

PROSPECT CAPITAL CORP
Form N-2/A
August 03, 2007

As filed with the Securities and Exchange Commission on August 3, 2007
Registration No. 333-143819

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

- REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**
- PRE-EFFECTIVE AMENDMENT NO. 2**
- POST-EFFECTIVE AMENDMENT NO.**

PROSPECT CAPITAL CORPORATION

(Exact Name of Registrant as Specified in Charter)

**10 East 40th Street, 44th Floor
New York, NY 10016**

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: (212) 448-0702

**John F. Barry III
M. Grier Eliasek
c/o Prospect Capital Management, LLC
10 East 40th Street, 44th Floor
New York, NY 10016
(212) 448-0702**

(Name and Address of Agent for Service)

Copies of information to:
**Leonard B. Mackey, Jr., Esq.
Clifford Chance US LLP
31 West 52nd Street
New York, NY 10019-6131
(212) 878-8000**

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a distribution reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):

when declared effective pursuant to section 8(c).

If appropriate, check the following box:

This post-effective amendment designates a new effective date for a previously filed post-effective amendment registration statement.

This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is _____.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered ⁽¹⁾⁽²⁾	Proposed Maximum Offering Price Per	Proposed Maximum Aggregate	Amount of Registration Fee
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	Unit	Offering Price	
Common Stock, \$.001 par value per share ⁽²⁾		\$500,000,000	\$ 15,350.00
Preferred Stock ⁽²⁾			
Warrants ⁽³⁾			
Debt Securities ⁽⁴⁾			
Total		\$500,000,000 ⁽⁵⁾	\$ 15,350.00 ⁽¹⁾⁽⁶⁾

- (1) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee. The proposed maximum offering price per Security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of common stock or preferred stock as may be sold, from time to time.
- (3) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.
- (4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$500,000,000.
- (5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$500,000,000.
- (6) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

**Subject to Completion
Preliminary Prospectus dated August 3, 2007**

Prospectus dated , 2007

\$500,000,000

PROSPECT CAPITAL CORPORATION

**Common Stock
Preferred Stock
Warrants
Debt Securities**

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$500,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, (collectively, the "Securities") to provide us with funds to repay outstanding debt and to acquire investments that we reasonably believe are in our acquisition pipeline. Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of the prospectus and a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ National Market under the symbol "PSEC." As of July 30, 2007, the last reported sales price for our common stock was \$ 15.49.

Prospect Capital Corporation ("Prospect Capital" or the "Company") is a financial services company that lends to and invests in middle market privately held or thinly traded public companies.

The Company, a Maryland corporation, has been organized as a closed-end investment company since April 13, 2004 and has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"), and is a non-diversified investment company within the meaning of the 1940 Act.

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

Investing in our Securities involves a heightened risk of total loss of investment and is subject to risks. Before buying any Securities, you should read the discussion of the material risks of investing in our Securities in "Risk Factors" on page 11 of this prospectus. Please read this prospectus before you invest and keep it for future reference. The prospectus sets forth concisely the information about Prospect Capital that a prospective investor ought to know before investing and should be retained for future reference.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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

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The registration statement contains additional information about us and the Securities being registered by this prospectus. We file with or submit to the U.S. Securities and Exchange Commission, or the "SEC," annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934, or the "Exchange Act." This information and the information specifically regarding how we voted proxies, if any, relating to portfolio securities for the period ended June 30, 2006, 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.

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ABOUT THIS PROSPECTUS

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

PROSPECTUS SUMMARY

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

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

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

The Company

Prospect Capital is a financial services company that lends to and invests in middle market privately held or thinly traded public companies.

We were originally organized under the name "Prospect Street Energy Corporation" and we changed our name to "Prospect Energy Corporation" in June 2004. We changed our name again to "Prospect Capital Corporation" in May 2007 and at the same time terminated our policy of investing at least 80% of our net assets in energy companies. We have been organized as a closed-end investment company since April 13, 2004 and have filed an election to be treated as a business development company under the 1940 Act, and we are a non-diversified company within the meaning of the 1940 Act.

The Investment Adviser

Prospect Capital Management, an affiliate of Prospect Capital, manages our investment activities. Prospect Capital Management is an investment adviser that has been registered under the Investment Advisers Act of 1940, or the "Advisers Act," since March 31, 2004. Under an investment advisory agreement between the Company and Prospect Capital Management (the "Investment Advisory Agreement"), we have agreed to pay Prospect Capital Management investment advisory fees, which will consist of an annual base management fee based on our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities) as well as a two-part incentive fee based on our performance. Our headquarters are located at 10 East 40th Street, 44th

Floor, New York, NY 10016, and our telephone number is (212) 448-0702.

The Offering

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$500,000,000 of our Securities to provide us with funds to repay outstanding debt and to acquire investments that we reasonably believe are in our acquisition pipeline.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, to new stockholders, via an optional cash purchase, in which such new stockholder can purchase Securities directly from the Company for cash, or designated offeree program, in which certain designated individuals who may or may not be new shareholders can purchase Securities directly from the Company for cash, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

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

Use of proceeds

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our Securities for general corporate purposes, which may include investments in securities, repayment of indebtedness, acquisitions and other general corporate purposes. Pending these uses, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment. See "Use of Proceeds."

Distributions

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

Taxation

We have qualified and elected to be treated for federal income tax purposes as a regulated investment company, or "RIC." As a RIC, we generally do not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our qualification as a RIC and obtain RIC tax treatment, we must maintain specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. See "Distributions" and "Material U.S. Federal Income Tax Considerations."

Dividend reinvestment plan

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

The NASDAQ National Market Symbol

PSEC

Anti-takeover provisions

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

Management arrangements

Prospect Capital Management serves as our investment adviser. Prospect Administration serves as our administrator and has engaged Vastardis Fund Services, LLC (formerly, EOS Fund Services LLC, "Vastardis"), as sub-administrator. For a description of Prospect Capital Management, Prospect Administration, Vastardis and our contractual arrangements with these companies, see "Management" Investment Advisory Agreement, and "Administration Agreement."

Risk factors

Investment in our Securities involves certain risks relating to our structure and investment

objectives that should be considered by the prospective purchasers of the Securities. In addition, investment in our Securities involves certain risks relating to investing in the energy sector, including but not limited to risks associated with commodity pricing, regulation, production, demand, depletion and expiration, weather, and valuation. We have a limited operating history upon which you can evaluate our business. In addition, as a business development company, our portfolio includes securities primarily issued by privately held companies. These investments may involve a high degree of business and financial risk, and are generally less liquid than public securities. Also, our determinations of fair value of privately-held securities may differ materially from the values that would exist if there was a ready market for these investments. A large number of entities compete for the same kind of investment opportunities as we do. Moreover, our business requires a substantial amount of cash to operate and to grow, and we are dependent on external financing. In addition, the failure to qualify as a RIC eligible for pass-through tax treatment under Subchapter M of the Internal Revenue Code of 1986, or the "Code," on income distributed to stockholders could have a materially adverse effect on the total return, if any, obtainable from an investment in our Securities. See "Risk Factors" beginning on page 11 and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Securities.

Plan of distribution

We may offer, from time to time, up to \$500,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, on terms to be determined at the time of the offering, which may include a rights offering, an optional cash purchase, in which such new stockholder can purchase Securities directly from the Company for cash or designated offeree program in which certain designated individuals can purchase Securities directly from the Company for cash. Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. We may not

sell Securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such Securities. For more information, see [Plan of Distribution](#).

Recent Developments

On June 6, 2006, we announced that we closed a \$200 million three-year revolving credit facility with Rabobank Nederland as administrative agent and sole lead arranger. This credit facility is being used to refinance our \$50 million credit facility and, together with our equity capital, to make additional long-term investments. Interest on borrowings under the \$200 million credit facility is charged at LIBOR plus 125 basis points.

ESA Environmental Specialists, Inc. ("ESA"), recently filed voluntarily for reorganization under the bankruptcy code, in response to a foreclosure action by Prospect after Prospect learned that unauthorized cash distributions to management recently had been made by the controlling shareholder and CEO. Prospect has a senior-secured, first-lien debt position with collateral in the form of receivables, real estate, other assets, personal guarantees, and the stock of ESA's profitable subsidiary company The Healing Staff. Prospect's loan to ESA represents approximately 3.9% of Prospect's current asset base, and approximately 2.8% of Prospect's asset base assuming full drawdown of Prospect's credit facility.

Fees and Expenses

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. The table is based on our net assets at March 31, 2007 and assumes that we have borrowed all \$200 million available under our line of credit on that date, although no plans are currently in place to borrow this amount. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by [you](#), [us](#) or [Prospect Capital](#), or that [we](#) will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Prospect Capital.

Stockholder transaction expenses:

Sales load (as a percentage of offering price) ⁽¹⁾	4.50%
Offering expenses borne by us (as a percentage of offering price) ⁽²⁾	0.20%
Dividend reinvestment plan expenses ⁽³⁾	None
Total stockholder transaction expenses (as a percentage of offering price) ⁽⁴⁾	4.70%

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

Base management fee	3.41% ⁽⁵⁾
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)	2.32% ⁽⁶⁾
Interest payments on borrowed funds.	4.64% ⁽⁷⁾
Other expenses.	1.83% ⁽⁸⁾
Acquired Fund Fees and Expenses	0.07%
Total annual expenses	12.20% ⁽⁶⁾

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed all \$200 million available under our line of credit and that our annual operating expenses would remain at the levels set forth in the table above.

	1 year	3 years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$163.9	\$415.6

- * Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at March 31, 2007.
- (1) In the event that the Securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the estimated applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the estimated offering expenses borne by us as a percentage of the offering price.
- (3) The expenses of the dividend reinvestment plan are included in []other expenses.[]
- (4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.
- (5) Our base management fee is 2.00% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed \$200 million, the 2.00% management fee of gross assets equals approximately 3.41% of net assets. See []Management[]Investment Advisory Agreement[] and footnote 6 below.
- (6) We expect to invest all of the net proceeds from securities registered under the registration statement of which this prospectus is a part within three years or less of the date of the initial registration and may have capital gains and interest income that could result in the payment of an incentive fee to our Investment Adviser in the first year after completion of this offering. However, the incentive fee payable to our investment adviser is based on our performance and will not be paid unless we achieve certain goals. In the chart above, we have assumed a pre-incentive fee net investment income of 11.62% as a percentage of net assets. The incentive fee consists of two parts. The first part, the income incentive fee, which is payable quarterly in arrears, will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate, subject to a []catch up[] provision measured as of the end of each calendar quarter. In the three months ended March 31, 2007, we paid an incentive fee of \$1,754,000 (see calculation below). We expect the incentive fees we pay to increase to the extent we earn greater interest and dividend income through our investments in portfolio companies and, to a lesser extent, realize capital gains upon the sale of warrants or other equity investments in our portfolio companies. The []catch-up[] provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The catch-up provision is meant to provide our Investment Adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The income incentive fee will be computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate the income incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 5 above). The second part of the incentive fee, the

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capital gains incentive fee, will equal 20% of our realized capital gains, if any, computed net of all realized capital losses and unrealized capital depreciation.

Examples of how the incentive fee is calculated are as follows:

Assuming pre-incentive fee net investment income of 0.55%, there would be no income incentive fee because such income would not exceed the hurdle rate of 1.75%.

Assuming pre-incentive fee net investment income of 2.00%, the income incentive fee would be as follows:

$$= 100\% \times (2.00\% - 1.75\%)$$

$$= 0.25\%$$

Assuming pre-incentive fee net investment income of 2.30%, the income incentive fee would be as follows:

$$= (100\% \times (\text{catch-up}: 2.1875\% - 1.75\%)) + (20\% \times (2.30\% - 2.1875\%))$$

$$= (100\% \times 0.4375\%) + (20\% \times 0.1125\%) = 0.4375\% + 0.0225\% = 0.46\%$$

Assuming net realized capital gains of 6% and realized capital losses and unrealized capital depreciation of 1%, the capital gains incentive fee would be as follows:

$$= 20\% \times (6\% - 1\%)$$

$$= 20\% \times 5\% = 1\%$$

The following is a calculation of the most recently paid incentive fee of \$1,754,000 in March 2007 (for the quarter ended March 31, 2007):

Prior Quarter Net Asset Value	\$ 289,238,000
Quarterly Hurdle Rate	1.7500%**
Current Quarter Hurdle	\$ 5,062,000
125% of the Quarterly Hurdle Rate	2.1875%
125% of the Current Quarter Hurdle	\$ 6,327,000
Current Quarter Pre Incentive Fee Net Investment Income	\$ 12,069,000
Incentive Fee - Catch-Up	\$ 1,265,000
Incentive Fee - 20% in excess of 125% of the Current Quarter Hurdle	\$ 489,000
Total Current Quarter Incentive Fee	\$ 1,754,000

For a more detailed discussion of the calculation of the two-part incentive fee, see "Management's Investment Advisory Agreement."

(7)

Although we may incur indebtedness before the proceeds of an offering are substantially invested, we have not yet decided to what extent we will finance investments using debt. We currently have \$200 million available to us under a credit facility. For more information, see "Risk Factors" 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" Financial Condition, Liquidity and Capital Resources, Capital Raising Activities. The table above assumes that we have borrowed all \$200 million available under our line of credit, although no plans are in place to borrow the full amount under our line of credit. The table below shows our estimated annual expenses as a percentage of net assets attributable to common stock, assuming that we did not incur any indebtedness.

Base management fee

Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)

Interest payments on borrowed funds

Other expenses

Total annual expenses (estimated)

- (8) [Other expenses] is based on an estimate of expenses during the current fiscal year representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the administration agreement. [Other expenses] does not include non-recurring expenses. See [Management] Administration Agreement.
- (9) Total annual expenses as a percentage of net assets attributable to our common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The total annual expenses percentage is required by the SEC to be calculated as a percentage of net assets, rather than the total assets including assets that have been funded with borrowed monies. If the total annual expense percentage were calculated as a percentage of total assets, our total annual expenses would be 7.16% of total assets.

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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 the Investment Advisory Agreement would be zero at the 5% annual return assumption, as required by the SEC for this table, since no incentive fee is paid until the annual return exceeds 7%; however, the income incentive fee currently being earned is nevertheless used to aggregate total expenses in the example as if the annual return were at the level recently achieved, which is higher than 5%, in accordance with SEC requirements. Accordingly, the resulting calculations overstate expenses at the 5% annual return as these calculations do not reflect the provisions of the Investment Advisory Agreement as it would actually be applied in the case of a 5% annual return. 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 net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See [Dividend Reinvestment Plan] for additional information regarding our dividend reinvestment plan.

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

SELECTED CONDENSED FINANCIAL DATA

(in thousands)

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You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus. Financial information for the twelve months ended June 30, 2006 has been derived from the audited financial statements for that period. Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results for the three and nine months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending June 30, 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 25 for more information.

	Three months ended March 31, 2007	Three months ended March 31, 2006 ⁽¹⁾	Nine months ended March 31, 2007	Nine months ended March 31, 2006 ⁽¹⁾	Twelve months ended June 30, 2006 ⁽¹⁾	Twelve months ended June 30, 2005 ⁽¹⁾
	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
Investment income						
Interest income	\$ 4,825	\$ 1,767	\$ 11,493	\$ 5,038	\$ 7,557	\$ 1,882
Interest income, controlled entities	3,845	1,319	9,455	3,334	4,810	2,704
Dividend income	1,245	90	1,839	450	502	284
Dividend income, controlled entities	850	850	2,550	2,249	3,099	3,151
Other income ⁽²⁾	1,304	□	1,335	□	901	72
Total investment income	12,069	4,026	26,672	11,071	16,869	8,093
Operating expenses						
Investment advisory fees						
Base management fee	1,531	521	3,715	1,554	2,082	1,808
Income incentive fee	1,754	533	3,695	1,041	1,786	□
Total Investment advisory fees	3,285	1,054	7,410	2,595	3,868	1,808
Interest expense and credit facility costs	353	12	1,385	12	642	□
Chief Compliance Officer and Sub-administration fees	164	81	402	244	310	266
Legal fees	593	390	970	1,501	1,835	2,575
Valuation services	92	45	285	132	193	42
Other professional fees	47	85	432	313	485	230
Insurance expense	72	85	219	269	365	325
Directors' fees	55	55	175	165	220	220
Organizational costs	□	□	□	□	□	25
General and administrative expenses	393	93	612	258	393	191
Total operating expenses	5,054	1,900	11,890	5,489	8,311	5,682
Net investment income (loss)	7,015	2,126	14,782	5,582	8,558	2,411
Net realized gain (loss)	(1)	1	1,949	(18)	303	(2)
Net unrealized appreciation (depreciation)	(2,038)	828	(4,851)	1,392	4,035	6,342

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stockholders' equity resulting from operations	\$ 4,976	\$ 2,955	\$ 11,880	\$ 6,956	\$ 12,896	\$ 8,751
Basic and diluted net increase (decrease) in stockholders' equity per common share resulting from operations	\$ 0.25	\$ 0.42	\$ 0.83	\$ 0.99	\$ 1.83	\$ 1.24

(1) Certain amounts have been reclassified to confirm to current period's presentation.

(2) Includes Net Profits Interest, Prepayment Penalties not related to loans, Deal Deposit Income and Overriding Royalty

The following is a schedule of financial highlights for the periods indicated below:

For the three months ended March 31, 2007	For the three months ended March 31, 2006	For the nine months ended March 31, 2007	For the nine months ended March 31, 2006	For the twelve months ended June 30, 2006	For the twelve months ended June 30, 2005
(unaudited)	(unaudited)	(unaudited)			