statements

F-51

Table of Contents

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Description of Business

Description of Business

Patriot Capital Funding, Inc. (the Company or Patriot Capital) is a specialty finance company that provides customized financing solutions to small- to mid-sized companies. The Company typically invests in companies with annual revenues between $10 million and $100 million, and companies which operate in diverse industry sectors. Investments usually take the form of senior secured loans, junior secured loans and subordinated debt investments which may contain equity or equity-related instruments. The Company also offers one-stop financing, which typically includes a revolving credit line, one or more senior secured term loans and a subordinated debt investment.

The Company has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, the Company has also previously elected to be treated as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code).

Note 2. Going Concern

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplates continuation of the Company as a going concern. However, on April 3, 2009, a termination event occurred under the Company s second amended and restated securitization revolving credit facility (the Amended Securitization Facility) with an entity affiliated with BMO Capital Markets Corp. and Branch Banking and Trust Company due to the amount of the Company s advances outstanding under the Amended Securitization Facility exceeding the maximum availability under the Amended Securitization Facility for more than three consecutive business days. The maximum availability under the Amended Securitization Facility is determined by, among other things, the fair market value of all eligible loans serving as collateral under the Amended Securitization Facility. Because the fair market value of certain eligible loans decreased at December 31, 2008, the Company s advances outstanding under the facility exceeded the maximum availability under the Amended Securitization Facility. This determination was made in connection with the delivery of a borrowing base report to the facility lenders on March 31, 2009, which disclosed that the Company was under-collateralized by approximately $9.8 million. As of such date, the Company had $157.6 million outstanding under the Amended Securitization Facility. On September 30, 2009, $112.7 million was outstanding under the Amended Securitization Facility.

As a result of the occurrence of the termination event under the Amended Securitization Facility, the Company can no longer request additional advances under the Amended Securitization Facility. In addition, the interest rate payable under the Amended Securitization Facility increased from the commercial paper rate plus 1.75% to the prime rate plus 3.75%. Also, the terms of the Amended Securitization Facility require that all principal, interest and fees collected from the debt investments secured by the Amended Securitization Facility must be used to pay down amounts outstanding under the Amended Securitization Facility within 24 months following the date of the termination event. The Amended Securitization Facility also permits the lenders, upon notice to the Company, to accelerate amounts outstanding under the Amended Securitization Facility and exercise other rights and remedies provided by the Amended Securitization Facility, including the right to sell the collateral under the Amended Securitization Facility. As of the date hereof, the Company has not received any such notice from the lenders. At September 30, 2009, the interest rate under the Amended Securitization Facility was 7.0%.

These matters raise substantial doubt about the Company s ability to continue as a going concern. In view of these matters, realization of certain of the assets in the accompanying balance sheet is dependent upon the

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

Company s ability to meet its financing requirements, raise additional capital, and the success of its future operations. In addition, because substantially all of the Company s debt investments are secured by the Company s Amended Securitization Facility, the Company cannot provide any assurance that it will have sufficient cash and liquid assets to fund its operations and dividend distributions to its stockholders. If the Company does not distribute at least a certain percentage of its taxable income annually, it will suffer adverse tax consequences, including possible loss of its status as a RIC. The Company entered into an Agreement and Plan of Merger with Prospect Capital Corporation on August 3, 2009 (see Note 3. Proposed Merger). There can be no assurance that the proposed merger will be consummated. The financial statements do not include any adjustments that might result from these uncertainties.

Note 3. Proposed Merger

On August 3, 2009, the Company and Prospect Capital Corporation (Prospect Capital) entered into an Agreement and Plan of Merger, (the Merger Agreement), pursuant to which the Company will merge with and into Prospect Capital, with Prospect Capital continuing as the surviving company (the Merger). In accordance with the terms and conditions of the Merger Agreement, if the Merger is completed, each issued and outstanding share of the Company s common stock will be converted into 0.3992 shares of Prospect Capital s common stock and any fractional shares resulting from the application of the exchange ratio will be paid in cash. The exchange ratio will be adjusted for any dividend(s) the Company may declare prior to the closing of the Merger. If not exercised prior to completion of the Merger, outstanding Company stock options will vest and be cancelled in exchange for the payment in cash to the holder of these stock options of $0.01 per share of the Company s common stock into which these options are exercisable. Further, in connection with the Merger, each share of the Company s restricted stock then outstanding will vest and all restrictions with respect to such shares of restricted stock will lapse. In addition, (a) a number of shares of each holder of restricted stock will be cancelled in exchange for the cash value per share of Prospect Capital s common stock into which it is convertible at the time of the consummation of the Merger in an amount estimated to be sufficient to pay applicable taxes in connection with the vesting of such shares and (b) the remaining number of shares of restricted stock will be converted in the Merger into shares of Prospect Capital s common stock on the same terms as all other shares of the Company s common stock. In connection with the completion of the Merger, Prospect Capital will pay off the outstanding principal and accrued interest and up to $1.35 million of related fees and expenses due under the Company s Amended Securitization Facility. As of September 30, 2009, there was approximately $112.7 million outstanding under the Amended Securitization Facility. Further, as a condition to Prospect Capital agreeing to execute the Merger Agreement, the Company agreed to reverse, immediately prior to the Merger, the $11.8 million federal income tax ordinary loss deduction that it previously disclosed it would incur with respect to its investments in L.A. Spas, Inc. As a result, the Company estimates that distributable income for RIC purposes at September 30, 2009 would have been $9.4 million. If the Merger is approved by the Company s shareholders, immediately prior to the Merger, the Company will pay a dividend in the amount of its cumulative distributable income for RIC purposes, which will be payable 10% in cash and 90% in common stock (see Note 16. Subsequent Events).

The Merger Agreement also contains certain termination rights for the Company and Prospect Capital, as the case may be, including: if the Merger has not been completed by December 15, 2009; if there is a breach by the other party that is not or cannot be cured within 30 days notice of such breach and such breach would result in a failure of the conditions to closing set forth in the Merger Agreement; if the Board of Directors of the Company fails to recommend the Merger to its stockholders; if the Company breaches its obligations in any material respect regarding any alternative business combination proposals; or if the Company s stockholders have voted to not approve the Merger. In addition, the Merger Agreement provides that, in connection with the termination of the Merger Agreement, under specified circumstances, the Company may be required to pay Prospect Capital a termination fee equal to $3.2 million and/or up to $250,000 to reimburse certain expenses and make certain other payments.

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

On October 26, 2009, the Company filed a definitive proxy statement calling for a special meeting of shareholders to be held on November 18, 2009 to vote on the proposed merger with Prospect Capital. The Company s shareholders at the close of business on October 21, 2009 will be eligible to vote at the special meeting on the proposed merger. If approved the Merger should occur shortly after the shareholder vote but is subject to certain additional conditions including, among others, accuracy of the representations and warranties of the other party and compliance by the other party with its obligations under the Merger Agreement.

Note 4. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements reflect the consolidated accounts of the Company and its special purpose financing subsidiary, Patriot Capital Funding, LLC I (see Note 7. Borrowings), with all significant intercompany balances eliminated. The financial results of the Company s portfolio investments are not consolidated in the Company s financial statements.

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods have been included. The results of operations for the current period are not necessarily indicative of results that ultimately may be achieved for the year. The interim unaudited financial statements and notes thereto should be read in conjunction with the December 31, 2008 financial statements and notes thereto included in the Company s Form 10-K as filed with the SEC.

Recent Accounting Pronouncements

Effective January 1, 2009, the Company adopted guidance included in FASB Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging , (which substantially incorporated the superseded Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities). The guidance requires specific disclosures regarding the location and amounts of derivative instruments in the Company s financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect the Company s financial position, financial performance, and cash flows. The Company s adoption of the guidance has not impacted the results of operations or financial condition; however, derivative instruments and hedging activities disclosure has been expanded, as disclosed in Note 13. Hedging Activities.

Effective January 1, 2009, the Company adopted the guidance in ASC Topic 260, Earnings Per Share , (substantially incorporating FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities), with respect to participating securities. The guidance addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method. Under the guidance, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. All prior period EPS data must be adjusted retrospectively. There is no effect in periods where there are net losses, as the unvested restricted shares do not participate in net losses and thus are not considered in determining basic EPS. Upon adoption, with respect to participating securities, the inclusion of unvested restricted stock issued under the Company s employee restricted stock plan implemented

Table of Contents

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

in August 2008, did not have an effect on the Company s calculation of earnings per share for the three month and the nine month periods ended September 30, 2008.

In October 2008 and April 2009, the FASB issued supplemental guidance on determining fair value when markets are not active, when volume and activity levels have decreased significantly or when transactions are not orderly. Since adopting the principles of fair value included in ASC Topic 820, Fair Value Measurements and Disclosures in January 2008, the Company s practices for determining fair value and for disclosures about the fair value of the investments in its portfolio have been, and continue to be, consistent with the guidance provided in the supplemental guidance. Therefore, the Company s adoption of these items has not had any effect on its financial position or results of operations (see Note 5. Investments).

Effective April 1, 2009, the Company adopted the provisions of ASC Topic 855, Subsequent Events, (incorporating SFAS No. 165, Subsequent Events). Such guidance establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date.

Effective July 1, 2009, the Company adopted FASB s Accounting Standards Update 2009-01 which established ASC Topic 105, Generally Accepted Accounting Principles (incorporating SFAS No. 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,) which establishes the FASB Accounting Standards Codification as the source of GAAP to be applied to companies.

In August 2009, the FASB issued Accounting Standards Update ASU 2009-05, Measuring Liabilities at Fair Value, to amend FASB Accounting Standards Codification ASC 820, Fair Value Measurements and Disclosures, to clarify how entities should estimate the fair value of liabilities. ASC 820, as amended, includes clarifying guidance for circumstances in which a quoted price in an active market is not available, the effect of the existence of liability transfer restrictions, and the effect of quoted prices for the identical liability, including when the identical liability is traded as an asset. The amended guidance in ASC 820 on measuring liabilities at fair value is effective for the first interim or annual reporting period beginning after August 28, 2009, with earlier application permitted. The Company does not believe that the adoption of the amended guidance in ASC 820 will have a significant effect on its consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update ASU 2009-13, Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force, to amend certain guidance in FASB Accounting Standards Codification ASC 605, Revenue Recognition, 25, Multiple-Element Arrangements . The amended guidance in ASC 605-25 (1) modifies the separation criteria by eliminating the criterion that requires objective and reliable evidence of fair value for the undelivered item(s), and (2) eliminates the use of the residual method of allocation and instead requires that arrangement consideration be allocated, at the inception of the arrangement, to all deliverables based on their relative selling price. The amended guidance in ASC 605-25 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early application and retrospective application permitted. The Company expects to prospectively apply the amended guidance in ASC 605-25 beginning January 1, 2010. The Company does not believe that the adoption of the amendments to ASC 605-25 will have a significant effect on its consolidated financial statements.

Interest, Dividends, Fees, and Other Investment Income

Interest and dividend income is recognized as revenue when earned according to the terms of the investment, and when in the opinion of management, it is collectible. Premiums paid and discounts obtained, including discounts in the form of fees, are amortized into interest income over the estimated life of the investment using the interest method. Fees consist principally of loan and arrangement fees, annual administrative fees, unused fees, prepayment fees, amendment fees, equity structuring fees and waiver fees. Equity

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

structuring fees are recognized as earned, which is generally when the investment transaction closes. Other investment income consists principally of the recognition of unamortized deferred financing fees received from portfolio companies on the repayment of their debt investment, the sale of the debt investment or a reduction of available credit under the debt investment.

Federal Income Taxes

The Company has elected to be treated as a RIC under the Code. The Company s RIC tax year was initially filed on a July 31 basis. On February 11, 2008, the Company was granted permission by the Internal Revenue Service to change its RIC tax year from July 31 to December 31, effective on December 31, 2007. Accordingly, the Company filed a short period tax return from August 1, 2007 through December 31, 2007, and will file on a calendar year basis for 2008 and thereafter. The Company s policy has historically been to comply with the requirements of the Code that are applicable to RICs and to distribute substantially all of its taxable income to its stockholders. In light of the matters described in Note 2, it may not be possible for the Company to continue to comply with these requirements. However, the Company intends to take all steps possible to maintain its RIC tax status. Therefore, no federal income tax provision is included in the accompanying financial statements. However, to the extent that the Company is not able to maintain its RIC tax status, it may incur tax liability not currently provided for in the Company s balance sheet. If the Merger is approved by the Company s shareholders, immediately prior to the Merger, the Company will pay a final dividend in an amount equal to all of its undistributed net ordinary income and capital gains through the closing date of the Merger. It is currently estimated that the amount of the final dividend will be $0.38 per share assuming that the merger closes on December 2, 2009. The actual amount of the final dividend may be more or less than the estimated amount and will be determined immediately prior to the closing of the merger. In accordance with a recent IRS revenue procedure, the dividend will be payable up to 10% in cash and at least 90% in newly issued shares of the Company s common stock.

Dividends Paid

Distributions to stockholders are recorded on the declaration date. The Company is required to pay out to its shareholders at least 90% of its net ordinary income and net realized short-term capital gains in excess of net realized long-term capital losses for each taxable year in order to be eligible for the tax benefits allowed to a RIC under Subchapter M of the Code. Historically it has been the policy of the Company to pay out as a dividend all or substantially all of those amounts. The amount to be paid out as a dividend has traditionally been determined by the Board of Directors each quarter based on the annual estimate of the Company s taxable income by the management of the Company. At its year-end the Company may pay a bonus distribution, in addition to the other distributions, to ensure that it has paid out at least 90% of its net ordinary taxable income and net realized short-term capital gains in excess of net realized long-term capital losses for the year. See Note 3. for a discussion of the final dividend the Company has declared to be paid immediately prior to the merger. Through December 31, 2008, the Company has made all required distributions on its 2008 distributable income to satisfy its RIC requirements.

Distributions which exceed net investment income and net realized capital gains for financial reporting purposes but not for tax purposes are reported as distributions in excess of net investment income and net realized capital gains, respectively. To the extent that they exceed net investment income and net realized gains for tax purposes, they are reported as distributions of paid-in capital (i.e., return of capital).

Consideration of Subsequent Events.

The Company evaluated events and transactions occurring after September 30, 2009 through November 12, 2009, the date these consolidated interim financial statements were issued, to identify subsequent events which may need to be recognized or non-recognizable events which would need to be disclosed. No recognizable

Table of Contents

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

events were identified (see Note 16. Subsequent Events for non-recognizable events or transactions identified for disclosure).

Note 5. Investments

As described below (see Note 6. Fair Value Measurements), the Company accounts for its portfolio investments at fair value as defined by ASC Topic 820. At September 30, 2009 and December 31, 2008, investments consisted of the following:

	September 30, 2009		December 31, 2008	
	Cost	Fair Value	Cost	Fair Value
Investments in debt securities	$ 289,057,140	$ 248,042,057	$ 344,683,219	$ 308,079,975
Investments in equity securities	16,173,731	9,390,266	21,215,806	14,290,773
Total	$ 305,230,871	$ 257,432,323	$ 365,899,025	$ 322,370,748

At September 30, 2009 and December 31, 2008, $99.4 million and $123.5 million, respectively, of the Company s portfolio investments at fair value were at fixed rates, which represented approximately 39% and 38%, respectively, of the Company s total portfolio of investments at fair value. The Company generally structures its subordinated debt at fixed rates, while most of its senior secured and junior secured loans are at variable rates determined on the basis of a benchmark LIBOR or prime rate. The Company s loans generally have stated maturities ranging from 4 to 7.5 years.

At September 30, 2009 and December 31, 2008, the Company had equity investments and warrant positions designed to provide the Company with an opportunity for an enhanced internal rate of return. These instruments generally do not produce a current return, but are held for potential investment appreciation and capital gains.

During the three months ended September 30, 2009, the Company realized a loss of $17.7 million on investments principally from the sale of three investments, one of which was from a syndicated loan. During the nine months ended September 30, 2009, the Company realized a net loss of $29.7 million on investments primarily from the sale of four investments, two of which were from syndicated loans. During the three months ended September 30, 2008, the Company realized a net gain of $456,000 principally from the sale of one equity investment. During the nine months ended September 30, 2008, the Company realized a net gain of $22,000, which related to the sale of one debt investment and the sale of one equity investment, offset by the cancellation of warrants which the Company had previously written down to zero. During the three and nine months ended September 30, 2009 the Company recorded unrealized appreciation (depreciation) of $12.8 million and $(4.1) million, respectively, and during the three and nine months ended September 30, 2008, the Company recorded unrealized depreciation of $7.1 million and $20.4 million, respectively.

The composition of the Company s investments as of September 30, 2009 and December 31, 2008 at cost and fair value was as follows:

	September 30, 2009				December 31, 2008			
	Cost	%(1)	Fair Value	%(1)	Cost	%(1)	Fair Value	%(1)
ior Secured ot	$ 151,762,717	49.7%	$ 125,895,068	48.9%	$ 171,889,470	47.0%	$ 156,638,667	48.
ior Secured ot	49,636,976	16.3	46,846,973	18.2	64,232,689	17.5	58,076,196	18.
ordinated Debt	87,657,447	28.7	75,300,016	29.3	108,561,060	29.7	93,365,112	29.
rants/Equity	16,173,731	5.3	9,390,266	3.6	21,215,806	5.8	14,290,773	4.
al	$ 305,230,871	100.0%	$ 257,432,323	100.0%	$ 365,899,025	100.0%	$ 322,370,748	100.

(1) Represents percentage of total portfolio.

Table of Contents

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

The composition of the Company s investment portfolio by industry sector, using Moody s Industry Classifications as of September 30, 2009 and December 31, 2008 at cost and fair value was as follows:

	September 30, 2009				December 31, 2008		
	Cost	**%(1)**	**Fair Value**	**%(1)**	**Cost**	**%(1)**	**Fair Value**
	$ 51,630,468	16.9%	$ 36,317,853	14.1%	$ 51,384,711	14.0%	$ 39,527,874
Nondurable Consumer	38,542,006	12.6	35,301,536	13.7	39,609,196	10.8	39,247,796
, Education &	38,478,623	12.6	35,673,123	13.9	39,749,005	10.9	39,501,102
e	30,462,731	10.0	22,205,720	8.6	33,276,374	9.1	26,487,272
Leather	28,827,184	9.4	27,472,364	10.7	29,557,681	8.1	29,368,566
Iinerals	23,111,237	7.6	23,111,237	9.0	23,049,480	6.3	22,453,909
eel, Iron & Nonprecious	18,001,311	5.9	10,687,048	4.1	18,092,545	4.9	17,245,764
	15,798,122	5.2	15,698,746	6.1	31,033,364	8.5	30,033,495
es	11,367,454	3.7	11,286,420	4.4	10,978,984	3.0	10,872,284
s & Durable Consumer	11,110,217	3.6	6,577,119	2.5	11,005,810	3.0	9,333,052
Publishing	9,159,502	3.0	7,550,800	2.9	26,302,411	7.2	18,159,998
	8,724,829	2.9	8,412,229	3.3	8,556,102	2.3	8,164,902
	8,515,329	2.8	8,750,177	3.4	8,156,189	2.2	8,278,569
	5,052,366	1.7	3,826,463	1.5	5,000,000	1.4	4,048,200
z Real Estate	4,415,588	1.5	4,415,588	1.7	4,613,182	1.3	4,613,182
/Conglomerate Service	1,570,736	0.5			1,570,736	0.4	623,500
& Defense	463,168	0.1	145,900	0.1	463,168	0.1	173,600
Plastic & Rubber					16,659,410	4.6	9,347,006
					3,840,677	1.1	3,840,677
ood & Miscellaneous					3,000,000	0.8	1,050,000
	$ 305,230,871	100.0%	$ 257,432,323	100.0%	$ 365,899,025	100.0%	$ 322,370,748

(1) Represents percentage of total portfolio.

As required by the 1940 Act, the Company classifies its investments by level of control. Control Investments are defined in the 1940 Act as investments in those companies that the Company is deemed to Control. Generally, under the 1940 Act, the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. Non-Control/Non-Affiliate Investments are those investments that are neither Control Investments nor Affiliate Investments. At September 30, 2009 and December 31, 2008, the Company owned greater than 5% but less than 25% of the voting securities in four investments. At September 30, 2009 and December 31, 2008, the Company owned 25% or more of the voting securities in four investments.

Note 6. Fair Value Measurements

The Company accounts for its portfolio investments and interest rate swaps at fair value. ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. Fair value is defined as the price that would be established to sell an asset or transfer a liability in an orderly transaction between market participants in what would be the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or parameters

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the investments or market and the investments complexity.

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined in ASC Topic 820 and directly related to the amount of subjectivity associated with the inputs to determining the fair value of these assets and liabilities, are as follows:

Level 1 Unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data at the measurement date for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table presents the financial instruments carried at fair value as of September 30, 2009, by caption on the Consolidated Balance Sheet for each of the three levels of the fair value hierarchy.

	As of September 30, 2009			
	Quoted Market Prices in Active Markets (Level 1)	Internal Models with Significant Observable Market Parameters (Level 2)	Internal Models with Significant Unobservable Market Parameters (Level 3)	Total Fair Value Reported in Consolidated Balance Sheet
Investments:				
Non-affiliate investments	$ 213,066	$ 17,502,923	$ 173,197,666	$ 190,913,655
Affiliate investments			45,953,070	45,953,070
Control investments			20,565,598	20,565,598
Total investments at fair value	$ 213,066	$ 17,502,923	$ 239,716,334	$ 257,432,323

The following table provides a roll-forward in the changes in fair value from December 31, 2008 to September 30, 2009, for all investments for which the Company determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the fact that the unobservable factors are the most significant to the overall fair value measurement.

However, Level 3 financial instruments also typically include, in addition to the unobservable or Level 3 components, observable components (that is, Level 1 and Level 2 components that are actively quoted and can be validated to external sources). Accordingly, the

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

appreciation (depreciation) in the table below includes changes in fair value due in part to observable Level 1 and Level 2 factors that are part of the valuation methodology.

	Fair Value Measurements Using Unobservable inputs (Level 3)			
	Non-Affiliate Investments	Affiliate Investments	Control Investments	Total
Fair Value December 31, 2008	$ 220,017,120	$ 51,457,082	$ 30,427,046	$ 301,901,248
Total realized losses			(26,700,640)	(26,700,640)
Change in unrealized depreciation	(8,579,846)	(4,495,048)	6,360,208	(6,714,686)(1)
Purchases, issuances, settlements and other, net	(25,337,778)	(1,008,964)	(2,422,846)	(28,769,588)
Transfers within Level 3	(12,901,830)		12,901,830	
Transfers in (out) of Level 3				
Fair value as of September 30, 2009	$ 173,197,666	$ 45,953,070	$ 20,565,598	$ 239,716,334

(1) Relates to assets held at September 30, 2009

The Company estimates the fair value of its Level 3 debt investments by first estimating the enterprise value of the portfolio company which issued the debt investment and augments the valuation techniques it uses to estimate the fair value of its debt investments where there is not a readily available market value (Level 3). To estimate the enterprise value of a portfolio company, the Company analyzes various factors, including the portfolio companies historical and projected financial results. Typically, private companies are valued based on multiples of EBITDA (Earning Before Interest, Taxes, Depreciation and Amortization), cash flow, net income, revenues or, in limited instances, book value.

In estimating a multiple to use for valuation purposes, the Company looks to private merger and acquisition statistics, discounted public trading multiples or industry practices. In some cases, the valuation may be based on a combination of valuation methodologies, including but not limited to, multiple based, discounted cash flow and liquidation analysis. If a portfolio company was distressed, a liquidation analysis may provide the best indication of enterprise value.

The Company uses a bond-yield model to value these investments based on the present value of expected cash flows. The primary inputs into the model are market interest rates for debt with similar characteristics and an adjustment for the portfolio company s credit risk. The credit risk component of the valuation considers several factors including financial performance, business outlook, debt priority and collateral position. During the three months ended September 30, 2009 and 2008, the Company recorded net unrealized appreciation (depreciation) of $12.8 million and $(7.1) million, respectively, on its investments. During the nine months ended September 30, 2009 and 2008, the Company recorded net unrealized depreciation of $4.1 million and $20.4 million, respectively, on its investments. For the three months ended September 30, 2009, the Company s net unrealized appreciation consisted of the following: approximately $1.4 million of unrealized appreciation which resulted from quoted market prices on the Company s syndicated loan portfolio; approximately $13.6 million of unrealized appreciation primarily from the reversal of previously recorded unrealized depreciation as a result of realizing a loss on sale of investments; partially offset by approximately $2.2 million of unrealized depreciation which resulted from changes in market multiples and interest rates. For the nine months ended September 30, 2009, the Company s net unrealized depreciation consisted of the following: approximately $3.9 million of net unrealized depreciation resulted from the following: approximately $16.0 million of unrealized depreciation from a decline in cash flows of the Company s portfolio companies, offset by approximately $12.1 million in unrealized appreciation due to the reversal of previously recorded unrealized depreciation as a result of realizing a loss on sale of investments; approximately $2.8 million, respectively, of unrealized depreciation which resulted from changes in market multiples and interest rates; offset by approximately $2.6 million, respectively, of unrealized appreciation which resulted from quoted

Table of Contents

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

market prices on the Company s syndicated loan portfolio. For the nine months ended September 30, 2008, the Company s net unrealized depreciation consisted of the following: approximately $2.8 million, which resulted from quoted market prices on the Company s syndicated loan portfolio as a result of disruption in the financial credit markets for broadly syndicated loans; approximately $12.3 million, resulted from a decline in cash flows of the Company s portfolio companies; and approximately $5.3 million of unrealized appreciation which resulted from changes in market multiples and interest rates.

Note 7. Borrowings

On September 18, 2006, the Company, through a consolidated wholly-owned bankruptcy remote, special purpose subsidiary, entered into an amended and restated securitization revolving credit facility (the Securitization Facility) with an entity affiliated with BMO Capital Markets Corp. (formerly known as Harris Nesbitt Corp.). The Securitization Facility allowed the special purpose subsidiary to borrow up to $140 million through the issuance of notes to a multi-seller commercial paper conduit administered by the affiliated entity. The Securitization Facility also required bank liquidity commitments (Liquidity Facility) to provide liquidity support to the conduit. The Liquidity Facility was provided by the lender that participated in the Securitization Facility for a period of 364-days and was renewable annually thereafter at the option of the lender. On May 2, 2007, the Company amended its Securitization Facility to lower the interest rate payable on any outstanding borrowings under the Securitization Facility from the commercial paper rate plus 1.35% to the commercial paper rate plus 1.00% during the period of time the Company was permitted to make draws under the Securitization Facility. The amendment also reduced or eliminated certain restrictions pertaining to certain loan covenants. On August 31, 2007, the Company amended its Securitization Facility to increase its borrowing capacity thereunder by $35 million. The amendment also extended the commitment termination date from July 23, 2009 to July 22, 2010 and reduced or eliminated certain restrictions pertaining to certain loan covenants. The Securitization Facility provided for the payment by the Company to the lender of a monthly fee equal to 0.25% per annum on the unused amount of the Securitization Facility.

On April 11, 2008, the Company entered into the Amended Securitization Facility with an entity affiliated with BMO Capital Markets Corp. and Branch Banking and Trust Company (the Lenders). The Amended Securitization Facility amended and restated the Securitization Facility to, among other things: (i) increase the borrowing capacity from $175 million to $225 million; (ii) extend the maturity date from July 22, 2010 to April 11, 2011 (unless extended prior to such date for an additional 364-day period with the consent of the lenders thereto); (iii) increase the interest rate payable under the facility from the commercial paper rate plus 1.00% to the commercial paper rate plus 1.75% on up to $175 million of outstanding borrowings and the LIBOR rate plus 1.75% on up to $50 million of outstanding borrowings; and (iv) increase the unused commitment fee from 0.25% per annum to 0.30% per annum.

Similar to the Securitization Facility, the Amended Securitization 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. These restrictions could have affected the amount of notes the Company s special purpose subsidiary could issue from time to time. The Amended Securitization 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 have resulted in the early termination of the Amended Securitization Facility. The Amended Securitization Facility also requires the maintenance of the Liquidity Facility. The Liquidity Facility was provided by the Lenders that participate in the Securitization Facility for a period of 364-days and was renewable annually thereafter at the option of the lenders. The Liquidity Facility was scheduled to be renewed in April 2009. The Amended Securitization Facility is secured by all of the loans held by the Company s special purpose subsidiary.

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

On April 3, 2009 a termination event occurred under the Amended Securitization Facility due to the amount of the Company s advances outstanding under the facility exceeding the maximum availability under the facility for more than three consecutive business days. The maximum availability under the facility is determined by, among other things, the fair market value of all eligible loans serving as collateral under the facility. Because the fair market value of certain eligible loans decreased at December 31, 2008, the Company s advances outstanding under the facility exceeded the maximum availability under the facility. This determination was made in connection with the delivery of a borrowing base report to the facility lenders on March 31, 2009. As of such date, the Company had $157.6 million outstanding under the facility. As a result of the occurrence of the termination event under the facility, the Company can no longer make additional advances under the facility. Also, the interest rate payable under the Amended Securitization Facility increased from the commercial paper rate plus 1.75% to the prime rate plus 3.75%. In addition, the terms of the facility require that all principal, interest and fees collected from the debt investments secured by the facility must be used to pay down amounts outstanding under the facility within 24 months following the date of the termination event. The facility also permits the lenders, upon notice to the Company, to accelerate amounts outstanding under the facility and exercise other rights and remedies provided by the facility, including the right to sell the collateral under the facility. The Company has not received any such notice from the lenders.

On July 9, 2009, the Company entered into an agreement, limited consent and amendment (the Agreement, Consent and Amendment) related to, among other things, the Amended Securitization Facility with the Lenders and other related parties. In connection with the Agreement, Consent and Amendment, the Lenders consented to the sale of the Encore Legal Solutions, Inc. and L.A. Spas, Inc. term loans and equity interests and the Company agreed to terminate all eight outstanding swap agreements and pay the counterparty to such swaps approximately $3.3 million. Payments on the terminated swap liability will be made at the rate of $500,000 per month for 6 months beginning in July 2009 and $251,000 in January 2010. The Lenders agreed that the monthly payment of the swap liability will be paid from the collection of principal, interest and fees collected from the debt investments. In addition, the Company agreed with the Lenders that it will not accept equity securities or other non-cash consideration (i) in forbearance of the exercise of any rights under any of the loans or debt instruments held in the Company s investment portfolio or (ii) the cash interest payments on these investments.

In connection with the origination and amendment of the Securitization Facility and the Amended Securitization Facility, the Company incurred $2.4 million of fees which are being amortized over the term of the facility.

At September 30, 2009 and December 31, 2008, $112.7 million and $162.6 million, respectively, of borrowings were outstanding under the Amended Securitization Facility. At September 30, 2009, the interest rate under the Amended Securitization Facility was 7.0%. Interest expense for the three and nine months ended September 30, 2009 and 2008 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest charges	$ 2,273,048	$ 1,579,647	$ 6,316,663	$ 5,299,168
Amortization of debt issuance costs	131,728	131,728	395,184	322,360
Unused facility fees		78,380	56,736	152,980

Total	$ 2,404,776	$ 1,789,755	$ 6,768,583	$ 5,774,508

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 8. Stock Option Plan and Restricted Stock Plan

As of September 30, 2009, 3,644,677 shares of common stock are reserved for issuance upon exercise of options to be granted under the Company s stock option plan and 2,065,045 shares of the Company s common stock were reserved for issuance under the Company s employee restricted stock plan (collectively, the Plans). On March 3, 2009, awards of 446,250 shares of restricted stock were granted to the Company s executive officers with a fair value of $1.27 (the closing price of the common stock at date of grant). The total fair value of $567,000 is being expensed over a four year vesting period. As of September 30, 2009, 3,189,107 options were outstanding, 2,802,388 of which were exercisable and 633,750 shares of restricted stock were outstanding, none of which are vested. The options have a weighted average remaining contractual life of 6.8 years, a weighted average exercise price of $12.43, and an aggregate intrinsic value of $0. The restricted stock vests over four years. The Company s stock option plan and employee restricted stock plan will be terminated in the event the Merger described in Note 3 is consummated.

The Company accounts for share-based payments utilizing the modified prospective method of transition as permitted under ASC Topic 718. Under this transition method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that were outstanding at the date of adoption. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. For shares granted in February 2008, this model used the following assumptions: annual dividend rate of 11.8%, risk free interest rate of 3.0%, expected volatility of 26%, and the expected life of the options of 6.5 years. The Company calculated its expected term assumption using guidance provided by SEC Staff Accounting Bulletin 107 (SAB 107). SAB 107 allows companies to use a simplified expected term calculation in instances where no historical experience exists, provided that the companies meet specific criteria. Expected volatility was based on the Company s historical volatility.

Assumptions used with respect to future grants may change as the Company s actual experience may be different. The fair value of options granted in 2008 was approximately $0.47, using the Black-Scholes option pricing model. The Company has adopted the policy of recognizing compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. For the three and nine months ended September 30, 2009, the Company recorded compensation expense related to stock awards of approximately $169,000 and $590,000, respectively, and for the three and nine months ended September 30, 2008, the Company recorded compensation expense related to stock awards of approximately $183,000 and $569,000, respectively, which is included in compensation expense in the consolidated statements of operations. The Company has not historically recorded the tax benefits associated with the expensing of stock options since the Company elected to be treated as a RIC under Subchapter M of the Internal Revenue Code and, as such, the Company is not subject to federal income tax on the portion of taxable income and gains distributed to stockholders, provided that at least 90% of its annual taxable income is distributed. As of September 30, 2009, there was $199,000 of unrecognized compensation cost related to unvested options which is expected to be recognized over 1.4 years. As of September 30, 2009, there was $1.5 million of unrecognized compensation cost related to unvested restricted stock awards which is expected to be recognized over 3.4 years.

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 9. Share Data and Common Stock

The following table sets forth a reconciliation of weighted average shares outstanding for computing basic and diluted income (loss) per common share for the three and nine months ended September 30, 2009 and 2008.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted average common shares outstanding, basic	20,950,501	20,702,485	20,943,734	20,682,167
Effect of dilutive stock options				
Weighted average common shares outstanding, diluted	20,950,501	20,702,485	20,943,734	20,682,167

The dilutive effect of stock options and restricted stock is computed using the treasury stock method. Options on 3.2 million shares (2009 and 2008), and restricted stock of 633,750 and 187,500 shares in 2009 and 2008, respectively, were anti-dilutive and therefore excluded from the computation of diluted loss per share.

In 2005, the Company established a dividend reinvestment plan, and during the nine months ended September 30, 2009 and the year ended December 31, 2008, issued 123,000 and 177,000 shares, respectively, in connection with dividends paid. The following table reflects the Company s dividends declared since January 31, 2008:

Date Declared	Record Date	Payment Date	Amount
October 30, 2008	December 22, 2008	January 15, 2009	$0.25
July 30, 2008	September 12, 2008	October 15, 2008	$0.33
May 2, 2008	June 5, 2008	July 16, 2008	$0.33
February 27, 2008	March 14, 2008	April 16, 2008	$0.33

On October 28, 2009, the Company terminated its dividend reinvestment plan.

Note 10. Commitments and Contingencies

The balance of unused commitments to extend credit was $17.3 million and $23.8 million at September 30, 2009 and December 31, 2008, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as contingent investment draws, revolving credit arrangements or similar transactions. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the counterparty. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Since April 3, 2009, the date of the termination event under the Amended Securitization Facility, the Company has funded revolver draws under its outstanding commitments. The Company may not have the ability to fund revolver draw requests in the future.

In connection with borrowings under the Amended Securitization Facility, the Company s special purpose subsidiary was required under certain circumstances to enter into interest rate swap agreements or other interest rate hedging transactions. The Company had agreed to guarantee the payment of certain swap breakage costs that may be payable by the Company s special purpose subsidiary in connection with any such interest rate swap agreements or other interest rate hedging transactions. On July 9, 2009, the Company terminated all eight interest rate swap agreements, and realized a loss of $3.3 million, in connection with

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

entering into an agreement, limited consent and amendment to the Company s Amended Securitization Facility with the Lenders (see Note 7. Borrowings).

The Company leases its corporate offices and certain equipment under operating leases with terms expiring in 2011. Future minimum lease payments due under operating leases at September 30, 2009 are as follows: $62,000 remainder of 2009, $247,000 2010, $21,000 2011. Rent expense was approximately $56,000 and $173,000 for the three and nine months ended September 30, 2009, respectively, and was approximately $69,000 and $205,000 for the three and nine months ended September 30, 2008, respectively. At September 30, 2009, the Company had an outstanding letter of credit in the amount of $38,000 as security deposit for the lease of the Company s corporate offices.

Note 11. Concentrations of Credit Risk

The Company s portfolio companies are primarily small- to mid-sized companies that operate in a variety of industries.

At September 30, 2009 and December 31, 2008, the Company did not have any investment in excess of 10% of the total investment portfolio at fair value. Investment income, consisting of interest, dividends, fees, and other investment income, can fluctuate dramatically upon repayment of an investment or sale of an equity interest. Revenue recognition in any given period can be highly concentrated among several portfolio companies. During the three and nine months ended September 30, 2009 and 2008, the Company did not record investment income from any portfolio company in excess of 10% of total investment income.

Note 12. Income Taxes

Effective August 1, 2005, the Company elected to be treated as a RIC. Accordingly, the Company s RIC tax year was initially filed on a July 31 basis. On February 11, 2008, the Company was granted permission by the Internal Revenue Service to change its RIC tax year from July 31 to December 31, effective on December 31, 2007. Accordingly, the Company prepared a short period tax return from August 1, 2007 through December 31, 2007, and will file on a calendar year basis for 2008 and thereafter. The Company s policy has historically been to comply with the requirements of Subchapter M of the Code that are applicable to RICs and to distribute substantially all of its taxable income to its shareholders. In light of the matters described in Note 2, it may not be possible for the Company to continue to comply with these requirements. However, the Company intends to take all steps possible to maintain its RIC tax status. Therefore, no federal, state or local income tax provision is included in the accompanying financial statements. However, to the extent that the Company is not able to maintain its RIC tax status, it may incur tax liability not currently provided for in the Company s balance sheet.

Tax loss for the nine months ended September 30, 2009 is as follows:

	January 1, 2009 to September 30, 2009
GAAP net investment income	$ 8,769,000

Tax timing differences of:		
Origination fees, net		(1,311,000)
Permanent impairment on loans		(11,826,000)
Stock compensation expense, original issue discount, depreciation and amortization, and other		1,953,000
Tax loss	$	(2,415,000)

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

Distributable income (loss) differs from GAAP net investment income primarily due to: (1) origination fees received in connection with investments in portfolio companies are treated as taxable income upon receipt; (2) certain stock compensation expense is not currently deductible for tax purposes; (3) certain debt investments that generate original issue discount; (4) depreciation and amortization; and (5) permanent impairment on loans. As a result of the tax loss for the nine months ended September 30, 2009, the Company did not have any required dividend distributions. However, see Note 3. for a discussion of the dividend the Company has declared to be paid immediately prior to the Merger.

Distributions which exceed tax distributable income (tax net investment income and realized gains, if any) are reported as distributions of paid-in capital (i.e., return of capital). The taxability of the distributions made during 2009 will be determined by the Company s tax earnings and profits for its tax year ending December 31, 2009.

The tax cost basis of the Company s investments as of September 30, 2009 approximates the book cost. There were no capital gain distributions in 2009 or 2008.

At September 30, 2009, the Company had a net capital loss carryforward of $25.2 million to offset net capital gains, to the extent provided by federal tax law. Of the total capital loss carryforward, $3.2 million will expire in the Company s tax year ending December 31, 2013, $900,000 will expire in the Company s tax year ending December 31, 2016, and $21.1 million will expire in the Company s tax year ending December 31, 2017.

As a condition to Prospect agreeing to execute the Merger Agreement, the Company agreed to reverse, immediately prior to the Merger, the $11.8 million federal income tax ordinary loss deduction, disclosed above, with respect to its investments in L.A. Spas, Inc. As a result, the Company estimates that distributable income for RIC purposes at September 30, 2009 would have been $9.4 million. If the Merger is approved by the Company s shareholders, immediately prior to the Merger, the Company will pay a final dividend in an amount equal to all of its undistributed net ordinary income and capital gains through the closing date of the Merger. It is currently estimated that the amount of the final dividend will be $0.38 per share assuming that the merger closes on December 2, 2009. The actual amount of the final dividend may be more or less than the estimated amount and will be determined immediately prior to the closing of the merger. In accordance with a recent IRS revenue procedure, the dividend will be payable up to 10% in cash and at least 90% in newly issued shares of the Company s common stock.

Note 13. Hedging Activities

Since 2006, the Company, through its special purpose subsidiary, entered into eight interest rate swap agreements. No new interest rate swap agreements were executed during the nine months ended September 30, 2009. On July 9, 2009, the Company terminated all eight interest rate swap agreements, and realized a loss of $3.3 million, in connection with entering into an agreement, limited consent and amendment to the Company s Amended Securitization Facility with the Lenders (see Note 7. Borrowings). Payments on the terminated swap liability will be made at the rate of $500,000 per month for 6 months beginning in July 2009 and $251,000 in January 2010. The Lenders agreed that the monthly payment of the swap liability will be paid from the collection of principal, interest and fees collected from the debt investments. The Company did not designate any of its interest rate swaps as hedges for financial accounting purposes. Each month these interest rate swaps were settled for cash.

Table of Contents

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 14. Financial Highlights

	For the Nine Months Ended September 30, 2009	2008
Per Share Data:		
Net asset value at beginning of period	$ 8.65	$ 10.73
Net investment income	.42	.95
Net realized loss on investments	(1.42)	
Net realized loss on interest rate swaps	(.16)	
Net change in unrealized depreciation on investments	(.19)	(.98)
Effect of issuance of common stock	(.04)	
Distributions from net investment income		(.95)
Distributions in excess of net investment income		(.04)
Net change in unrealized swap appreciation	.15	
Stock based compensation expense	.03	.03
Net asset value at end of period	$ 7.44	$ 9.74
Total net asset value return(1)	(14.0)%	0.0%
Per share market value, beginning of period	$ 3.64	$ 10.09
Per share market value, end of period	$ 4.08	$ 6.37
Total market value return(2)	12.1%	(27.0)%
Shares outstanding at end of period	20,950,501	20,702,485
Ratios and Supplemental Data:		
Net assets at end of period	$ 155,930,000	$ 201,589,000
Average net assets	168,702,000	211,657,000
Ratio of operating expenses to average net assets (annualized)	12.5%	7.8%
Ratio of net investment income to average net assets (annualized)	6.9%	12.4%
Average borrowings outstanding	$ 137,389,000	$ 138,173,000
Average amount of borrowings per share	$ 6.56	$ 6.67

(1) The total net asset value return (not annualized) reflects the change in net asset value of a share of stock, plus dividends.

(2) The total market value return (not annualized) reflects the change in the ending market value per share plus dividends, divided by the beginning market value per share.

Note 15. Litigation

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

Table of Contents

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

On or about August 11, 2009, Thomas Webster filed a putative class action lawsuit against the Company, its directors and certain of its officers in the Superior Court of the State of Connecticut. The lawsuit is essentially identical to the class action lawsuit filed by Bruce Belodoff against the Company on or about August 6, 2009, which is described above, and was filed by two of the same law firms that filed such lawsuit.

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

All three complaints seek to enjoin consummation of the merger or, in the event that the Merger has been consummated prior to the entry of a judgment, to rescind the transaction and/or award rescissory damages. On October 9, 2009, the Company filed motions to strike the complaints in all three lawsuits on the basis that the plaintiffs allegations failed to state any claims upon which relief may be granted as a matter of law. On the same day, Prospect Capital filed a motion to strike the lawsuit filed by Brian Killion. Pursuant to a stipulation and order entered on November 9, 2009, the three pending actions all will be consolidated before the Complex Litigation Docket of the Superior Court in Stamford, Connecticut.

On November 9, 2009, the Company, the other defendants and the plaintiffs to the three pending actions entered into a Memorandum of Understanding (MOU) with respect to a proposed settlement of the actions. The proposed settlement of the actions remains subject to negotiation of final documentation, confirmatory discovery, and court approval. Pursuant to the MOU, the plaintiffs have agreed that upon final approval of the settlement the actions will be dismissed with prejudice against all of the defendants and the Company acknowledged that it had previously made certain disclosures in the proxy statement relating to the merger in response to requests by the plaintiffs. In addition, the proposed settlement provides that the Company will pay plaintiffs attorneys fees and expenses, as awarded by the court, in an amount not to exceed $250,000. Although the Company and the other defendants to the three actions denied and continue to deny the substantive allegations made in the actions, the Company agreed to settle the actions in order to avoid costly litigation.

On October 21, 2009, Deutsche Bank AG filed a complaint in the United States District Court, Southern District of New York, against the Company alleging that the Company breached the terms of a trade confirmation between the Company and Deutsche Bank AG by, among other things, failing and refusing to settle a trade with Deutsche Bank relating to the loan that was the subject of the trade confirmation. Deutsche Bank further alleged that the Company breached an implied covenant of good faith and fair dealing under the trade confirmation. Deutsche Bank is seeking an award of damages as well as reasonable costs, attorneys fees, disbursements and other proper charges and expenses as determined by the Court. At this time the Company is unable to determine whether an unfavorable outcome from this matter is probable or remote or to estimate the amount or range of potential loss, if any, although the Company believes that the amount of any judgment would not be material to the Company s financial condition or results of operations. The Company further believes that this claim is without merit and intends to vigorously defend against it.

Note 16. Subsequent Events

On October 26, 2009, the Company filed a definitive proxy statement calling for a special meeting of shareholders to be held on November 18, 2009 to vote on the proposed merger with Prospect Capital. Patriot Capital shareholders at the close of business on October 21, 2009 will be eligible to vote at the special meeting on the proposed merger.

Table of Contents

Patriot Capital Funding, Inc.

Notes to Consolidated Financial Statements (Continued)

On October 28, 2009, the board of directors declared a final dividend, contingent upon the consummation of the Merger with Prospect Capital, with a record date of November 2, 2009. According to this action by the board of directors, if the Merger is approved by the Company s shareholders, immediately prior to the Merger, the Company will pay a final dividend in an amount equal to all of its undistributed net ordinary income and capital gains through the closing date of the Merger. It is currently estimated that the amount of the final dividend will be $0.38 per share assuming that the merger closes on November 25, 2009. The actual amount of the final dividend may be more or less than the estimated amount and will be determined immediately prior to the closing of the merger. In accordance with a recent IRS revenue procedure, the dividend will be payable up to 10% in cash and at least 90% in newly issued shares of the Company s common stock.

On November 3, 2009, the board of directors modified the previously declared final dividend by determining that payment of the final dividend will not be contingent upon the closing of the Merger with Prospect Capital. It is currently estimated that the amount of the final dividend will be $0.38 per share assuming that the payment date is December 2, 2009. The actual amount of the final dividend may be more or less than the estimated amount and will be determined immediately prior to the date on which the final dividend is paid to the Company s shareholders. In accordance with a recent IRS revenue procedure, the dividend will be payable up to 10% in cash and at least 90% in newly issued shares of the Company s common stock.

On November 9, 2009, the Company, the other defendants and the plaintiffs to the three pending actions described in Note 15. Litigation above entered into a Memorandum of Understanding (MOU) with respect to a proposed settlement of the actions. For a detailed discussion of the MOU, see Note 15. Litigation above.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We announced on August 3, 2009 that we intend to acquire the outstanding shares of Patriot common stock. The merger agreement provides that the holders of Patriot s common stock will receive the right to receive 0.3992 shares of our common stock, with such ratio to be reduced for any tax distributions Patriot may declare before closing.. This is estimated to result in approximately 8.5 million shares of common stock being issued by us. In connection with the transaction, we will repay all the outstanding borrowings of Patriot, in compliance with the merger agreement. The unaudited pro forma condensed combined financial information has been derived from and should be read in conjunction with the historical consolidated combined financial statements and the related notes of both Patriot and ours, which are included elsewhere in this document.

The following unaudited pro forma condensed combined financial information and explanatory notes illustrate the effect of the merger on our financial position and results of operations based upon the companies respective historical financial positions and results of operations under the acquisition method of accounting with us treated as the acquirer. Under this method of accounting, the assets and liabilities of Patriot will be recorded by us at their estimated fair values as of the date the merger is completed. The unaudited pro forma condensed combined financial information of ours and Patriot reflects the unaudited combined condensed balance sheet as of September 30, 2009 and the unaudited combined condensed income statements for the year ended June 30, 2009 and the three months ended September 30, 2009, updated where more timely information is available. The condensed consolidated balance sheet as of September 30, 2009 assumes the acquisition took place on that date. The condensed consolidated statements of income for the year ended June 30, 2009 and the three months ended September 30, 2009 assumes the acquisition took place on July 1, 2008. The unaudited pro forma condensed combined balance sheet also reflects the impact of certain transactions that occurred subsequent to September 30, 2009.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined companies had the companies actually been combined at the beginning of each period presented, nor the impact of possible business model changes. The unaudited pro forma condensed combined financial information also does not consider any potential impacts of current market conditions on revenues, expense efficiencies, asset dispositions, and share repurchases, among other factors. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma condensed combined financial information, the allocation of the pro forma purchase price reflected in the unaudited pro forma condensed combined financial information is subject to adjustment and may vary significantly from the actual purchase price allocation that will be recorded upon completion of the merger.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
September 30, 2009

	Prospect	Pro Forma Patriot[(A)]	Pro Forma Adjustments	Pro Forma
		(In thousands) Unaudited		
ASSETS AND LIABILITIES DATA				
Investment Securities	510,798	256,132	(60,977)[(C)]	705,953
Cash	92,163		(19,822)[(B)]	72,341
Other Assets	12,534	2,395		14,929
Total Assets	615,495	258,527	(80,799)	793,223
Borrowings		106,138	106,138[(C)] (106,138)[(C)]	106,138
Other Liabilities	8,249	5,895		14,144
Total Liabilities	8,249	112,033		120,282
Net Assets	607,246	146,494	(19,822)[(B)]	672,941
			(60,977)[(C)]	

See accompanying notes to unaudited pro forma condensed combined financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES

PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
Three Months Ended September 30, 2009

	Three Months Ended September 30, 2009		Pro Forma	
	Prospect	Patriot	Adjustments	Pro Forma
	(In thousands, except share and per share data)			Unaudited
Performance Data				
Interest and Dividend Income	21,053	7,800	(D)	28,853
Fee Income		138		138
Other Income	464	112		576
Total Investment Income	21,517	8,050		29,567
Interest Expense	(1,374)	(2,405)	808(E)	(2,971)
Base Management Fees	(3,209)		(1,408)(F)	(4,617)
Income Incentive Fees	(3,080)		(219)(G)	(3,299)
General and Administrative Expenses	(1,536)	(4,497)	550(H)	(5,483)
Total Expenses	(9,199)	(6,902)	(269)	(16,370)
Net Investment Income	12,318	1,148	(269)	13,197
Realized Gain/(Loss)		(20,906)		(20,906)
Unrealized Gain/(Loss)	(18,696)	15,023		(3,673)
Net Realized and Unrealized Gain/(Loss)	(18,696)	(5,883)		(24,579)
Net Income	(6,378)	(4,735)	(269)	(11,382)
Average Shares Outstanding	49,805	20,951	(12,416)(I)	58,340
Earnings Per Share	(0.13)	(0.23)		(0.20)

See accompanying notes to unaudited pro forma condensed combined financial statements.

Table of Contents

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES

PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
Year Ended June 30, 2009

	Year Ended June 30, 2009				
	Prospect	Patriot	Pro Forma Adjustments		Pro Forma
	(In thousands, except share and per share data) Unaudited				
Performance Data					
Interest and Dividend Income	85,719	35,146		(D)	120,865
Fee Income		1,508			1,508
Other Income	14,762	338			