PROSPECT CAPITAL CORP
Form 497
May 18, 2009

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SUBJECT TO COMPLETION, DATED MAY 18, 2009

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated March 18, 2009)

5,000,000 Shares

Common Stock

$ per share

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

We are offering 5,000,000 shares of our common stock. See Underwriting beginning on page S-33 of this prospectus supplement for more information regarding this offering. These shares are being offered at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders at the annual meeting of stockholders held on February 12, 2009. 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-5 and Sales of Common Stock Below Net Asset Value beginning on page S-28 of this prospectus supplement and on page 84 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 May 15, 2009 was $9.55 per share and our most recently determined net asset value per share was $14.19 as of March 31, 2009.

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-5 of this prospectus supplement and on page 9 of the accompanying prospectus.

Neither the SEC nor any state securities commission, nor any other regulatory body, has 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.

	Per Share	Total
Public offering price	$	$
Sales Load (underwriting discounts and commissions)	$	$
Proceeds to Prospect Capital Corporation, before expenses(1)	$	$

(1) Before deducting estimated offering expenses payable by us of approximately $300,000.

The underwriters have the option to purchase up to an additional 750,000 shares of common stock at the public offering price, less the sales load (underwriting discount and commissions), within 30 days from the date of this prospectus supplement solely to cover over-allotments. If the over-allotment option is exercised in full, the total public offering price will be $, and the total sales load (underwriting discount and commissions) will be $. The proceeds to us would be $, before deducting estimated offering expenses payable by us of approximately $300,000.

The underwriters expect to deliver the shares to purchasers on or about May , 2009.

Joint Bookrunning Managers

Citi **UBS Investment Bank**

BB&T Capital Markets **RBC Capital Markets**

Prospectus Supplement dated May , 2009

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

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PROSPECTUS

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PROSPECTUS SUMMARY

This summary highlights some information from this prospectus supplement and the accompanying prospectus, and it may not contain all of the information that is important to you. To understand the terms of the common stock offered hereby, you should read this prospectus supplement and the accompanying prospectus carefully. Together, these documents describe the specific terms of the shares we 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. Except as otherwise noted, all information in this prospectus supplement assumes no exercise of the underwriters over-allotment option

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

As of March 31, 2009, we held investments in 31 portfolio companies. The aggregate fair value as of March 31, 2009 of investments in these portfolio companies held on that date is approximately $594.3 million. Our portfolio across all our long-term debt and certain equity investments had an annualized current yield of 15.1% as of March 31, 2009. The yield includes interest as well as dividends.

Recent Developments

The revolving period for our credit facility with Rabobank Nederland is currently scheduled to terminate June 6, 2009, in which case we will not be able to make further borrowings under the facility after that date and the outstanding principal balance on that date will mature on June 6, 2010. At May 15, 2009 we had $129.0 million drawn under the facility and $4.6 million of availability based on our current borrowing base. We are currently in negotiations with Rabobank Nederland and certain other banks to extend the revolving period although we have not yet received any commitments from potential lenders. While we are optimistic that we can successfully reach an agreement, we cannot provide assurances that we will be able to obtain an extension or as to any other terms. See *Risk Factors Failure to extend our existing credit facility, which is currently scheduled to expire on June 6, 2009, could have a material adverse effect on our results of operations and financial condition and our ability to pay expenses and make distributions.*

On April 20, 2009, we issued 214,456 shares of our common stock in connection with our dividend reinvestment plan.

On April 27, 2009, we issued 3.68 million shares of our common stock in an underwritten equity offering at $7.75 per share, raising $28.5 million in gross proceeds and $27.2 million of net proceeds after recognizing $1.1 million of underwriting discounts and commissions and $210,000 of estimated offering costs.

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The Offering

Common stock offered by us, excluding the underwriters over-allotment option	5,000,000 shares.
Common stock outstanding prior to this offering	35,180,584 shares.
Common stock outstanding after this offering, excluding the underwriters over-allotment option	40,180,584 shares.
Use of proceeds	We expect to use the net proceeds of this offering initially to maintain balance sheet liquidity, involving repayment of a portion of the amounts outstanding under our credit facility, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See Use of Proceeds in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See Risk Factors in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current distribution rate	For our third fiscal quarter of 2009, our Board of Directors declared a quarterly dividend of $0.405 per share, representing our 18th consecutive quarterly dividend increase and an annualized dividend yield of approximately % based on our May 15, 2009 closing stock price of $9.55 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 $200 million under our credit facility, which is the maximum amount available under the 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:	
Sales load (as a percentage of offering price)	5.00%(1)
Offering expenses borne by us (as a percentage of offering price)(2)	0.60%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	5.60%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Combined base management fee (3.00%)(5) and incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) (2.64%)(6)	5.64%
Interest payments on borrowed funds	1.35%(7)
Other expenses	1.70%(8)
Total annual expenses	8.69%(6)(8)

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	$ 120.19	$ 245.13	$ 365.61	$ 648.34

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 sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one time fee, is the only sales load paid in connection with this offering.

(2) The offering expenses of this offering are estimated to be approximately $300,000.

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

(4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at March 31, 2009. See Capitalization in this prospectus supplement.

(5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Assuming that we have borrowed $200 million (the size of our credit facility), the 2% management fee of gross assets equals 3.00% of net assets. See Management Management Services Investment Advisory Agreement in the accompanying prospectus and footnote 7 below.

(6) Based on an annualized level of incentive fee paid during our quarter ended March 31, 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.

(7) 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 $200 million credit facility. 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 $200 million under our credit facility, which is the maximum amount 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.

(8) Other expense is based on our annualized expenses during our quarter ended March 31, 2009. 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.

Failure to extend our existing credit facility, which is currently scheduled to expire on June 6, 2009, could have a material adverse effect on our results of operations and financial position and our ability to pay expenses and make distributions.

The revolving period for our credit facility with Rabobank Nederland is currently scheduled to terminate June 6, 2009, in which case we will not be able to make further borrowings under the facility after that date and the outstanding principal balance on that date will mature on June 6, 2010. At May 15, 2009 we had $129.0 million drawn under the facility. We are currently in negotiations with Rabobank Nederland and certain other banks to extend the revolving period although we have not yet received any commitments from potential lenders. While we are optimistic that we can successfully reach an agreement, we cannot provide assurances that we will be able to obtain an extension and currently expect that the interest rate we pay is likely to increase and that certain other terms may be less favorable than those currently in effect. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the one-year term-out period through one or more of the following: (1) cash collections on our securities pledged under the facility, (2) at our option, cash collections on our securities not pledged under the facility, or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position and may force us to decrease or stop paying certain expenses and making distributions until the facility is repaid. In addition, our stock price could decline significantly, we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

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 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

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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 and hypothetical examples of these risks, see Sales of Common Stock Below Net Asset Value in this prospectus supplement and in the accompanying prospectus.

USE OF PROCEEDS

The net proceeds from the sale of 5,000,000 shares of our common stock in this offering will be $ (or $ if the over-allotment option is exercised in full) after deducting estimated offering expenses of approximately $300,000 payable by us.

We expect to use the net proceeds of this offering initially to maintain balance sheet liquidity, involving repayment of a portion of the amounts outstanding under our credit facility, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. The revolving period for our credit facility with Rabobank Nederland continues until June 6, 2009, with a term-out maturity to June 6, 2010. As of May 15, 2009 we had $129.0 million outstanding under our credit facility. Interest under our credit facility is charged at LIBOR plus 250 basis points. Additionally, Rabobank charges a fee on the unused portion of the facility equal to 37.5 basis points per annum, or 50.0 basis points per annum if that unused portion is greater than 50% of the total amount of the facility. After June 6, 2009, pricing for outstanding borrowings under our existing facility will increase by 100 basis points.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2009:

on an actual basis; and

on an as adjusted basis giving effect to the distribution of shares in connection with our dividend reinvestment plan on April 20, 2009 and our sale of 3,680,000 shares of our common stock on April 22, 2009, at a net price of $7.32 per share after deducting offering expenses of $210,000 payable by us and to reductions of borrowings under our credit facility; and

on an as further adjusted basis giving effect to the transactions noted in the prior column, to the sale of 5,000,000 shares in this offering, at a net price of $ per share after deducting estimated offering expenses of approximately $300,000 payable by us, and our receipt of the estimated net proceeds from this offering and to reductions of borrowings under our credit facility.

This table should be read in conjunction with 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 March 31, 2009		
	Actual	As Adjusted for the April 22, 2009 Offering	As Further Adjusted for this Offering(3)
	(In 000s, except shares and per share data) (Unaudited)		
Long-term debt, including current maturities:			
Borrowings under senior credit facility	$ 137,567	$ 137,214(1)	$ (2)
Amount owed to affiliates	6,555	6,555	
Total long-term debt	144,122	143,769	
Stockholders equity:			
Common stock, par value $0.001 per share (100,000,000 common shares authorized; 31,286,128 shares outstanding actual, 35,180,584(4) shares outstanding as adjusted and 40,180,584 shares outstanding as further adjusted(5)	31	35	
Paid-in capital in excess of par value	456,398	485,176	
Undistributed net investment income	12,171	12,171	
Accumulated realized losses on investments	(12,311)	(12,311)	
Net unrealized depreciation on investments	(12,265)	(12,265)	
Total stockholders equity	444,024	472,806	
Total capitalization	$ 588,146	$ 616,575	$

(1) As of April 22, 2009, we had approximately $137.2 million outstanding under our credit facility, representing a reduction of $0.4 million of borrowings subsequent to March 31, 2009.

(2) As of May 15, 2009, we had approximately $129.0 million outstanding under our credit facility, representing a $8.6 million reduction of borrowings subsequent to March 31, 2009 and a $8.2 million reduction of borrowings on May 7, 2009.

(3) The net proceeds from the sale of our common stock in this offering may be used to repay in part amounts outstanding under the credit facility.

(4) Includes 214,456 shares of our common stock issued on April 20, 2009 in connection with our dividend reinvestment plan and 3,680,000 shares in connection with our sale of our common stock on April 22, 2009.

(5) Excludes any shares issued upon the exercise of the underwriters over-allotment option.

DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

We have paid and intend to continue to distribute quarterly dividends to our stockholders out of assets legally available for distribution. Our dividends, 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 although we intend that our cumulative distributions over the course of the year will not exceed our taxable income by more than an insignificant amount.

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 currently intend to distribute during each calendar 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 a portion of our profits generated in the quarter ended September 30, 2008 and pay a 4% excise tax on such retained earnings. The tax of $532,479 was paid during the quarter ended March 31, 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 each stockholder s dividend will be automatically reinvested in additional shares of our common stock, unless the stockholder has specifically opted 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 Consequences. 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 distributed to stockholders. For the fiscal year ended June 30, 2008, we paid total dividends of approximately $39.5 million. For the first three quarters of the fiscal year ending June 30, 2009, we paid total dividends of approximately $36.5 million.

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

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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	17.78	16.40	17.1%	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 (to 5/15/09)	(3)	10.48	7.95	(3)	(3)	

(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.

(3) NAV has not yet been finally determined for any day after March 31, 2009.

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On May 15, 2009, the last reported sales price of our common stock was $9.55 per share, and our most recently determined NAV per share was $14.19 as of March 31, 2009. As of March 31, 2009, we had approximately 46 stockholders of record.

The below table sets forth each class of our outstanding securities as of March 31, 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	31,286,128

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SELECTED CONDENSED FINANCIAL DATA

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, 2008, 2007, 2006 and 2005 and for the period from April 13, 2004 (inception) through June 30, 2004 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, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2009. See Management s Discussion and Analysis of Financial Condition and Results of Operations starting on page S-13 for more information.

	For the Year/Period Ended June 30,				
	2008	2007	2006	2005	2004(1)
	(In thousands except data relating to shares, per share and number of portfolio companies)				
Performance Data:					
Interest income	$ 59,033	$ 30,084	$ 13,268	$ 4,586	$
Dividend income	12,033	6,153	3,601	3,435	
Other income	8,336	4,444		72	
Total investment income	79,402	40,681	16,869	8,093	
Interest and credit facility expenses	(6,318)	(1,903)	(642)		
Investment advisory expense	(20,199)	(11,226)	(3,868)	(1,808)	
Other expenses	(7,772)	(4,421)	(3,801)	(3,874)	(100)
Total expenses	(34,289)	(17,550)	(8,311)	(5,682)	(100)
Net investment income	45,113	23,131	8,558	2,411	(100)
Realized and unrealized gains (losses)	(17,522)	(6,403)	4,338	6,340	
Net increase in net assets from operations	$ 27,591	$ 16,728	$ 12,896	$ 8,751	$ (100)
Per Share Data(2):					
Net increase in net assets from operations	$ 1.17	$ 1.06	$ 1.83	$ 1.24	na
Distributions declared per share	$ (1.59)	$ (1.54)	$ (1.12)	$ (0.38)	na
Average weighted shares outstanding for the period	23,626,642	15,724,095	7,056,846	7,055,100	100
Assets and Liabilities Data:					

Investments	$	497,530	$	328,222	$	133,969	$	55,030	$	
Other assets		44,248		48,280		4,511		48,879		1
Total assets		541,778		376,502		138,480		103,909		1
Amount drawn on credit facility		91,167				28,500				
Amount owed to related parties		6,641		4,838		745		77		100
Other liabilities		14,347		71,616		965		865		
Total liabilities		112,155		76,454		30,210		942		100
Net assets	$	429,623	$	300,048	$	108,270		102,967	$	99
Investment Activity Data:										
No. of portfolio companies at period end		29(3)		24(3)		15		6		
Acquisitions	$	311,947	$	167,255	$	83,625	$	79,018	$	
Sales, repayments, and other disposals	$	127,212	$	38,407	$	9,954	$	32,083	$	

(1) For the period April 13, 2004 (inception) through June 30, 2004

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

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

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	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2009	2008	2009	2008
	(In thousands except data relating to shares, per share and number of portfolio companies)			
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Performance Data:				
Interest income	$ 16,065	$ 14,890	$ 50,862	$ 42,538
Dividend income	4,445	3,423	13,833	7,507
Other income	159	3,687	13,986	5,909
Total investment income	20,669	22,000	78,681	55,954
Interest and credit facility expenses	(1,345)	(1,863)	(4,828)	(4,719)
Investment advisory expense	(5,907)	(5,618)	(20,535)	(14,227)
Other expenses	(1,697)	(1,600)	(6,136)	(5,564)
Total expenses	(8,949)	(9,081)	(31,499)	(24,510)
Net investment income	11,720	12,919	47,182	31,444
Realized and unrealized gains (losses)	3,611	(14,178)	(11,329)	(27,839)
Net increase (decrease) in net assets from operations	$ 15,331	$ (1,259)	$ 35,853	$ 3,864
Per Share Data(1):				
Net increase (decrease) in net assets from operations	$ 0.51	$ (0.05)	$ 1.21	$ 0.16
Distributions declared per share	$ (0.41)	$ (0.40)	$ (1.21)	$ (1.18)
Average weighted shares outstanding for the period	29,971,508	23,858,492	29,708,458	22,349,987
Assets and Liabilities Data:				
Investments	$ 555,041	$ 429,156	$ 555,041	$ 429,156
Other assets	47,765	50,851	47,765	50,851
Total assets	602,806	480,007	602,806	480,007
Amount drawn on credit facility	137,567	90,667	137,567	90,667
Amount owed to related parties	6,555	6,493	6,555	6,493
Other liabilities	14,660	11,129	14,660	11,129
Total liabilities	158,782	108,289	158,782	108,289
Net assets	$ 444,024	$ 371,718	$ 444,024	$ 371,718

Investment Activity Data:								
No. of portfolio companies at period end		31(2)		31(2)		31(2)		31(2)
Acquisitions	$	6,356	$	31,794	$	90,376	$	193,034
Sales, repayments, and other disposals	$	10,782	$	28,891	$	23,859	$	66,063

(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.

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

(All figures in this item are in thousands except 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 discussion 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 discussion 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.

Market Conditions

In 2008 and early 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 BDC, we are limited to a maximum 1 to 1 debt to equity ratio, and as of March 31, 2009, our debt to equity ratio was 0.31 to 1. As of March 31, 2009, we have borrowed $137,567 against our credit facility with Rabobank Nederland. The revolving period for this facility continues until June 6, 2009, with a term out maturity on June 6, 2010, and we expect to enter into a new extended facility prior to this date. While we are optimistic, we cannot guarantee the completion of such extension. See Risk Factors Failure to extend our existing credit facility could harm our results of operations and ability to pay expenses and make distributions in this prospectus supplement.

We also continue to generate liquidity through public stock offerings and the realization of portfolio investments. On March 19, 2009 and April 27, 2009, we completed public stock offerings for 1.5 million and 3.68 million shares of our common stock at $8.20 per share and $7.75 per share, raising $12,300 and $28,520 of gross proceeds, respectively. Our loan to Diamondback Operating L.P. was repaid in January 2009. As is typical for our portfolio, we currently have investments in various stages in the exit process that continue to draw interest from prospective buyers.

Critical Accounting Policies and Estimates

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

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X, and the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our March 31, 2009, June 30, 2008, and March 31, 2008 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;

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 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.

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 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 issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. We adopted this statement on a prospective basis beginning in the quarter ended September 30, 2008. Adoption of this statement did not have a material effect on our financial.

FAS 157 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 FAS 157 relate to the definition of fair value, framework for measuring fair value, and the expanded disclosures about fair value measurements. FAS 157 applies to fair value measurements already required or permitted by other standards.

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In accordance with FAS 157, 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.

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.

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. At March 31, 2009, four loan investments were on non-accrual status: Appalachian Energy Holdings LLC (AEH), Integrated Contract Services, Inc. (Integrated or ICS), Wind River Resources Corp. and Wind River II Corp. (Wind River), and Change Clean Energy, Inc. f/k/a Worcester Energy Partners, Inc., Worcester Energy Co., Inc., (WECO) and Biochips LLC (collectively Biomass). The loan principal of these loans amounted to $69,491 at March 31, 2009.

Introduction

We are a financial services company that primarily lends 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 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. Prior to 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.

Statement of Assets and Liabilities Overview

During the nine months ended March 31, 2009, net assets have increased by $14,401 from $429,623 as of June 30, 2008 to $444,024 as of March 31, 2009. This net increase in assets resulted from a $35,853 increase from operations and $15,067 from capital share transactions, offset by $36,519 in dividends declared to our stockholders. During this nine-month period we recognized net investment income of $47,182, net realized gains on investments of $1,661 and a decrease in net assets due to changes in unrealized appreciation/depreciation of investments of $12,990. The result was the $35,853 increase in net assets resulting from operations.

The aggregate fair value of our portfolio investments was $555,041 and $497,530 as of March 31, 2009 and June 30, 2008, respectively. During the nine months ended March 31, 2009, our net cost of investments increased by $70,501, or 14.2%, as we invested in three new investments and follow-on investments while we sold one investment, received repayment on another two investments, and settled the net profit interests on a third investment. This increased level of investment was financed primarily by increased borrowings on our credit facility. At March 31, 2009, we were invested in 31 long-term portfolio investments (including a net profits interest remaining in Charlevoix).

Investment Activity

During the nine months ended March 31, 2009, we completed three new investments and several follow-on investments in existing portfolio companies, totaling approximately $89,052. The more significant of these investments are described briefly in the following:

On August 1, 2008, we provided $7,400 in debt financing to Castro Cheese Company, Inc. (Castro), based in Houston, Texas. Castro is a leading manufacturer, marketer and distributor of Hispanic cheeses and creams.

On August 4, 2008, we provided $15,000 in debt financing to support the take-private acquisition of the TriZetto Group (TriZetto). TriZetto is a leading healthcare information technology company.

On August 21, 2008, we provided a $26,000 senior secured debt financing and co-invested $2,300 in equity alongside Great Point Partners, LLC (Great Point) in its growth recapitalization of BNN Holdings Corp. d/b/a Biotronic NeuroNetwork (Biotronic), based in Ann Arbor, Michigan. Biotronic is the largest independent national provider of intra-operative neurophysiological monitoring services.

On July 23, 2008, September 8, 2008, and November 7, 2008, and January 21, 2009,we made follow-on secured debt investments of $400, $2,700, and $2,900, and $1,500, respectively in Iron Horse Coiled Tubing, Inc. (Iron Horse) in support of the build-out of additional equipment.

On December 10, 2008 we made a follow-on investment of $5,000 in Gas Solutions Holdings, Inc. (GSHI or Gas Solutions) for the repayment of third-party bank senior credit facility.

During the nine months ended March 31, 2009, we closed out three positions which are briefly described below.

On July 3, 2008, we exercised our warrant for 4,960,585 shares of common stock in Deep Down, Inc. As permitted by the terms of the warrant, we elected to make this exercise on a cashless basis entitling us to 2,618,129 common shares. On August 1, 2008, we sold all the shares acquired receiving $1,649 of net proceeds.

On August 27, 2008, R-V Industries, Inc. (R-V) repaid the $7,526 debt outstanding to us.

On January 21, 2009, Diamondback repaid the $9,200 debt outstanding to us. We continue to hold net profit interests on this investment.

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 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.

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

Quarter-End	Acquisitions(1)	Dispositions(2)
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	$ 802,600	$ 231,494

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

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

Investment Holdings

As of March 31, 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 business objective or the value of our investment in them may decline substantially or fall to zero.

Our portfolio had an annualized current yield of 15.1% and 16.8% across all our long-term debt and certain equity investments as of March 31, 2009 and March 31, 2008, respectively. This yield includes interest from all of our long-term investments as well as dividends from GSHI and NRG Manufacturing, Inc. (NRG). The 1.7% decrease is primarily due to non-accrual loans. For the three months ended March 31, 2009, total foregone interest related to loans on non-accrual status was $3,940. As of March 31, 2009, we reversed $322 of interest income recognized in prior periods related to AEH and Wind River. We expect the current yield to continue 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.

As of March 31, 2009, we own controlling interests in Ajax Rolled Ring & Machine (Ajax), C&J Cladding, LLC (C&J), GSHI, Integrated, Iron Horse, NRG, R-V, CCEI, and Yatesville. We also own affiliated interests in Appalachian Energy Holdings, LLC (AEH) and Biotronic.

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

	March 31, 2009		June 30, 2008	
Level of Control	**Fair Value**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Control	$ 220,263	37.1%	$ 205,827	38.8%
Affiliate	30,819	5.2%	6,043	1.2%
Non-control/Non-affiliate	303,959	51.1%	285,660	53.8%
Money Market Funds	39,254	6.6%	33,000	6.2%
Total Portfolio	$ 594,295	100.0%	$ 530,530	100.0%

The following is our investment portfolio presented by type of investment at March 31, 2009 and June 30, 2008, respectively:

	March 31, 2009		June 30, 2008	
Type of Investment	**Fair Value**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Money Market Funds	$ 39,254	6.6%	$ 33,000	6.2%
Senior Secured Debt	231,782	39.0%	199,946	37.7%
Subordinated Secured Debt	199,072	33.5%	219,623	41.4%
Subordinated Unsecured Debt	15,095	2.5%		0.0%
Preferred Stock	4,705	0.8%	7,707	1.4%
Common Stock	88,341	14.9%	58,312	11.0%
Membership Interests	7,576	1.3%	3,000	0.6%
Net Profit Interests	456	0.1%		0.0%
Warrants	8,014	1.3%	8,942	1.7%
Total Portfolio	$ 594,295	100.0%	$ 530,530	100.0%

The following is our investment portfolio presented by geographic location of the investment at March 31, 2009 and June 30, 2008, respectively:

	March 31, 2009		June 30, 2008	
Geographic Exposure	**Fair Value**	**Percent**	**Fair Value**	**Percent**

		of Portfolio		of Portfolio
Canada	$ 16,765	2.8%	$ 11,182	2.1%
Midwest US	81,271	13.7%	47,869	9.0%
Northeast US	41,194	6.9%	68,468	12.9%
Southeast US	115,750	19.5%	128,512	24.2%
Southwest US	254,023	42.7%	211,177	39.9%
Western US	46,038	7.8%	30,322	5.7%
Money Market Funds	39,254	6.6%	33,000	6.2%
Total Portfolio	$ 594,295	100.0%	$ 530,530	100.0%

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The following is our investment portfolio presented by industry sector of the investment at March 31, 2009 and June 30, 2008, respectively:

	March 31, 2009		June 30, 2008	
Industry Sector	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
Biomass Power	$ 6,000	1.0%	$ 15,580	2.9%
Construction Services	2,483	0.4%	6,043	1.1%
Contracting	5,000	0.8%	5,000	0.9%
Financial Services	21,839	3.7%	23,699	4.5%
Food Products	29,385	5.0%	19,351	3.7%
Gas Gathering and Processing	85,186	14.3%	61,542	11.6%
Healthcare	57,587	9.7%	13,752	2.6%
Manufacturing	100,684	16.9%	109,542	20.7%
Metal Services	9,472	1.6%	6,829	1.3%
Mining and Coal Production	25,848	4.4%	25,726	4.9%
Oil and Gas Production	105,471	17.8%	112,850	21.3%
Oilfield Fabrication	36,515	6.2%	24,854	4.7%
Pharmaceuticals	10,250	1.7%	11,523	2.2%
Production Services	16,765	2.8%	14,038	2.6%
Retail	5,466	0.9%	13,428	2.5%
Shipping Vessels	7,151	1.2%	6,804	1.3%
Specialty Minerals	18,439	3.1%	15,632	2.9%
Technical Services	11,500	1.9%	11,337	2.1%
Money Market Funds	39,254	6.6%	33,000	6.2%
Total Portfolio	$ 594,295	100.0%	$ 530,530	100.0%

Investment Valuation

In determining the fair value of our portfolio investments at March 31, 2009, the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of $512,598 to $583,857, 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 $555,041, 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.

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During the fiscal year ended June 30, 2008 and continuing through March 31, 2009, several general economic factors have occurred which have affected the valuation of our investment portfolio.

Generally, interest rates offered on loans similar to those that we have originated have changed since our investments were consummated. While we do not believe that there has been any diminution of credit quality, general changes in current interest rates would affect the price for which we could sell these assets and we have adjusted our fair value of these assets to reflect such changes. During the nine months ended March 31, 2009, we have adjusted the value of twelve debt investments based upon such general changes in market interest rates including: Biotronic, C&J, Castro, Freedom Marine Services LLC, H&M Oil & Gas, LLC, Maverick Healthcare, LLC, Qualitest Pharmaceuticals, Inc. (Qualitest), Regional Management Corp. (RMC), Resco Products, Inc. (Resco), Shearer s Foods, Inc., Stryker Energy LLC, and TriZetto.

Five debt investments were made to companies that are not performing in line with budget expectations as of March 31, 2009. For these investments (AEH, Conquest Cherokee, LLC, Deb Shops, Inc. (Deb Shops), Iron Horse, and Wind River Resources Corp. and Wind River II Corp.) we expect full recovery. We used higher 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.

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 assets 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 and 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 latter two metrics on both an absolute and a percentage of revenues basis) over the past four years.

During the past year, 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 late March 2008, Royal Bank of Canada provided a $38,000 term loan to Gas Solutions II Ltd, a wholly owned subsidiary of GSHI, the proceeds of which were used to refinance all of Citibank s approximately $8,000 of outstanding senior secured debt as well as to make a $30,000 cash distribution to GSHI. We had non-recourse access to this cash at GSHI. In December 2008, we lent an additional $5,000 to GSHI which enabled Gas Solutions II Ltd to repay the loan to the Royal Bank of Canada. Upon repayment, we now hold a first lien position in GSHI, improving our leverage position with our lender.

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 have been executed at close to the highest historical market propane prices ever achieved. Such hedges preserve the upside of Gas Solutions II Ltd to benefit from potential future changes in commodity prices. GSHI generated approximately $26,172 of EBITDA for the fiscal year ending December 31, 2008, an increase of 67.1% from the 2007 results.

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 $85,186 for our debt and equity positions at March 31, 2009 based upon a combination of a discounted cash flow analysis, a public comparables analysis and review of recent indications of interest. At

March 31, 2009, GSHI is valued $55,164 above its amortized cost at March 31, 2009, compared to the $36,321 unrealized gain recorded at June 30, 2008.

Integrated Contract Services, Inc.

Our investment in ICS is under enhanced review by our senior management team due to existing payment and covenant defaults under the contracts governing these investments. 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 reaffirmed the fair value of our investment in ICS at $5,000 at March 31, 2009, a reduction of $11,690 from its amortized cost at March 31, 2009, compared to the $11,464 unrealized loss recorded at June 30, 2008.

Change Clean Energy Holdings Inc. (CCEHI) and Change Clean Energy, Inc. (CCEI), f/k/a Worcester Energy Partners, Inc.

CCEI is under enhanced review by our senior management team due to poor operating results since investment. We have installed a new manager at CCEI. CCEI ceased operations temporarily in the first quarter of 2009. During the 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. CCEI ceased operations temporarily in the first quarter of 2009. During the nine months ended March 31, 2009, we provided additional funding of $4,211 to Biomass to fund ongoing operations. Our Board of Directors, upon recommendation from senior management, has set the value of the CCEI investment based upon an enterprise valuation at $6,000 at March 31, 2009, a reduction of $37,134 from its amortized cost at March 31, 2009, compared to the $22,141 unrealized loss recorded at June 30, 2008.

Yatesville Coal Holdings, Inc.

As we previously discussed, all of our coal holdings are now held in one consolidated entity, Yatesville. Yatesville had begun to show improvement since the consolidation of the coal holdings in one entity under common management, but this came to a halt at the end of December 2008 when the company exhausted its permitted reserves. During the nine months ended March 31, 2009, we provided additional funding of $7,570 to Yatesville to fund ongoing operations. We will continue to value Yatesville on an asset basis. Our Board of Directors, upon recommendation from senior management, has set the value of the Yatesville investment at $25,848 at March 31, 2009, a reduction of $21,465 from its amortized cost at March 31, 2009, compared to the $14,694 unrealized loss recorded at June 30, 2008.

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 up to $200,000 of debt subject to borrowing base determinations and our equity capital is currently comprised entirely of common equity.

We had $137,567 and $91,167 of borrowings at March 31, 2009 and June 30, 2008, respectively. These borrowings were made against a credit facility in place at Rabobank Nederland. The maintenance of this facility requires us to pay a fee for the amount not drawn upon. Through November 30, 2007, this fee is assessed at the rate of 37.5 basis points per annum of the amount of that unused portion; after that date, this rate increased to 50.0 basis points per annum if that unused portion was greater than 50% of the total amount of the facility. The following table shows the facility amounts and outstanding borrowings at March 31, 2009 and June 30, 2008:

	As of March 31, 2009		As of June 30, 2008	
	Facility Amount	**Amount Outstanding**	**Facility Amount**	**Amount Outstanding**
Revolving Credit Facility	$ 200,000	$ 137,567	$ 200,000	$ 91,167

The following table shows the contractual maturity of our revolving credit facility at March 31, 2009:

	Payments Due By Period		
	Less Than 1 Year	**1 - 3 Years**	**More Than 3 Years**
Credit Facility Payable	$ 137,567	$	$

During the quarter ended March 31, 2009, we completed a public offering and raised $12,300 of additional equity by issuing 1.5 million shares of our common stock below net asset value diluting shareholder value by $0.32 per share. The following table shows the calculation of net asset value per share as of March 31, 2009 and June 30, 2008:

	As of March 31, 2009	As of June 30, 2008
Net Assets	$ 444,024	$ 429,623
Shares of common stock outstanding	31,286,128	29,520,379
Net asset value per share	$ 14.19	$ 14.55

At March 31, 2009, we had 31,286,128 of our common stock issued and outstanding.

Results of Operations

For the three months ended March 31, 2009 and March 31, 2008, the net increase (decrease) in net assets resulting from operations was $15,331 and ($1,259), respectively, representing $0.51 and ($0.05) per share, respectively. We experienced a net realized and unrealized gain of $3,611 or approximately $0.12 per share in the three months ended March 31, 2009. This compares with the net realized and unrealized loss of $14,178 during the three months ended March 31, 2008 or approximately $0.59 per share.

For the nine months ended March 31, 2009 and March 31, 2008 (or for the periods since the beginning of our fiscal years) the net increase in net assets resulting from operations was $35,853 and $3,605, respectively, representing $1.21 and $0.16 per share, respectively. We experienced a net realized and unrealized loss of $11,329 or approximately $0.38 per share in the nine months ended March 31, 2009. This compares with the net realized and unrealized loss of $27,839 during the nine months ended March 31, 2008 or approximately $1.24 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 and nine months ended March 31, 2009 and March 31, 2008:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2009	2008	2009	2008
Interest income	$ 16,065	$ 14,890	$ 50,862	$ 42,538
Dividend income	4,445	3,423	13,833	7,507
Other income	159	3,687	13,986	5,909
Total investment income	$ 20,669	$ 22,000	$ 78,681	$ 55,954
Average debt principal of investments	$ 537,277	$ 422,474	$ 523,363	$ 381,566
Weighted-average interest rate earned	11.96%	14.10%	12.77%	14.65%

Total investment income has decreased for the three months ended March 31, 2009 from the amount reported for the three months ended March 31, 2008 primarily due to a decrease in other income.

Income from other sources decreased from $3,687 for the three months ended March 31, 2008 to $159 for the three months ended March 31, 2009. This $3,528 decrease was due primarily to the decrease in overriding royalty interests from Ken-Tex Energy Corp (Ken-Tex).

While average principal balances of debt investments have increased from $422,474 for the three months ended March 31, 2008 to $537,277 for the three months ended March 31, 2009, the weighted-average interest rate earned decreased from 14.10% to 11.96%. During the three month period ended March 31, 2009, interest of $3,940 was forgone on non-accrual debt investments compared to $748 of forgone interest for the three months ended March 31, 2008. Without these adjustments, the weighted average interest rates earned on debt investments would have been 14.89% and 14.81% for the three months ended March 31, 2009 and 2008, respectively.

Dividend income has grown significantly from $3,423 to $4,445 for the three months ended March 31, 2008 and March 31, 2009, respectively. The increase in dividend income is attributable to dividends received from our investment in GSHI. We received dividends of $3,000 and $4,000 during the three months ended March 31, 2008 and March 31, 2009, respectively

Total investment income has increased for the nine months ended March 31, 2009 from the amount reported for the nine months ended March 31, 2008 primarily due to an increase in interest and other income.

Interest income has increased from $42,538 for the nine months ended March 31, 2008 to $50,862 for the nine months ended March 31, 2009. While principal balances of debt investments have increased from $381,566 for the nine months ended March 31, 2008 to $523,363 for the nine months ended March 31, 2009, the weighted-average interest rate earned decreased from 14.65% to 12.77%. During the nine month period ended March 31, 2009, interest of $11,270 was forgone on non-accrual debt investments compared to $1,431 of forgone interest for the nine months ended March 31, 2008. We had previously accrued default interest on these assets of $3,448 and $433 for the nine months ended March 31, 2009 and 2008, respectively. Also, we recognized $784 of prepayment penalty income from Ken-Tex and Arctic Acquisition Corp. during the nine months ending March 31, 2008. No prepayment penalties were received for the nine months ended March 31, 2009. With these adjustments, the weighted average interest rates earned on debt investments would have been 14.73% and 14.67% for the nine months ended March 31, 2009 and 2008.

Income from other sources increased from $5,909 for the nine months ended March 31, 2008 to $13,986 for the nine months ended March 31, 2009. This $8,077 increase is primarily due to the settlement of our net profit interests in IEC/ARS for $12,576. This $12,576 increase from settlement of our net profit interests was partially offset by the decrease in overriding royalty interests related to Ken-Tex Energy Corp and the decrease in structuring fees.

Dividend income has grown significantly from $7,507 to $13,833 for the nine months ended March 31, 2008 and March 31, 2009, respectively. The increase in dividend income is attributable to dividends received from our investment in GSHI. We received dividends of $5,450 and $12,000 during the nine months ended March 31, 2008 and March 31, 2009, respectively. Dividends were also received from our investments in Ajax and NRG during the nine months ended March 31, 2009.

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 $8,949 and $9,081 for the three months ended March 31, 2009 and March 31, 2008, respectively. For the nine months ended March 31, 2009 and March 31, 2008, operating expenses were $31,499 and $24,510, respectively.

The base management fee was $2,977 and $2,388 for the three months ended March 31, 2009 and March 31, 2008, respectively. It was $8,740 and $6,366 for the nine months ended March 31, 2009 and March 31, 2008, respectively. The increase in this expense for the nine months ended March 31, 2009 is directly related to our growth in total assets. For the three months ended March 31, 2009 and March 31, 2008, we incurred $2,930 and $3,230, respectively, of income incentive fees. For the nine months ended March 31, 2009 and March 31, 2008, we incurred $11,795 and $7,861, respectively, of income incentive fees. The $300 decrease in the income incentive fee for the respective three-month periods is driven by a slight decrease in pre-management fee net investment income from $18,537 for the three months ended March 31, 2008 to $17,627 for the three months ended March 31, 2009. Income incentive fee increased by $3,934 on a nine-month basis as pre-management fee net investment income increased from $45,671 for the nine months ended March 31, 2008 and to $67,717 for the nine months ended March 31, 2009. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three and nine months ended March 31, 2009, we incurred $1,345 and $4,828, respectively of expenses related to our credit facility. This compares with expenses of $1,863 and $4,719 incurred during the three and nine months ended March 31, 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 March 31,		For the Nine Months Ended March 31,	
	2009	**2008**	**2009**	**2008**
Interest expense	$ 1,101	$ 1,584	$ 4,043	$ 3,781
Amortization of deferred financing costs	180	180	540	547
Commitment and other fees	64	99	245	391
Total	$ 1,345	$ 1,863	$ 4,828	$ 4,719
Weighted-average debt outstanding	$ 144,887	$ 110,792	$ 132,099	$ 80,009
Weighted-average interest rate incurred	3.08%	5.74%	4.08%	6.27%
Facility amount at beginning of period	$ 200,000	$ 200,000	$ 200,000	$ 200,000

The decrease in our interest rate incurred is primarily due to a decrease in average LIBOR of approximately 2.8% for the three and nine months ended March 31, 2009 in comparison to the same periods ending March 31, 2008. This decrease is partially offset by an increase of 125 basis points in our current borrowing rate effective November 14, 2008.

As our asset base has grown and we have added complexity to our capital raising activities, due, in part, to our securitization credit facility initiated in June 2007, 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 treasurer, a corporate counsel 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 $2,224 for the nine months ended March 31, 2008 to $590 for the nine months ended March 31, 2009 as there were reduced costs for litigation.

Net Realized Gain (Loss)

Net realized gains were $0 and $208 for the three months ended March 31, 2009 and March 31, 2008, respectively. For the nine months ended March 31, 2009 and March 31, 2008, net realized gains (losses) were $1,661 and $(18,413), respectively. The net realized gain of $1,661 for the nine months ended March 31, 2009 was due primarily to the sale of the warrant related to Deep Down, Inc. The net realized loss of $18,413 for the nine months ended March 31, 2008 was attributable primarily to our disposition of our investments in Central Illinois Energy, LLC and Advantage Oilfield Group, Ltd. (AOG).

Increase (Decrease) in Net Assets from Net Changes in Unrealized Appreciation/Depreciation

Increase (decrease) in net assets from changes in unrealized appreciation/depreciation was $3,611 and $(14,386) for the three months ended March 31, 2009 and March 31, 2008, respectively. For the three months ended March 31, 2009, the $3,611 increase in net assets from the net change in unrealized appreciation/depreciation was driven primarily by write-ups of our investments in GSHI, H&M, and NRG which were partially offset by unrealized depreciation of our investments in Ajax, Deb Shops CCEI, and Yatesville. For

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the three months ended March 31, 2008, the $14,386 decrease in net assets from such changes is attributable to write-downs of our investments in NRG and CCEI offset by a write-up of our investment in GSHI.

For the nine months ended March 31, 2009 and March 31, 2008, net assets decreased by $12,990 and $9,426, respectively from changes in unrealized appreciation/depreciation. The $12,990 decrease occurring during the nine months ended March 31, 2009 was attributable to unrealized depreciation recognized for our investments in Ajax, AEH, R-V Industries, Deb Shops, CCEI, and Yatesville partially offset by write-ups of our investments in GSHI and NRG. The $9,426 decrease from changes in unrealized appreciation/depreciation for the nine months ended March 31, 2008 was the net result of write-downs of our investments in Integrated and CCEI offset by the write-up of our investment in ESA Environmental Specialists, Inc. and by the disposition of AOG (which had been previously valued below cost).

Financial Condition, Liquidity and Capital Resources

For the three months ended March 31, 2009 and March 31, 2008, our operating activities (used) provided ($2,426) and $4,863 of cash, respectively. Financing activities provided $437 and $10,371 of cash during the three months ended March 31, 2009 and March 31, 2008, respectively which included the payments of dividends of $10,192 and $9,369, during the three months ended March 31, 2009 and March 31, 2008, respectively.

For the nine months ended March 31, 2009 and March 31, 2008, our operating activities used $25,552 and $150,705 of cash, respectively. Financing activities provided $25,446 and $167,275 of cash during the nine months ended March 31, 2009 and March 31, 2008, respectively which included the payments of dividends of $32,413 and $15,956, during the nine months ended March 31, 2009 and March 31, 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 funded 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 March 31, 2009, we had a $200,000 revolving credit facility on which $137,567 was outstanding. This facility matures on June 6, 2009, and we are currently negotiating for an extension and expansion of the facility. See Risk Factors Failure to extend our existing credit facility could harm our results of operations and ability to pay expenses and make distributions in this prospectus supplement.

On September 6, 2007, our Registration Statement on Form N-2 was declared effective by the SEC. At March 31, 2009, under the Registration Statement, we had remaining availability to issue up to approximately $341,000 of our equity securities over the next 17 months. In April 2009, we issued an additional $28,520 in common stock, reducing the remaining availability to approximately $313,000.

Off-Balance Sheet Arrangements

At March 31, 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 April 20, 2009, we issued 214,456 shares of our common stock in connection with the dividend reinvestment plan.

On April 27, 2009, we issued 3.68 million shares of our common stock in an underwritten equity offering at $7.75 per share, raising $28,520 in gross proceeds and $27,166 of net proceeds after recognizing $1,114 of underwriting discounts and commissions and $210 of estimated offering costs.

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 NAV per share during the 12 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 also permitted to sell shares of common stock below NAV per share in rights offerings, although we will not do so under this prospectus supplement.

The offering being made pursuant to this prospectus supplement is at a price below our most recently determined NAV per share. In making a determination that this offering is in our and our stockholders best interests, our Board of Directors considered a variety of factors including matters such as:

- the effect that the offering will have on our stockholders, including the potential dilution they may 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 our common stock, which were lower than the price at which shares are being offered, 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 also considered the fact that sales of common stock at a discount will benefit our Investment Advisor as the Investment Advisor will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at a premium to NAV per share.

We will not sell shares 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 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 $15.00 and we have 30 million shares outstanding, sale of 6 million shares at net proceeds to us of $7.50 per share (a 50% discount) would produce dilution of 8.33%. If we subsequently determined that our NAV per share increased to $15.75 on the then 36 million shares outstanding and then made an additional offering, we could, for example, sell approximately an additional 7.2 million shares at net proceeds to us of $9.45 per share, which would produce dilution of

6.67%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

On March 19, 2009, we sold 1,500,000 shares of our common stock directly to certain institutional investors at a price of $8.20 per share. While NAV had not been finally determined for any day after December 31, 2008, the sale of 1,500,000 shares at a price of $8.20 per share was estimated to have resulted in 2.20% of dilution immediately after that offering to our most recently determined NAV per share ($14.43 as of December 31, 2008).

On April 22, 2009, we sold 3,680,000 shares of our common stock in an underwritten public offering at a price of $7.75 per share. The sale of 3,680,000 shares at a price of $7.75 per share resulted in approximately 5.05% dilution immediately after that offering to our most recently determined NAV per share ($14.15 as of March 31, 2009 after adjustment for shares issued in connection with the dividend reinvestment plan on April 20, 2009). When taken together, it is estimated that our sale on March 19, 2009, April 22, 2009 and this offering will result in cumulative dilution of % to our NAV.

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 stockholders who do not purchase any shares in the offering;
- existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and
- new investors who become stockholders 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 stockholders 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 increase.

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The following chart illustrates the level of NAV dilution that would be experienced by a stockholder who does not participate in the offering. It is not possible to predict the level of market price decline that may occur. NAV has not been finally determined for any day after March 31, 2009. The table below is shown based upon the pro-forma NAV calculated by us taking into account the dilutive effects on our NAV per share of our issuance of shares in connection with out dividend reinvestment plan on April 20, 2009 and our April 22, 2009 sale noted above. For purposes of illustration, the table below assumes that our March 31, 2009 NAV per share has been reduced by 5.29% to $13.44 per share as a result of the foregoing transactions.

	Prior to Sale Below NAV	Following Sale	% Change
Offering Price			
Price per Share to Public		$ 10.00	
Net Proceeds per Share to Issuer		$ 9.45	
Decrease to NAV			
Total Shares Outstanding	35,180,584	40,180,584	14.21%
NAV per Share	$ 13.44	$ 12.94	(3.70)%
Dilution to Nonparticipating Stockholder			
Shares Held by Stockholder A	35,181	35,181	0.00%
Percentage Held by Stockholder A	0.10%	0.09%	(12.44)%
Total NAV Held by Stockholder A	$ 472,806	$ 455,297	(3.70)%
Total Investment by Stockholder A (Assumed to be $13.44 per Share)		$ 472,806	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		$ (17,509)	
Investment per Share Held by Stockholder A (Assumed to be $13.44 on Shares Held Prior to Sale)	$ 13.44	$ 12.94	3.70%
NAV per Share Held by Stockholder A		$ 13.44	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		$ (0.50)	
Percentage Dilution to Stockholder A (NAV per Share Divided by Investment per Share)			(3.70)%

Impact On Existing Stockholders Who Do Participate in the Offering

Our existing stockholders who participate in the offering 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 stockholders 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 offering for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 3,000 shares, which is 0.06% of the offering 5,000,000 shares rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 9,000 shares, which is 0.18% of the offering rather than its 0.10% proportionate share). NAV has not been finally determined for any day after March 31, 2009. The table below is shown based upon the pro-forma NAV calculated by us taking into account the dilutive effects on our NAV per share of our issuance of shares in connection with out dividend reinvestment plan on April 20, 2009 and our April 22, 2009 sale noted above. For purposes of illustration, the table below assumes that our March 31, 2009 NAV per share has been reduced by 5.29% to $13.44 per share as a result of the foregoing transactions.

		50% Participation		150% Participation	
	Prior to Sale Below NAV	**Following Sale**	**% Change**	**Following Sale**	**% Change**
Offering Price					
Price per Share to Public		$ 10.00		$ 10.00	
Net Proceeds per Share to Issuer		$ 9.45		$ 9.45	
Decrease/Increase to NAV					
Total Shares Outstanding	35,180,584	40,180,584	14.21%	40,180,584	14.21%
NAV per Share	$ 13.44	$ 12.94	(3.70)%	$ 12.94	(3.70)%
Dilution/Accretion to Participating Stockholder					
Shares Held by Stockholder A	35,181	37,681	7.11%	42,681	21.32%
Percentage Held by Stockholder A	0.10%	0.09%	(6.22)%	0.11%	6.22%
Total NAV Held by Stockholder A	$ 472,806	$ 487,651	3.14%	$ 552,360	16.83%
Total Investment by Stockholder A (Assumed to be $13.44 per Share on Shares held Prior to Sale)		$ 497,806		$ 547,806	
Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment)		$ (10,154)		$ 4,554	
Investment per Share Held by Stockholder A (Assumed to Be $13.44 on Shares Held Prior to Sale)	$ 13.44	$ 13.21	(1.70)%	$ 12.83	(4.50)%
NAV per Share Held by Stockholder A		$ 12.94		$ 12.94	
Dilution/Accretion per Share Held by Stockholder A (NAV per Share Less Investment per		$ (0.27)		$ 0.11	

Share)		
Percentage Dilution/Accretion to Stockholder A (NAV per Share Divided by Investment per Share)	(2.04)%	0.83%

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 will be experienced by a new investor who purchases the same percentage (0.10%) of the shares in the offering as the stockholder in the prior examples held immediately prior to the offering. These stockholders 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. It is not possible to predict the level of market price decline that may occur. NAV has not been finally determined for any day after March 31, 2009. The table below is shown based upon the pro-forma NAV calculated by us taking into account the dilutive effects on our NAV per share of our issuance of shares in connection with out dividend reinvestment plan on April 20, 2009 and our April 22, 2009 sale noted above. For purposes of illustration, the table below assumes that our March 31, 2009 NAV per share has been reduced by 5.29% to $13.44 per share as a result of the foregoing transactions.

	Prior to Sale Below NAV	Following Sale	% Change
Offering Price			
Price per Share to Public		$ 10.00	
Net Proceeds per Share to Issuer		$ 9.45	
Decrease/Increase to NAV			
Total Shares Outstanding	35,180,584	40,180,584	14.21%
NAV per Share	$ 13.44	$ 12.94	(3.70)%
Dilution/Accretion to New Investor A			
Shares Held by Investor A	0	5,000	
Percentage Held by Investor A	0.00%	0.01%	
Total NAV Held by Investor A	$ 0	$ 64,709	
Total Investment by Investor A (At Price to Public)		$ 50,000	
Total Dilution/Accretion to Investor A (Total NAV Less Total Investment)		$ 14,709	
Investment per Share Held by Investor A	$ 0.00	$ 10.00	
NAV per Share Held by Investor A		$ 12.94	
Dilution/Accretion per Share Held by Investor A (NAV per Share Less Investment per Share)		$ 2.94	
Percentage Dilution/Accretion to Investor A (NAV per Share Divided by Investment per Share)			29.42%

UNDERWRITING

Citigroup Global Markets Inc. and UBS Securities LLC are acting as joint book-running managers of the offering and as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter s name.

Underwriter	**Number of Shares**
Citigroup Global Markets Inc.	
UBS Securities LLC	
BB&T Capital Markets, a division of Scott & Stringfellow, LLC	
RBC Capital Markets Corporation	
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price not to exceed $ per share. If all the shares are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms.

If the underwriters sell more shares than the total number set forth in the table above, we have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to additional shares at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter s initial purchase commitment. Any shares issued or sold under the option will be issued and sold on the same terms and conditions as the other shares that are the subject of this offering.

We and our officers and directors have agreed that, for a period of 30 days from the date of this prospectus supplement, we and they will not, without the prior written consent of Citi and UBS Securities LLC, dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock. Citi and UBS Securities LLC in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice. Notwithstanding the foregoing, if (i) during the last 17 days of the 30-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (ii) prior to the expiration of the 30-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 10-day restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The shares are listed on the NASDAQ Global Select Market under the symbol PSEC.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters over-allotment option.

	Paid by the Company	
	No Exercise	**Full Exercise**
Per share	$	$
Total	$	$

We estimate that our portion of the total expenses of this offering will be $.

In connection with the offering, the underwriters may purchase and sell shares in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, which may include purchases pursuant to the over-allotment option, and stabilizing purchases.

Short sales involve secondary market sales by the underwriters of a greater number of shares than they are required to purchase in the offering.

Covered short sales are sales of shares in an amount up to the number of shares represented by the underwriters over-allotment option.

Naked short sales are sales of shares in an amount in excess of the number of shares represented by the underwriters over-allotment option.

Covering transactions involve purchases of shares either pursuant to the over-allotment option or in the open market after the distribution has been completed in order to cover short positions.

To close a naked short position, the underwriters must purchase shares in the open market after the distribution has been completed. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

To close a covered short position, the underwriters must purchase shares in the open market after the distribution has been completed or must exercise the over-allotment option. In determining the source of shares to close the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Stabilizing transactions involve bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the underwriters, in covering short positions or making stabilizing purchases, repurchase shares originally sold by that syndicate member.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the shares. They may also cause the price of the shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NASDAQ Global Select Market, in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

In addition, in connection with this offering, some of the underwriters (and selling group members) may engage in passive market making transactions in the shares on the NASDAQ Global Select Market, prior to the pricing and completion of the offering. Passive market making consists of displaying bids on the NASDAQ Global Select Market no higher than the bid prices of independent market makers and making purchases at prices no higher than those independent bids and effected in response to order flow. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker s average daily trading volume in the shares during a specified period and must be discontinued when that limit is reached. Passive market making may cause the price of the shares to be higher than the price that otherwise would exist in the open market in the absence of those transactions. If the underwriters commence passive market making transactions, they may discontinue them at any time.

This offering is being conducted in accordance with Rule 2810 of the Conduct Rules of the FINRA.

The underwriters have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of shares described in this prospectus supplement may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the shares that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representatives for any such offer; or

in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of shares described in this prospectus supplement located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an offer to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the shares as contemplated in this prospectus supplement. Accordingly, no purchaser of the shares, other than the underwriters, is authorized to make any further offer of the shares on behalf of the sellers or the underwriters.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this prospectus supplement nor any other offering material relating to the shares described in this prospectus supplement has been submitted to the clearance procedures of the Autorité des Marchés Financiers or of the competent authority of another member state of the European Economic Area and notified to the Autorité des Marchés Financiers. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement nor any other offering material relating to the shares has been or will be:

released, issued, distributed or caused to be released, issued or distributed to the public in France; or

used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d investisseurs*), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;

to investment services providers authorized to engage in portfolio management on behalf of third parties; or

in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l épargne*).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

Notice to Prospective Investors in Hong Kong

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The shares offered in this prospectus supplement have not been registered under the Securities and Exchange Law of Japan. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

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Notice to Prospective Investors in Singapore

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

where no consideration is or will be given for the transfer; or

where the transfer is by operation of law.

The addresses of the underwriters are: Citigroup Global Markets Inc. at 388 Greenwich Street, 35th Floor, New York, NY 10013, UBS Securities LLC at 299 Park Avenue, New York, NY 10171, BB&T Capital Markets, a division of Scott & Stringfellow, LLC at 2nd Floor, 909 East Main Street, Richmond, VA 23219 and RBC Capital Markets Corporation at 3 World Financial Center, 200 Vesey Street, 8th Floor, New York, NY 10281.

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. Certain legal matters will be passed upon for the underwriters by Davis Polk & Wardwell, New York, New York.

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, 2008, 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

UNAUDITED FINANCIAL STATEMENTS

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
March 31, 2009 and June 30, 2008

	March 31, 2009 (Unaudited)	June 30, 2008 (Audited)
	(In thousands, except share and per share data)	
ASSETS		
Investments at fair value (cost of $567,306 and $496,805, respectively, Note 3)		
Control investments (cost of $221,744 and $203,661, respectively)	$ 220,263	$ 205,827
Affiliate investments (cost of $33,546 and $5,609, respectively)	30,819	6,043
Non-control/Non-affiliate investments (cost of $312,016 and $287,535, respectively)	303,959	285,660
Total investments at fair value	555,041	497,530
Investments in money market funds	39,254	33,000
Cash	449	555
Receivables for:		
Interest, net	5,929	4,094
Dividends	16	4,248
Loan principal		71
Managerial assistance	473	380
Prepaid prospective deal expenses	86	
Other	109	187
Prepaid expenses	221	273
Deferred financing costs	1,228	1,440
Total Assets	602,806	541,778
LIABILITIES		
Credit facility payable	137,567	91,167
Dividends payable	12,671	11,845
Due to Prospect Administration (Note 7)	742	695
Due to Prospect Capital Management (Note 7)	5,813	5,946
Accrued expenses	1,324	1,104
Other liabilities	665	1,398
Total Liabilities	158,782	112,155
Net Assets	$ 444,024	$ 429,623
Components of Net Assets		

Common stock, par value $0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 31,286,128 and 29,520,379 issued and outstanding, respectively)	$ 31	$ 30
Paid-in capital in excess of par	456,398	441,332
Undistributed net investment income	12,171	1,508
Accumulated realized losses on investments	(12,311)	(13,972)
Unrealized (depreciation) appreciation on investments	(12,265)	725
Net Assets	$ 444,024	$ 429,623
Net Asset Value Per Share	$ 14.19	$ 14.55

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended March 31, 2009 and 2008

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008	For the Nine Months Ended March 31, 2009	For the Nine Months Ended March 31, 2008
	(In thousands, except share and per share data) (Unaudited)			
Investment Income				
Interest Income				
Control investments (Net of foreign withholding tax of $28, $35, $137, and $193, respectively)	$ 5,503	$ 4,556	$ 17,300	$ 15,111
Affiliate investments (Net of foreign withholding tax of $0, $0, $0, and $70, respectively)	730	290	2,365	1,612
Non-control/Non-affiliate investments	9,832	10,044	31,197	25,815
Total interest income	16,065	14,890	50,862	42,538
Dividend income				
Control investments	4,400	3,300	13,568	6,950
Money market funds	45	123	265	557
Total dividend income	4,445	3,423	13,833	7,507
Other income: (Note 4)				
Control/Affiliate investments		200	831	210
Non-control/Non-affiliate investments	159	3,487	13,155	5,699
Total other income	159	3,687	13,986	5,909
Total Investment Income	20,669	22,000	78,681	55,954
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 7)	2,977	2,388	8,740	6,366
Income incentive fee (Note 7)	2,930	3,230	11,795	7,861
Total investment advisory fees	5,907	5,618	20,535	14,227
Interest and credit facility expenses	1,345	1,863	4,828	4,719
Sub-administration fees (including former Chief Financial Officer and Chief Compliance Officer)	177	228	644	620
Legal fees	107	449	590	2,224
Valuation services	139	198	561	431
Audit, compliance and tax related fees	219	45	848	348
	588	588	1,764	1,108

Allocation of overhead from Prospect Administration (Note 7)				
Insurance expense	61	64	185	192
Directors fees	61	55	204	165
Other general and administrative expenses	345	(27)	807	476
Excise taxes			533	
Total Operating Expenses	8,949	9,081	31,499	24,510
Net Investment Income	11,720	12,919	47,182	31,444
Net realized gain (loss) on investments		208	1,661	(18,413)
Net change in unrealized appreciation/depreciation on investments	3,611	(14,386)	(12,990)	(9,426)
Net Increase (Decrease) in Net Assets Resulting from Operations	$ 15,331	$ (1,259)	$ 35,853	$ 3,605
Net increase (decrease) in net assets resulting from operations per share: (Note 6)	$ 0.51	$ (0.05)	$ 1.21	$ 0.16
Dividends declared per share:	$ 0.41	$ 0.40	$ 1.21	$ 1.18

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Nine Months Ended March 31, 2009 and 2008

	For the Nine Months Ended March 31, 2009	For the Nine Months Ended March 31, 2008
	(In thousands, except share data) (Unaudited)	
Increase in Net Assets from Operations:		
Net investment income	$ 47,182	$ 31,444
Net realized gain (loss) on investments	1,661	(18,413)
Net change in unrealized appreciation/depreciation on investments	(12,990)	(9,426)
Net Increase in Net Assets Resulting from Operations	35,853	3,605
Dividends to Shareholders:	(36,519)	(27,667)
Capital Share Transactions:		
Net proceeds from capital shares sold	12,300	94,230
Less: Offering costs of public share offerings	(513)	(1,251)
Reinvestment of dividends	3,280	2,753
Net Increase in Net Assets Resulting from Capital Share Transactions	15,067	95,732
Total Increase in Net Assets:	14,401	71,670
Net assets at beginning of period	429,623	300,048
Net Assets at End of Period	$ 444,024	$ 371,718
Capital Share Activity:		
Shares sold	1,500,000	6,150,000
Shares issued through reinvestment of dividends	265,749	171,314
Net increase in capital share activity	1,765,749	6,321,314
Shares outstanding at beginning of period	29,520,379	19,949,065
Shares Outstanding at End of Period	31,286,128	26,270,379

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended March 31, 2009 and 2008

	For the Nine Months Ended March 31,	
	2009	2008
	(In thousands, except share data) (Unaudited)	
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	$ 35,853	$ 3,605
Net realized (gain) loss on investments	(1,661)	18,413
Net change in unrealized appreciation/depreciation on investments	12,990	9,426
Accretion of original issue discount on investments	(2,323)	(1,785)
Amortization of deferred financing costs	540	547
Gain on settlement of net profits interest	(12,576)	
Change in operating assets and liabilities:		
Payments for purchases of investments	(89,052)	(192,311)
Payment-In-Kind interest	(1,324)	(722)
Proceeds from sale of investments and collection of investment principal	36,435	66,063
Purchases of cash equivalents	(29,999)	(229,955)
Sales of cash equivalents	29,999	229,938
Net (increase) decrease investments in money market funds	(6,254)	14,511
Increase in interest receivable, net	(1,835)	(1,900)
Decrease in dividends receivable	4,232	218
Decrease (increase) in loan principal receivable	71	(107)
Increase in receivable for securities sold		(506)
Decrease in receivable for structuring fees		1,625
Increase in receivable for managerial assistance	(93)	
Increase in receivable for potential deal expenses	(86)	
Decrease (increase) in other receivables	78	(148)
Decrease in prepaid expenses	52	173
Decrease in payables for securities purchased		(70,000)
Increase in due to Prospect Administration	47	601
(Decrease) increase in due to Prospect Capital Management	(133)	1,054
Increase (decrease) in accrued expenses	220	(85)
(Decrease) increase in other liabilities	(733)	640
Net Cash Used In Operating Activities:	(25,552)	(150,705)
Cash Flows from Financing Activities:		
Borrowings under credit facility	54,500	184,992
Payments under credit facility	(8,100)	(94,325)
Financing costs paid and deferred	(328)	(415)
Net proceeds from issuance of common stock	12,300	94,230

Offering costs from issuance of common stock		(513)		(1,251)
Dividends paid		(32,413)		(15,956)
Net Cash Provided By Financing Activities:		25,446		167,275
Total (Decrease) Increase in Cash		(106)		16,570
Cash balance at beginning of period		555		
Cash Balance at End of Period	$	449	$	16,570
Cash Paid For Interest	$	4,015	$	1,825
Non-Cash Financing Activity:				
Amount of shares issued in connection with dividend reinvestment plan	$	3,280	$	2,753

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2009 and June 30, 2008

		March 31, 2009 (unaudited)				
Portfolio Investments(1)	**Locale/Industry**		**Par Value/ Shares Ownership %**	**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 681.85 restricted common shares issued and outstanding)			6	$	$	0.0%
Series A convertible preferred shares (7,222.6 total preferred shares issued and outstanding)			6,142.6	6,057	1,100	0.2%
Senior secured note Tranche A, 10.50%, 4/01/2013(4),(28)		$	21,597	21,597	21,597	4.9%
Subordinated secured note Tranche B, 11.50% plus 6.00% PIK, 4/01/2013(4),(29)		$	11,500	11,500	11,500	2.6%
				39,154	34,197	7.7%
C&J Cladding LLC(4)	Texas/Metal Services					
Warrant, common units, expiring 3/30/2014 (1,000 total company units outstanding)			400	580	5,279	1.2%
Senior secured note, 14.00%, 3/30/2012(12)		$	3,900	3,434	4,193	0.9%
				4,014	9,472	2.1%
Change Clean Energy Holdings, Inc. (CCEHI), Worcester Energy Co, Inc. (WECO), and Worcester Energy Holdings, Inc. (WEHI) (together Biomass)(9)	Maine/Biomass Power					
CCEHI common shares (1,000 total common shares issued and outstanding)			1,000	6,000	6,000	1.4%
WECO common shares (552 total common shares issued and outstanding)			282	1,625		0.0%
			100			0.0%

WEHI common shares (100 total common shares issued and outstanding)						
Senior secured note, stated rate 12.50% plus 5.00% default interest, in non-accrual status effective 7/01/2008, matures 12/31/2012		$	35,599	35,509		0.0%
				43,134	6,000	1.4%
Gas Solutions Holdings, Inc.(3)	Texas/Gas Gathering and Processing					

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		March 31, 2009 (unaudited)			
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Control Investments (25.00% or greater of voting control)					
Common shares (100 total common shares outstanding)		100	5,022	60,186	13.6%
Senior secured note, 18.00%, 12/22/2018(4)		$ 25,000	25,000	25,000	5.6%
			30,022	85,186	19.2%
Integrated Contract Services, Inc.(5)	North Carolina/ Contracting				
Common stock (100 total common shares outstanding)		49	717		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	0.7%
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	0.2%
Senior demand note, 15.00%, 6/30/2009(6)		$ 1,170	1,170	1,170	0.2%
			16,690	5,000	1.1%
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%, 4/30/2009		$ 9,250	9,234	7,163	1.6%
Bridge Loan, 15.00% plus 3.00% PIK, 4/30/2009		$ 9,752	9,752	9,602	2.2%

				19,254	16,765	3.8%
NRG Manufacturing, Inc.	Texas/ Manufacturing					
Common shares (1,000 total common shares issued and outstanding)			800	2,317	15,179	3.4%
Senior secured note, 16.50%, 8/31/2011(4),(8)		$	13,080	13,080	13,080	3.0%
				15,397	28,259	6.4%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

			March 31, 2009 (unaudited)		
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Control Investments (25.00% or greater of voting control)					
R-V Industries, Inc.	Pennsylvania/ Manufacturing				
Common shares (750,000 total common shares issued and outstanding)		545,107	5,084	6,976	1.5%
Warrants, common shares, expiring 6/30/2017 (200,000 total common shares outstanding)		200,000	1,682	2,560	0.6%
			6,766	9,536	2.1%
Yatesville Coal Holdings, Inc.(23)	Kentucky/ Mining and Coal Production				
Common stock (1,000 total common shares outstanding)		1,000	422		0.0%
Junior secured note, 15.66%, 12/31/2010		$ 36,891	36,891	15,848	3.6%
Senior secured note, 15.66%, 12/31/2010		$ 10,000	10,000	10,000	2.2%
			47,313	25,848	5.8%
Total Control Investments			221,744	220,263	49.6%
Affiliate Investments (5.00% to 24.99% of voting control)					
Appalachian Energy Holdings LLC (10),(4)	West Virginia/ Construction Services				
Warrants Class A common units, expiring 2/13/2016 (64,968 total fully-diluted class A common units outstanding)		6,065	$ 176	$	0.0%
Warrants Class A common units, expiring 6/17/2018 (64,968 total		6,025	172		0.0%

fully-diluted class A common units outstanding)			
Warrants Class A common units, expiring 11/30/2018 (64,968 total fully-diluted class A common units outstanding)	18,750		0.0%
Series A preferred equity (1,075 total series A preferred equity units outstanding)	200	97	0.0%
Series B preferred equity (794 total series B preferred equity units outstanding)	241	241	0.0%
Series C preferred equity (375 total series C preferred equity units outstanding)	375	375	0.0%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

				March 31, 2009 (unaudited)		
Portfolio Investments(1)	**Locale/Industry**		**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
			(In thousands, except share data)			
Affiliate Investments (5.00% to 24.99% of voting control)						
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		$	2,080	2,080	1,925	0.4%
Senior Secured Debt Tranche B, 14.00% plus 3.00% PIK plus 3.00% default interest, non-accrual status effective 11/01/2008, matures 5/01/2009		$	2,009	2,009	558	0.1%
				5,150	2,483	0.5%
Biotronic NeuroNetwork	Michigan/ Healthcare					
Preferred shares (85,000 total preferred shares outstanding)(26)			9,925.455	2,300	2,272	0.5%
Senior secured note, 11.50% plus 1.00% PIK, 2/21/2013(4),(27)		$	26,095	26,096	26,064	5.9%
				28,396	28,336	6.4%
Total Affiliate Investments				33,546	30,819	6.9%
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(11)			99.9999%	1,031	3,366	0.8%
Senior subordinated note, 12.00% plus 3.00% PIK, 3/14/2013(4)		$	14,783	14,783	15,073	3.4%
				15,814	18,439	4.2%

Castro Cheese Company, Inc.(4)	Texas/Food Products					
Junior secured note, 11.00% plus 2.00% PIK, 2/28/2013		$	7,500	7,370	7,175	1.6%
Conquest Cherokee, LLC (13),(4)	Tennessee/Oil and Gas Production					
Senior secured note, 13.00%, 5/05/2009(14)		$	10,200	10,191	8,807	2.0%
Deb Shops, Inc.(4)	Pennsylvania/ Retail					

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		March 31, 2009 (unaudited)			
Portfolio Investments(1)	Locale/Industry	Par Value/ Shares Ownership %	Cost	Fair Value(2)	% of Net Assets
		(In thousands, except share data)			
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Second lien debt, 9.26%, 10/23/2014(25)		$ 15,000	$ 14,611	$ 5,466	1.2%
Diamondback Operating, LP(4)	Oklahoma/ Oil and Gas Production				
Net profit interests, 15% payable on equity distributions(33)				456	0.1%
Freedom Marine Services LLC (15),(4)	Louisiana/ Shipping Vessels				
Subordinated secured note, 12.00% plus 4.00% PIK, 12/31/2011(17)		$ 7,162	7,081	7,151	1.6%
H&M Oil & Gas, LLC (15),(4)	Texas/Oil and Gas Production				
Senior secured note, 13.00%, 6/30/2010(16)		$ 50,500	50,500	52,804	11.9%
IEC Systems LP (IEC)/ Advanced Rig Services LLC (ARS)(4)	Texas/ Oilfield Fabrication				
IEC senior secured note, 12.00% plus 3.00% PIK, 11/20/2012(30)		$ 22,011	22,011	22,890	5.1%
ARS senior secured note, 12.00% plus 3.00% PIK, 11/20/2012(30)		$ 13,189	13,189	13,625	3.1%
			35,200	36,515	8.2%
Maverick Healthcare, LLC(4)	Arizona/ Healthcare				
Common units (79,000,000 total class A common units outstanding)		1,250,000			0.0%
		1,250,000	1,252	1,333	0.3%

Preferred units (79,000,000 total preferred units outstanding)					
Second lien debt, 12.00% plus 1.50% PIK, 4/30/2014	$	12,643	12,643	12,823	2.9%
			13,895	14,156	3.2%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		March 31, 2009 (unaudited)			
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Miller Petroleum, Inc.	Tennessee/ Oil and Gas Production				
Warrants, common shares, expiring 5/04/2010 to 3/31/2014 (15,616,856 total common shares outstanding)(32)		1,844,440	150	175	0.0%
Peerless Manufacturing Co.(4)	Texas/ Manufacturing				
Subordinated secured note, 11.50% plus 3.50% PIK, 4/29/2013		$ 20,000	20,000	20,000	4.5%
Qualitest Pharmaceuticals, Inc.(4)	Alabama/ Pharmaceuticals				
Second lien debt, 8.96%, 4/30/2015(18)		$ 12,000	11,948	10,250	2.3%
Regional Management Corp.(4)	South Carolina/ Financial Services				
Second lien debt, 12.00% plus 2.00% PIK, 6/29/2012		$ 25,296	$ 25,296	$ 21,839	4.9%
Resco Products, Inc.(4)	Pennsylvania/ Manufacturing				
Second lien debt, 10.20%, 6/22/2014(19)		$ 9,750	9,588	8,692	2.0%
Shearer s Foods, Inc.	Ohio/ Food Products				
Membership interest units in Mistral Chip Holdings, LLC (45,300 total membership units outstanding)(24)		2,000	2,000	4,210	0.9%
Second lien debt, 14.00%, 10/31/2013(4)		$ 18,000	18,000	18,000	4.1%

				20,000	22,210	5.0%
Stryker Energy, LLC (20),(4)	Ohio/ Oil and Gas Production					
Subordinated secured revolving credit facility, 12.00%, 12/01/2011(21)		$	29,500	29,124	30,725	6.9%
TriZetto Group	California/ Healthcare					

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		March 31, 2009 (unaudited)			
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Subordinated unsecured note, 12.00% plus 1.50% PIK, 10/01/2016(4)		$ 15,036	14,893	15,095	3.4%
Unitek(4)	Pennsylvania/ Technical Services				
Second lien debt, 13.08%, 12/31/2013(22)		$ 11,500	11,355	11,500	2.6%
Wind River Resources Corp. and Wind River II Corp.(4),(15)	Utah/ Oil and Gas Production				
Senior secured note, stated rate 13.00% plus 3.00% default interest, in non-accrual status effective 12/01/2008, matures 7/31/2010(31)		$ 15,000	15,000	12,504	2.9%
Total Non-Control/Non-Affiliate Investments			312,016	303,959	68.5%
Total Portfolio Investments			567,306	555,041	125.0%
Money Market Funds					
Fidelity Institutional Money Market Funds Government Portfolio (Class I)		36,875,316	36,876	36,876	8.3%
Fidelity Institutional Money Market Funds Government Portfolio (Class I)(4)		2,378,260	2,378	2,378	0.5%
Total Money Market Funds			39,254	39,254	8.8%
Total Investments			$ 606,560	$ 594,295	133.8%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		June 30, 2008 (audited)				
Portfolio Investments(1)	**Locale/Industry**		**Par Value/ Shares Ownership %**	**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 803.18 restricted common shares issued and outstanding)			6	$	$	0.0%
Series A convertible preferred shares (7,222.6 total preferred shares issued and outstanding)			6,142.6	6,293	6,293	1.5%
Senior secured note Tranche A, 10.50%, 4/01/2013(4)		$	21,890	21,890	21,890	5.1%
Subordinated secured note Tranche B, 11.50% plus 6.00% PIK, 4/01/2013(4)		$	11,500	11,500	11,500	2.6%
				39,683	39,683	9.2%
C&J Cladding LLC(4)	Texas/ Metal Services					
Warrants, common units, expiring 3/30/2014 (600 total company units outstanding)			400	580	2,222	0.5%
Senior secured note, 14.00%, 3/30/2012(12)		$	4,800	4,085	4,607	1.1%
				4,665	6,829	1.6%
Gas Solutions Holdings, Inc.(3)	Texas/ Gas Gathering and Processing					
Common shares (100 total common shares outstanding)			100	5,221	41,542	9.7%
		$	20,000	20,000	20,000	4.7%

Subordinated secured note, 18.00%, 12/22/2009(4)						
				25,221	61,542	14.4%
Integrated Contract Services, Inc.(5)	North Carolina/ Contracting					
Common stock (100 total common shares outstanding)			49	491		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, in non-accrual status effective 10/09/2007, 9/30/2010		$	14,003	14,003	3,030	0.7%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		June 30, 2008 (audited)			
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Control Investments (25.00% or greater of voting control)					
Senior secured note, stated rate 7.00% plus 7.00% PIK, in non-accrual status effective 10/09/2007,, 9/30/2010		$ 800	800	800	0.2%
Senior demand note, 15.00%, 6/30/2009(6)		$ 1,170	1,170	1,170	0.3%
			16,464	5,000	1.2%
Iron Horse Coiled Tubing, Inc.	Alberta, Canada/ Production Services				
Common shares (1,093 total common shares outstanding)		643	$ 268	$ 49	0.0%
Warrants for common shares(7)		1,138			0.0%
Senior secured note, 15.00%, 4/19/2009		$ 9,250	9,094	9,073	2.1%
Bridge Loan, 15.00% plus 3.00% PIK, 12/11/2008		$ 2,103	2,103	2,060	0.5%
			11,465	11,182	2.6%
NRG Manufacturing, Inc.	Texas/ Manufacturing				
Common shares (1,000 total common shares issued and outstanding)		800	2,317	8,656	2.0%
Senior secured note, 16.50%, 8/31/2011(4),(8)		$ 13,080	13,080	13,080	3.0%
			15,397	21,736	5.0%
R-V Industries, Inc.	Pennsylvania/ Manufacturing				
Common shares (800,000 total common shares issued and outstanding)		545,107	5,031	8,064	1.9%
		200,000	1,682	2,959	0.7%

Warrants, common shares, expiring 6/30/2017						
Senior secured note, 15.00%, 6/30/2017(4)		$	7,526	5,912	7,526	1.8%
				12,625	18,549	4.4%
Worcester Energy Partners, Inc.(9)	Maine/ Biomass Power					
Equity ownership				457	1	0.0%
Senior secured note, 12.50%, 12/31/2012		$	37,388	37,264	15,579	3.6%
				37,721	15,580	3.6%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		June 30, 2008 (audited)			
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Control Investments (25.00% or greater of voting control)					
Yatesville Coal Holdings, Inc.(23)	Kentucky/ Mining and Coal Production				
Common stock (1,000 total common shares outstanding)		1,000	284		0.0%
Junior secured note, 15.43%, 12/31/2010		$ 30,136	30,136	15,726	3.7%
Senior secured note, 15.43%, 12/31/2010		$ 10,000	10,000	10,000	2.3%
			40,420	25,726	6.0%
Total Control Investments			203,661	205,827	48.0%
Affiliate Investments (5.00% to 24.99% of voting control)					
Appalachian Energy Holdings LLC (10),(4)	West Virginia/ Construction Services				
Warrants Class A common units, expiring 2/13/2016 (49,753 total class A common units outstanding)		12,090	$ 348	$ 794	0.2%
Series A preferred equity (16,125 total series A preferred equity units outstanding)		3,000	72	162	0.0%
Series B preferred equity (794 total series B preferred equity units outstanding)		241	241		0.0%
Senior Secured Debt Tranche A, 14.00% plus 3.00% PIK, 1/31/2011		$ 3,003	3,003	3,003	0.7%
Senior Secured Debt Tranche B, 14.00% plus 3.00% PIK, 5/01/2009		$ 1,945	1,945	2,084	0.5%

				5,609	6,043	1.4%
Total Affiliate Investments				5,609	6,043	1.4%
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)						
American Gilsonite Company	Utah/ Specialty Minerals					
Membership interest in AGC/PEP, LLC(11)			99.9999%	1,000	1,000	0.2%
Subordinated secured note, 12.00% plus 3.00% PIK, 3/14/2013(4)		$	14,632	14,632	14,632	3.4%
				15,632	15,632	3.6%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		June 30, 2008 (audited)			
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Conquest Cherokee, LLC (13),(4)	Tennessee/Oil and Gas Production				
Senior secured note, 13.00%, 5/05/2009(14)		$ 10,200	10,125	9,923	2.3%
Deb Shops, Inc.(4)	Pennsylvania/ Retail				
Second lien debt, 10.69%, 10/23/2014(25)		$ 15,000	14,577	13,428	3.1%
Deep Down, Inc.(4)	Texas/ Production Services				
Warrant, common shares, expiring 8/06/2012 (174,732,501 total common shares outstanding)		4,960,585		2,856	0.7%
Diamondback Operating, LP (15),(4)	Oklahoma/ Oil and Gas Production				
Senior secured note, 12.00% plus 2.00% PIK, 8/28/2011		$ 9,200	9,200	9,108	2.1%
Freedom Marine Services LLC (15),(4)	Louisiana/ Shipping Vessels				
Subordinated secured note, 12.00% plus 4.00% PIK, 12/31/2011(17)		$ 6,948	$ 6,850	$ 6,805	1.6%
H&M Oil & Gas, LLC (15),(4)	Texas/ Oil and Gas Production				
Senior secured note, 13.00%, 6/30/2010(16)		$ 50,500	50,500	50,500	11.8%

IEC Systems LP (IEC)/Advanced Rig Services LLC (ARS)(4)	Texas/ Oilfield Fabrication					
IEC senior secured note, 12.00% plus 3.00% PIK, 11/20/2012		$	19,028	19,028	19,028	4.4%
ARS senior secured note, 12.00% plus 3.00% PIK, 11/20/2012		$	5,825	5,825	5,825	1.4%
				24,853	24,853	5.8%
Maverick Healthcare, LLC(4)	Arizona/ Healthcare					

See notes to consolidated financial statements.
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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		June 30, 2008 (audited)				
Portfolio Investments(1)	Locale/Industry	Par Value/ Shares Ownership %		Cost	Fair Value(2)	% of Net Assets
		(In thousands, except share data)				
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)						
Common units (78,100,000 total common units outstanding)			1,250,000			0.0%
Preferred units (78,100,000 total preferred units outstanding)			1,250,000	1,252	1,252	0.3%
Second lien debt, 12.00% plus 1.50% PIK, 4/30/2014		$	12,500	12,500	12,500	2.9%
				13,752	13,752	3.2%
Miller Petroleum, Inc.	Tennessee/ Oil and Gas Production					
Warrants, common shares, expiring 5/04/2010 to 3/31/2013 (14,566,856 total common shares outstanding)			1,571,191	150	111	0.0%
Peerless Manufacturing Co.(4)	Texas/ Manufacturing					
Subordinated secured note, 11.50% plus 3.50% PIK, 4/29/2013		$	20,000	20,000	20,000	4.7%
Qualitest Pharmaceuticals, Inc.(4)	Alabama/ Pharmaceuticals					
Second lien debt, 12.45% (18), 4/30/2015		$	12,000	11,944	11,523	2.7%
Regional Management Corp.(4)	South Carolina/ Financial Services					
Subordinated secured note, 12.00% plus 2.00% PIK, 6/29/2012		$	25,000	25,000	23,699	5.5%
Resco Products, Inc.(4)	Pennsylvania/ Manufacturing					

Second lien debt, 11.06%(19), 6/24/2014		$ 9,750	$ 9,574	$ 9,574	2.2%
Shearer s Foods, Inc.	Ohio/ Food Products				
Membership interest units Mistral Chip Holdings, LLC (45,300 total membership units outstanding)(24)		2,000	2,000	2,000	0.5%
Second lien debt, 14.00%, 10/31/2013(4)		$ 18,000	18,000	17,351	4.0%
			20,000	19,351	4.5%

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

		June 30, 2008 (audited)				
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**		**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)				
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)						
Stryker Energy, LLC(20),(4)	Ohio/ Oil and Gas Production					
Subordinated secured revolving credit facility, 12.00%, 11/30/2011(21)		$	29,500	29,041	28,518	6.6%
Unitek(4)	Pennsylvania/ Technical Services					
Second lien debt, 12.75%(22), 12/27/2012		$	11,500	11,337	11,337	2.6%
Wind River Resources Corp. and Wind River II Corp.(4)	Utah/Oil and Gas Production					
Senior secured note, 13.00%, 7/31/2010		$	15,000	15,000	14,690	3.4%
Total Non-Control/Non-Affiliate Investments				287,535	285,660	66.4%
Total Portfolio Investments				496,805	497,530	115.8%
Money Market Funds						
Fidelity Institutional Money Market Funds Government Portfolio (Class I)			25,954,531	25,954	25,954	6.0%
First American Funds, Inc. Prime Obligations Fund (Class A)(4)			7,045,610	7,046	7,046	1.6%
Total Money Market Funds				33,000	33,000	7.6%
Total Investments				$ 529,805	$ 530,530	123.4%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
March 31, 2009 and June 30, 2008

Endnote Explanations for the Consolidated Schedule of Investments as of March 31, 2009 and June 30, 2008

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

(4) 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 March 31, 2009 and June 30, 2008 were $405,404 and $369,418, respectively; they represent 73.0% and 74.3% of total investments at fair value, respectively.

(5) 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 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 ICS purchased during the foreclosure process.

(6) Loan is with The Healing Staff (f/k/a Lisamarie Fallon, Inc) and affiliate of Integrated Contract Services, Inc.

(7) The number of these warrants which are exercisable is contingent upon the length of time that passes before the bridge loan is repaid, 224 shares on August 11, 2008, 340 additional shares on October 11, 2008 and 574 additional shares on December 11, 2008.

(8) Interest rate is the greater of 16.5% or 12-Month LIBOR plus 11.0%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(9) 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, 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.

(CCEH) and DownEast Power Company, LLC (DEPC). We own 1,000 shares of CCEH, 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 LLC are joint borrowers on the term note issued to Prospect Capital. Effective July 1, 2008, this loan was placed on non-accrual status.

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
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Biochips LLC, WECO, CCEI, Precision, WEHI and CCEH currently have no material operations. As of March 31, 2009, our Board of Directors assessed a fair value of $0 for all of these equity positions and the loan position.

(10) 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 15,215 units of 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 62.5 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.

(11) We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,038 out of a total of 65,232 shares of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.

(12) Interest rate is the greater of 14.0% or 12-Month LIBOR plus 7.5%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(13) In addition to the stated returns, we also hold overriding royalty interests on which we receive payment based upon operations of the borrower and net profit interests which will be realized upon sale of the borrower or a sale of the interests.

(14) 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 March 31, 2009 or June 30, 2008, as applicable.

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

(16) Interest rate is the greater of 13.0% or 12-Month LIBOR plus 7.5%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(17) Interest rate is the greater of 12.0% or 3-Month LIBOR plus 6.11%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(18) Interest rate is 3-Month LIBOR plus 7.5%; rate reflected is as of the reporting date - March 31, 2009 or June 30, 2008, as applicable.

(19) Interest rate is 3-Month LIBOR plus 8.0%; rate reflected is as of the reporting date - March 31, 2009 or June 30, 2008, as applicable.

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

(21)

Interest rate is the greater of 12.0% or 12-Month LIBOR plus 7.0%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(22) As of March 31, 2009 and June 30, 2008, interest rate is the greater of 13.08% and 12.75%, respectively, or 3-Month LIBOR plus 7.25%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(23) 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 March 31, 2009 and at June 30, 2008, Yatesville owned 100% of the membership interest of North Fork. In addition, Yatesville held a $5,984 and $5,721, respectively, note receivable from North Fork as of those two respective dates.

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At March 31, 2009 and at June 30, 2008, Yatesville owned 81% and 75%, respectively, of the common stock of Genesis and held a note receivable of $19,802 and $17,692, respectively, as of those two respective dates.

Yatesville held a note receivable of $4,078 and $3,902, respectively, from Unity at March 31, 2009 and at June 30, 2008.

There are several entities involved in Yatesville s investment in Whymore at March 31, 2009 and at June 30, 2008. As of those two respective dates, Yatesville owned 10,000 shares of common stock or 100% of the equity and held a $13,805 and $12,822, respectively, 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 owns 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. Additionally, Yatesville retains an option to purchase the remaining 51% of Whymore. Whymore and E&L are guarantors under the C&A credit agreement with Yatesville.

(24) 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.

(25) Interest rate is 3-Month LIBOR plus 8.0%; rate reflected is as of the reporting date - March 31, 2009 or June 30, 2008, as applicable.

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

(27) Interest rate is the greater of 11.5% or 6-month LIBOR plus 7.0%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(28) Interest rate is the greater of 10.5% or 3-month LIBOR plus 7.5%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(29) Interest rate is the greater of 11.5% or 3-month LIBOR plus 8.5%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(30) Interest rate is the greater of 12.0% or 12-month LIBOR plus 6.0%; rate reflected is as of the reporting date March 31, 2009 or June 30, 2008, as applicable.

(31) 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 March 31, 2009 or June 30, 2008, as applicable.

(32) Total common shares outstanding of 15,616,856 as of January 31, 2009 from Miller Petroleum, Inc. s Quarterly Report on Form 10-Q filed on March 16, 2009.

(33) In January 2009, our loan was repaid in full and we retained a 15% net profits interest payable on equity distributions.

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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

These interim financial statements, which are not audited, have been prepared in conformity 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.

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.

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

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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

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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 Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. We have adopted this statement on a prospective basis beginning in the quarter ended September 30, 2008. Adoption of this statement did not have a material effect on our financial statements for the quarters ended September 30, 2008, and December 31, 2008, or for the current quarter ended March 31, 2009.

FAS 157 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 FAS 157 relate to the definition of fair value, framework for measuring fair value, and the expanded disclosures about fair value measurements. FAS 157 applies to fair value measurements already required or permitted by other standards. In accordance with FAS 157, 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, FASB issued Staff Position No. 157-4, 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 (157-4). 157-4 provides further clarification for the application of FAS 157 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. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. Since 157-4 does not change the fair value measurement principles set forth in FAS 157, we are considering its adoption and estimate that it will not affect the our financial position or results of operations.

Valuation of Other Financial Assets and Financial Liabilities

In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (FAS 159). FAS 159 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. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. We have

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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adopted this statement on July 1, 2008 and have elected not to value some assets and liabilities at fair value as would be permitted by FAS 159.

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.

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 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. During the quarter ended

December 31, 2008, we elected to retain a portion of our annual taxable income and paid $533 for the excise tax with the filing of the return in March 2009.

We adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. FIN 48 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

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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 FIN 48 was applied to all open tax years as of July 1, 2007. The adoption of FIN 48 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 March 31, 2009 and for the three and nine months then ended, we did not have a liability for any unrecognized tax benefits. Management s determinations regarding FIN 48 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.

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 straight-line 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, legal and accounting fees incurred through March 31, 2009 that are related to the shelf filings that will be charged to capital upon the receipt of the capital or charged to expense if not completed.

Guarantees and Indemnification Agreements

We follow FASB Interpretation Number 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 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 FIN 45, the fair value of the obligation undertaken in issuing certain guarantees. FIN 45 did not have a material effect on the financial statements. Refer to Note 7 and Note 10 for further discussion of guarantees and indemnification agreements.

Per Share Information

Net increase 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 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 and nine months ended March 31, 2009.

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Recent Accounting Pronouncements

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). FAS 161 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. FAS 161 becomes effective for fiscal years beginning after November 15, 2008; therefore, is applicable for our fiscal year beginning July 1, 2009. Our management does not believe that the adoption of FAS 161 will have a material impact on our financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (FAS 162). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Our management does not believe that the adoption of FAS 162 will have a material impact on our financial statements.

Note 3. Portfolio Investments

At March 31, 2009, we had $555,041 invested in 31 long-term portfolio investments (including a net profits interest in Charlevoix Energy Trading LLC) and at June 30, 2008, we had $497,530 invested in 29 long-term portfolio investments (including a net profits interest in Charlevoix Energy Trading LLC).

As of March 31, 2009, we own controlling interests in Ajax Rolled Ring & Machine (Ajax), C&J Cladding, LLC (C&J), Change Clean Energy Holdings, Inc. (CCEHI), Worcester Energy Co, Inc. (WECO), and Worcester Energy Holdings, Inc. (WEHI) (collectively Biomass), Gas Solutions Holdings, Inc. (GSHI), Integrated Contract Services, Inc. (Integrated), Iron Horse Coiled Tubing, Inc. (Iron Horse), NRG Manufacturing, Inc. (NRG), R-V Industries, Inc. (R-V) and Yatesville Coal Holdings, Inc. (Yatesville). As of March 31, 2009, we also own affiliated interests in Appalachian Energy Holdings, LLC (AEH) and Biotronic NeuroNetwork (Biotronic). As of June 30, 2008, we owned controlling interests in Ajax, C&J, Worcester Energy Partners, Inc., GSHI, Integrated, Iron Horse, NRG, R-V, and Yatesville. As of June 30, 2008, we also owned an affiliated interest in AEH.

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The fair values of our portfolio investments as of March 31, 2009 disaggregated into the three levels of the FAS 157 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	$	$	$ 220,263	$ 220,263
Affiliate investments			30,819	30,819
Non-control/Non-affiliate investments			303,959	303,959
			555,041	555,041
Investments in money market funds	39,254			39,254
Total assets reported at fair value	$ 39,254	$	$ 555,041	$ 594,295

The aggregate values of Level 3 portfolio investments changed during the three and nine months ended March 31, 2009 as follows:

	For the Periods Ended March 31, 2009 Three Months	Nine Months
Change in Portfolio Valuations using Significant Unobservable Inputs (Level 3)		
Fair value at beginning of period:		
December 31, 2008 and June 30, 2008, respectively	$ 555,661	$ 497,530
Total gains (losses) reported in the Consolidated Statement of Operations:		
Included in net investment income		
Interest income accretion of original issue discount on investments	195	2,323
Included in realized gain/loss on investments		1,661
Included in net change in unrealized appreciation/depreciation on investments	3,611	(12,990)

Payments for purchases of investments, payment-in-kind interest, and net profits interests		6,356		90,376
Proceeds from sale of investments and collection of investment principal		(10,782)		(23,859)
Fair value at March 31, 2009	$	555,041	$	555,041
The amount of net unrealized gain (loss) included in the results of operations attributable to Level 3 assets still held at March 31, 2009 and reported within the caption *Net change in unrealized appreciation/depreciation* in the Consolidated Statement of Operations:	$	4,421	($	8,612)

At March 31, 2009, four loan investments were on non-accrual status: Appalachian Energy Holdings LLC (AEH), Integrated Contract Services, Inc. (Integrated or ICS), Wind River Resources Corp. and Wind River II Corp. (Wind River), and Change Clean Energy, Inc. f/k/a Worcester Energy Partners, Inc., Worcester

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Energy Co., Inc., (WECO) and Biochips LLC (collectively Biomass). At June 30, 2008, the loans extended to Integrated were on non-accrual status.

The loan principal of these loans amounted to $69,491 and $14,803 as of March 31, 2009, and June 30, 2008, respectively. The fair values of these investments represent approximately 15.7% and 3.4% of our net assets as of March 31, 2009 and June 30, 2008, respectively. For the three months ended March 31, 2009, and March 31, 2008, the income foregone as a result of not accruing interest on these debt investments amounted to $3,940 and $748, respectively. For the nine months ended March 31, 2009, and March 31, 2008, the income foregone as a result of not accruing interest on these debt investments amounted to $11,270 and $1,431, respectively.

GSHI has indemnified us against any legal action arising from its investment in Gas Solutions, LP. We have incurred approximately $2,677 from the inception of the investment in GSHI through March 31, 2009 for fees associated with a legal action, and GSHI has reimbursed us for the entire amount. Of the $2,677 reimbursement, $67 and $23 are reflected as dividend income: control investments in the Consolidated Statements of Operations for the three months ended March 31, 2009 and March 31, 2008, respectively; $249 and $44 are reflected as dividend income: control investments for the nine months ended March 31, 2009 and March 31, 2008, respectively. 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 March 31, 2009 and March 31, 2008, such reimbursements totaled as $1,878 and $1,276, respectively. For the nine months ended March 31, 2009 and March 31, 2008, reimbursements totaled $5,386 and $2,995, respectively.

The original cost basis of debt placements and equity securities acquired totaled to approximately $6,356 and $31,794 during the three months ended March 31, 2009 and March 31, 2008, respectively. These placements and acquisitions totaled to approximately $90,376 and $193,033 during the nine months ended March 31, 2009 and March 31, 2008, respectively. Debt repayments and sales of equity securities with a cost basis of approximately $10,782 and $28,680 were received during the three months ended March 31, 2009 and March 31, 2008, respectively. These repayments and sales amounted to $22,198 and $84,458 during the nine months ended March 31, 2009 and March 31, 2008, respectively.

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 and nine months ended March 31, 2009 and March 31, 2008 were as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
Income Source	**2009**	**2008**	**2009**	**2008**

Structuring fees	$	$ 490	$ 774	$ 2,430
Overriding royalty interests	141	3,150	472	3,365
Settlement of net profits interests			12,576	
Deal deposit		36	62	72
Administrative agent fee	18	11	53	32
Miscellaneous			49	10
Other Investment Income	$ 159	$ 3,687	$ 13,986	$ 5,909

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Note 5. Sale and Purchases of Common Stock

We issued 1,500,000 shares of our common stock in a public offering during the three months and the nine months ended March 31, 2009. We issued 2,450,000 shares of common stock during the three months ended March 31, 2008 through a direct offering and through a public offering. For the nine months ended March 31, 2008, the total number of common shares sold equaled 6,150,000. 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
During the nine months ended March 31, 2009					
March 19, 2009	1,500,000	$ 12,300	$	$ 513	**$ 8.200**
During the nine months ended March 31, 2008					
March 31, 2008	1,150,000	$ 17,768	$ 759	$ 350	**$ 15.450**
March 28, 2008	1,300,000	19,786		350	**15.220**
November 13, 2007 over-allotment	**200,000**	**3,268**	**163**		**16.340**
October 17, 2007	**3,500,000**	**57,190**	**2,860**	**551**	**16.340**

Our shareholders equity accounts at March 31, 2009 and June 30, 2008 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, 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 March 31, 2009 pursuant to this plan.

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

The following information sets forth the computation of net increase (decrease) in net assets resulting from operations per common share for the three and nine months ended March 31, 2009 and March 31, 2008, respectively.

For the	For the

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Net increase (decrease) in net assets resulting from operations	$ 15,331	$ (1,259)	$ 35,853	$ 3,605
Weighted average common shares outstanding	29,971,508	23,858,492	29,708,458	22,349,987
Net increase (decrease) in net assets resulting from operations per common share	$ 0.51	$ (0.05)	$ 1.21	$ 0.16

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Note 7. Related Party Agreements and Transactions

Investment Advisory Agreement

We have entered into an investment advisory and management agreement (the Investment Advisory Agreement) with Prospect Capital Management (the Investment Adviser) 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.

The Investment Adviser 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. 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 March 31, 2009 and March 31, 2008 were $2,977, and $2,388, respectively. The fees incurred for the nine months ended March 31, 2009 and March 31, 2008 were $8,740, and $6,366, 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 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;

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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 March 31, 2009 and March 31, 2008, $2,930 and $3,230, respectively, of income incentive fees were incurred. For the nine months ended March 31, 2009 and March 31, 2008, $11,795 and $7,861, respectively, of income incentive fees were incurred. No capital gains incentive fees were incurred for the three or nine months ended March 31, 2009 and March 31, 2008.

Administration Agreement

We have also entered into an Administration Agreement with Prospect Administration, LLC (Prospect Administration or the Administrator) 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

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. 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

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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.

Overhead expenses allocated to us by Prospect Administration amounted to $588 and $588 for the three months ended March 31, 2009 and March 31, 2008, respectively. These allocations totaled $1,764 and $1,108 for the nine months ended March 31, 2009 and March 31, 2008, respectively.

Prospect Administration, pursuant to the approval of our Board of Directors, has 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 provides us with office facilities, equipment, clerical, bookkeeping and record keeping services at such facilities. Vastardis also conducts 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 provides reports to the Administrator and the Directors of its performance of obligations and furnishes advice and recommendations with respect to such other aspects of our business and affairs as it shall determine to be desirable. Under the revised and renewed sub-administration agreement, Vastardis also provided the service of William E. Vastardis as our Chief Financial Officer (CFO). We compensate 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 24, 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.

Vastardis does not provide any advice or recommendation relating to the securities and other assets that we should purchase, retain or sell or any other investment advisory services to us. Vastardis is responsible for the financial and other records that either the Administrator on our behalf or we are required to maintain and prepares reports to stockholders, and reports and other materials filed with the SEC. In addition, Vastardis 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 overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others.

Under the sub-administration agreement, Vastardis and its officers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with Vastardis, are not liable to the

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Administrator or us for any action taken or omitted to be taken by Vastardis in connection with the performance of any of its duties or obligations or otherwise as sub-administrator for the Administrator on our behalf. The agreement also provides that, absent willful misfeasance, bad faith or negligence in the performance of Vastardis duties or by reason of the reckless disregard of Vastardis duties and obligations, Vastardis and its officers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with Vastardis are entitled to indemnification from the Administrator and us. All damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) incurred in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Administrator or us or our security holders) arising out of or otherwise based upon the performance of any of Vastardis duties or obligations under the agreement or otherwise as sub-administrator for the Administrator on our behalf are subject to such indemnification.

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 anticipate entering into a new consulting services agreement for the period from July 1, 2009 until the filing our 10-K for the year ending on June 30, 2009. We anticipate paying Vastardis a total of $30 for services in conjunction with preparation of the Form 10-K under the new agreement.

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 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. For the three months ended March 31, 2009 and March 31, 2008, managerial assistance fees amounted to $215 and $245, respectively. For the nine months ended March 31, 2009 and March 31, 2008, managerial assistance fees amounted to $631 and $693, respectively. These fees are paid to the Administrator.

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Note 8. Financial Highlights

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008	For the Nine Months Ended March 31, 2009	For the Nine Months Ended March 31, 2008
Per Share Data(1):				
Net asset value at beginning of period	$ 14.43	$ 14.58	$ 14.55	$ 15.04
Net investment income	0.39	0.54	1.59	1.41
Net realized gain (loss)		0.01	0.06	(0.82)
Net unrealized appreciation (depreciation)	0.12	(0.60)	(0.44)	(0.42)
Shares issued for dividend reinvestments	(0.01)		(0.02)	
Net (decrease) increase in net assets as a result of public offering	(0.33)	0.02	(0.34)	0.12
Dividends declared	(0.41)	(0.40)	(1.21)	(1.18)
Net asset value at end of period	$ 14.19	$ 14.15	$ 14.19	$ 14.15
Per share market value at end of period	$ 8.52	$ 15.22	$ 8.52	$ 15.22
Total return based on market value(2)	(25.44)%	19.69%	(27.80)%	(5.76)%
Total return based on net asset value(2)	3.01%	(0.40)%	8.93%	1.78%
Shares outstanding at end of period	31,286,128	26,270,379	31,286,128	26,270,379
Average weighted shares outstanding for period	29,971,508	23,858,492	29,708,458	22,349,987
Ratio / Supplemental Data:				
Net assets at end of period (in thousands)	$ 444,024	$ 371,718	$ 444,024	$ 371,718
Average net assets (in thousands)	$ 435,914	$ 358,771	$ 433,297	$ 329,900
Annualized ratio of operating expenses to average net assets	8.34%	10.17%	9.96%	9.89%
Annualized ratio of net operating income to average net assets	10.63%	14.36%	14.25%	12.72%

(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. The total returns are not annualized.

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	For the Year Ended				
	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004(3)
Per Share Data(1):					
Net asset value at beginning of period	$ 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	1.91	1.47	1.21	0.34	
Realized (loss) gain	(0.69)	0.12	0.04		
Net unrealized (depreciation) appreciation	(0.05)	(0.52)	0.58	0.90	
Net increase in net assets as a result of public offering		0.26		13.95	
Dividends declared and paid	(1.59)	(1.54)	(1.12)	(0.38)	
Net asset value at end of period	$ 14.55	$ 15.04	$ 15.31	$ 14.59	$
Per share market value at end of period	$ 13.18	$ 17.47	$ 16.99	$ 12.60	$
Total return based on market value(2)	(15.90)%	12.65%	44.90%	(13.46)%	
Total return based on net asset value(2)	7.84%	7.62%	12.76%	7.40%	
Shares outstanding at end of period	29,520,379	19,949,065	7,069,873	7,055,100	
Average weighted shares outstanding for period	23,626,642	15,724,095	7,056,846	7,055,100	
Ratio / Supplemental Data:					
Net assets at end of period (in thousands)	$ 429,623	$ 300,048	$ 108,270	$ 102,967	$
Annualized ratio of operating expenses to average net assets	9.62%	7.36%	8.19%	5.52%	
Annualized ratio of net operating income to average net assets	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. The total returns are not annualized.

(3) Financial Highlights as of June 30, 2004 are considered not applicable as the initial offering of common stock did not occur as of this date.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2009
(Unaudited)
(In thousands, except share and per share data)

Note 9. 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, 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. 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, tortious 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. 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 our petition to confirm the award, confirmed the awards and subsequently entered judgment thereon in our favor 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 we 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.

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, agreements for one guarantee and one contingent indemnification are outstanding which are related to two portfolio companies categorized as Control Investments Whymore and North Fork; both of these companies have now been consolidated as part of

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2009
(Unaudited)
(In thousands, except share and per share data)

Yatesville. The guarantee is related to Whymore. As of March 31, 2009, this guarantee may amount to $4,300 for equipment leases. 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 to indemnify the seller of those assets for personal guarantees that seller had extended on behalf of Traveler. As of March 31, 2009, the amount of this contingency is $3,673.

We also provide indemnifications to Prospect Administration and to Vastardis in accordance with our respective agreements with those two service providers. These indemnifications are described in further detail in Note 7.

Note 11. 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 as administrative agent and sole lead arranger (the Rabobank Facility). Interest on the Rabobank Facility is charged at LIBOR plus 175 basis points. Additionally, Rabobank charges a fee on the unused portion of the facility. Through November 30, 2007, this fee is assessed at the rate of 37.5 basis points per annum of the amount of that unused portion; after that date, this rate increases to 50.0 basis points per annum if that unused portion is greater than 50% of the total amount of the facility. On November 14, 2008, we entered into a commitment letter with Rabobank to arrange and structure a new dual-rated credit facility. Under the terms of the letter, we agreed to an immediate increase in the current borrowing rate on the Rabobank Facility to LIBOR plus 250 basis points. At March 31, 2009 and June 30, 2008, the investments used as collateral for the Rabobank Facility had aggregate market values of $405,404 and $369,418, respectively. These values represent 73.0% and 74.3% of total investments at fair value, respectively.

We had drawn down $137,567 and $91,167 on the Rabobank Facility as of March 31, 2009 and June 30, 2008, respectively.

Note 12. Selected Quarterly Financial Data (Unaudited)

	Investment Income		Net Investment Income		Net Realized and Unrealized Gains (Losses)		Net Increase (Decrease) in Net Assets from Operations	
Quarter Ended	**Total**	**Per Share(1)**	**Total**	**Per Share(1)**	**Total**	**Per Share(1)**	**Total**	**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	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

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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 13. Subsequent Events

On April 20, 2009, we issued 214,456 shares of our common stock in connection with the dividend reinvestment plan.

On April 27, 2009, we issued 3.68 million shares of our common stock in an underwritten equity offering at $7.75 per share, raising $28,520 in gross proceeds and $27,166 of net proceeds after recognizing $1,144 of underwriting discounts and commissions and $210 of estimated offering costs.

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Prospectus dated March 18, 2009

$500,000,000
PROSPECT CAPITAL CORPORATION
Common Stock
Preferred Stock
Debt Securities
Warrants

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 rights to purchase shares of common stock, preferred stock or debt securities, collectively, the Securities, to provide us with additional capital. 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.

We may offer shares of common stock at a discount to net asset value per share in certain circumstances. 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.

Our Securities may be offered directly to one or more purchasers, 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 Global Select Market under the symbol PSEC. As of March 17, 2009, the last reported sales price for our common stock was $7.61.

Prospect Capital Corporation, or the Company, is a company that lends to and invests in middle market privately-held companies. Prospect Capital Corporation, 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, or the 1940 Act, and is a non-diversified investment company within the meaning of the 1940 Act.

Prospect Capital Management LLC, our investment adviser, manages our investments and Prospect Administration LLC, our administrator, 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 beginning on page 10 of this prospectus.

This prospectus contains important information about us that you should know before investing in our Securities. Please read it before making an investment decision 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 will be available free of charge by writing to Prospect Capital Corporation at 10 East 40th Street, 44th Floor, New York, NY 10016, or by calling collect at 212-448-0702. Our Internet address is http://www.prospectstreet.com. You may also obtain information about us from the SEC s website (http://www.sec.gov).

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.

The date of this Prospectus is March 18, 2009

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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.

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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 of 1933, as amended, or 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, and Company refer to Prospect Capital Corporation; Prospect Capital Management or the Investment Adviser refers to Prospect Capital Management LLC, our investment adviser; Prospect Administration or the Administrator refers to Prospect Administration LLC, our administrator; and Prospect refers to Prospect Capital Management LLC, its affiliates and its predecessor companies.

The Company

We are a financial services company that lends to and invests in middle market privately-held 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. While we expect to be less focused on the energy industry in the future, we will continue to have significant holdings in the energy and energy related industries. 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. We are a non-diversified company within the meaning of the 1940 Act. Our headquarters are located at 10 East 40th Street, 44th Floor, New York, NY 10016, and our telephone number is (212) 448-0702.

The Investment Adviser

Prospect Capital Management, an affiliate of the Company, 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 and management agreement between us and Prospect Capital Management, or 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 we define as total assets without deduction for any liabilities, as well as a two-part incentive fee based on our performance.

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, which we expect to use initially to maintain balance sheet liquidity and thereafter to make long-term investments in accordance with our investment objectives.

Our Securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to a particular offering will disclose the terms of that 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.

We may offer shares of common stock at a discount to net asset value per share at prices approximating market value less selling expenses upon approval of our directors, including a majority of our independent directors, in certain circumstances. See Sales of Common Stock Below Net Asset Value in this prospectus and in the prospectus supplement, if applicable. 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. We will not offer shares of common stock at a discount to net asset value through a rights offering under this prospectus.

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 selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of all or a portion of amounts outstanding under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See Use of Proceeds.
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 accounting reclassifications. Distributions in excess of our current or accumulated earnings or profits constitute a return of capital and will reduce the stockholder s adjusted tax basis in such stockholder s common stock. After the adjusted basis is reduced to zero, these distributions 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 Common Stock, Distributions and Material U.S. Federal Income Tax Considerations.
Taxation	We have qualified and elected to be treated for U.S. Federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or the Code. As a RIC, we generally do not have to pay corporate-level U.S. 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

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	realized net long-term capital losses, if any. 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 are automatically reinvested in additional shares of our common stock, unless a stockholder specifically opts 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 stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan.
The NASDAQ Global Select 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, or Vastardis (formerly, EOS Fund Services LLC), as sub-administrator. For a description of Prospect Capital Management, Prospect Administration, Vastardis and our contractual arrangements with these companies, see Management Management Services Investment Advisory Agreement, and Management Management Services Administration Agreement.
Risk factors	Investment in our Securities involves certain risks relating to our structure and investment objective that should be considered by prospective purchasers of our 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 primarily includes securities issued by privately-held companies. These investments generally involve a high degree of business and financial risk, and are less liquid than public securities. We are required to mark the carrying value of our investments to fair value on a quarterly basis, and economic events, market conditions and events affecting individual portfolio companies can result in quarter-to-quarter mark-downs and mark-ups of the value of individual investments that collectively can materially affect our net asset value, or NAV. 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.

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	Moreover, our business requires a substantial amount of capital to operate and to grow and we seek additional capital from external sources. In addition, the failure to qualify as a RIC eligible for pass-through tax treatment under 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 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 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. Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, 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.

Fees and Expenses

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed $200 million under our credit facility, which is the maximum amount available under the credit facility. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)(1)	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)*:	
Combined base management fee (3.04%)(5) and incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) (2.8%)(6)	5.84%
Interest payments on borrowed funds	1.37%(7)
Other expenses	2.39%(8)
Total annual expenses	9.59%(6)(8)

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Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed all $200 million available under our line of credit, that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the stockholder 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	$ 111.80	$ 237.93	$ 359.56	$ 644.99

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, as 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, 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.

* 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 December 31, 2008.

(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% 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% management fee of gross assets equals approximately

3.04% of net assets. See Management Management Services Investment Advisory Agreement and footnote 6 below.

(6) The incentive fee payable to our Investment Adviser under the Investment Advisory Agreement is based on our performance and will not be paid unless we achieve certain goals. Under the assumption of a 5% return required in the example, no incentive fee would be payable. 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 December 31, 2008, we paid an incentive fee of $2.99 million (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 and to decrease if our interest and

dividend income and capital gains decrease. 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 Prospect Capital Management 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. If interest income is accrued but never paid, the Board of Directors would decide to write off the accrual in the quarter when the accrual is determined to be uncollectible. The write off would cause a decrease in interest income for the quarter equal to the amount of the prior accrual. The Investment Adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default by an entity on the obligation that resulted in the accrual of such income. 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 capital gains incentive fee, will equal 20% of our realized capital gains, if any, during a particular year 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%, the income incentive fee would be as follows:

$= 100\% \times (2\% - 1.75\%)$

$= 0.25\%$

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 paid in September 2008 (for the quarter ended December 31, 2008) (in thousands):

Prior Quarter Net Asset Value	$ 431,739
Quarterly Hurdle Rate	1.75%

Current Quarter Hurdle	$	7,555
125% of the Quarterly Hurdle Rate		2.1875%
125% of the Current Quarter Hurdle	$	9,444
Current Quarter Pre Incentive Fee Net Investment Income	$	14,950
Incentive Fee Catch-Up	$	1,889
Incentive Fee 20% in excess of 125% of the Current Quarter Hurdle	$	1,101
Total Current Quarter Incentive Fee	$	2,990

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

(7) 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	2.10%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)	2.80%
Interest payments on borrowed funds	None
Other expenses	3.32%
Total annual expenses (estimated)	8.22%

(8) Other expenses is based on our annualized expenses during our quarter ended December 31, 2008 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. Other expenses does not include non-recurring expenses. See Management Management Services Administration Agreement.

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SELECTED CONDENSED FINANCIAL DATA

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, 2008, 2007, 2006 and 2005 and for the period from April 13, 2004 (inception) through June 30, 2004 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 six months ended December 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2009. See Management s Discussion and Analysis of Financial Condition and Results of Operations starting on page 26 for more information.

	For the Year/Period Ended June 30,				
	2008	**2007**	**2006**	**2005**	**2004(1)**
	(In thousands except data relating to shares, per share and number of portfolio companies)				
Performance Data:					
Interest income	$ 59,033	$ 30,084	$ 13,268	$ 4,586	$
Dividend income	12,033	6,153	3,601	3,435	
Other income	8,336	4,444		72	
Total investment income	79,402	40,681	16,869	8,093	
Interest and credit facility expenses	(6,318)	(1,903)	(642)		
Investment advisory expense	(20,199)	(11,226)	(3,868)	(1,808)	
Other expenses	(7,772)	(4,421)	(3,801)	(3,874)	(100)
Total expenses	(34,289)	(17,550)	(8,311)	(5,682)	(100)
Net investment income	45,113	23,131	8,558	2,411	(100)
Realized and unrealized gains (losses)	(17,522)	(6,403)	4,338	6,340	
Net increase in net assets from operations	$ 27,591	$ 16,728	$ 12,896	$ 8,751	$ (100)
Per Share Data(2):					
Net increase in net assets from operations	$ 1.17	$ 1.06	$ 1.83	$ 1.24	na
Distributions declared per share	$ (1.59)	$ (1.54)	$ (1.12)	$ (0.38)	na
Average weighted shares outstanding for the period	23,626,642	15,724,095	7,056,846	7,055,100	100
Assets and Liabilities Data:					

Investments	$	497,530	$	328,222	$	133,969	$	55,030	$	
Other assets		44,248		48,280		4,511		48,879		1
Total assets		541,778		376,502		138,480		103,909		1
Amount drawn on credit facility		91,167				28,500				
Amount owed to related parties		6,641		4,838		745		77		100
Other liabilities		14,347		71,616		965		865		
Total liabilities		112,155		76,454		30,210		942		100
Net assets	$	429,623	$	300,048	$	108,270		102,967	$	99
Investment Activity Data:										
No. of portfolio companies at period end		29(3)		24(3)		15		6		
Acquisitions	$	311,947	$	167,255	$	83,625	$	79,018	$	
Sales, repayments, and other disposals	$	127,212	$	38,407	$	9,954	$	32,083	$	
Weighted-Average Yield(4)		15.5%		17.1%		17.0%		21.3%		na

(1) For the period April 13, 2004 (inception) through June 30, 2004

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

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

(4) Includes dividends from certain equity investments

	For the Three Months Ended December 31, 2008 (Unaudited)	For the Three Months Ended December 31, 2007 (Unaudited)	For the Six Months Ended December 31, 2008 (Unaudited)	For the Six Months Ended December 31, 2007 (Unaudited)
	(In thousands except data relating to shares, per share and number of portfolio companies)			
Performance Data:				
Interest income	$ 17,241	$ 14,816	$ 34,707	$ 27,648
Dividend income	4,665	2,466	9,388	4,084
Other income	307	1,281	13,827	2,222
Total investment income	22,213	18,563	58,012	33,954
Interest and credit facility expenses	(1,965)	(1,618)	(3,483)	(2,856)
Investment advisory expense	(5,930)	(4,777)	(14,628)	(8,609)
Other expenses	(2,358)	(1,508)	(4,439)	(3,964)
Total expenses	(10,253)	(7,903)	(22,550)	(15,429)
Net investment income	11,960	10,660	35,462	18,525
Realized and unrealized gains (losses)	(5,436)	(14,346)	(14,940)	(13,661)
Net increase in net assets from operations	$ 6,524	$ (3,686)	$ 20,522	$ 4,864
Per Share Data(1):				
Net increase in net assets from operations	$ 0.22	$ (0.16)	$ 0.69	$ 0.23
Distributions declared per share	$ (0.40)	$ (0.39)	$ (0.80)	$ (0.78)
Average weighted shares outstanding for the period	29,618,762	23,249,399	29,569,571	21,603,932
Assets and Liabilities Data:				
Investments	$ 555,661	$ 440,085	$ 555,661	$ 440,085
Other assets	32,316	35,144	32,316	35,144
Total assets	587,977	475,229	587,977	475,229

Amount drawn on credit facility		138,667		107,042		138,667		107,042
Amount owed to related parties		6,312		4,842		6,312		4,842
Other liabilities		15,195		17,521		15,195		17,521
Total liabilities		160,174		129,405		160,174		129,405
Net assets	$	427,803	$	345,824	$	427,803	$	345,824
Investment Activity Data:								
No. of portfolio companies at period end		31(2)		32(2)		31(2)		32(2)
Acquisitions	$	13,564	$	120,846	$	84,020	$	161,240
Sales, repayments, and other disposals	$	2,128	$	19,223	$	13,077	$	37,172
Weighted-Average Yield(3)		12.7%		14.9%		13.3%		15.0%

(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

RISK FACTORS

Investing in our Securities involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before you decide whether to make an investment in our Securities. The risks set forth below are not the only risks we face. If any of the adverse events or conditions described below 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, or the value of our preferred stock, debt securities, warrants may decline, and you may lose all or part of your investment.

Risks Relating To Our Business

Our financial condition and results of operations will depend on our ability to manage our future growth effectively.

Prospect Capital Management has been registered as an investment adviser since March 31, 2004, and we have been organized as a closed-end investment company since April 13, 2004. As such, each entity is subject to the business risks and uncertainties associated with any young business enterprise, including the limited experience in managing or operating a business development company under the 1940 Act. Our ability to achieve our investment objective depends on our ability to grow, which depends, in turn, on our Investment Adviser s ability to continue to identify, analyze, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Investment Adviser s structuring of investments, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. As we grow, Prospect Capital Management will need to continue to hire, train, supervise and manage new employees. Failure to manage our future growth effectively could have a materially adverse effect on our business, financial condition and results of operations.

We are dependent upon Prospect Capital Management s key management personnel for our future success.

We depend on the diligence, skill and network of business contacts of the senior management of our Investment Adviser. We also depend, to a significant extent, on our Investment Adviser s access to the investment professionals and the information and deal flow generated by these investment professionals in the course of their investment and portfolio management activities. The senior management team of the Investment Adviser evaluates, negotiates, structures, closes, monitors and services our investments. Our success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior management team could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain our investment adviser or that we will continue to have access to its investment professionals or its information and deal flow.

We are a relatively new company with limited operating history.

We were incorporated in April 2004 and have conducted investment operations since July 2004. We are subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that we may not fully achieve our investment objective or be able to obtain sufficient debt financing for our portfolio and that the value of your investment in us could decline substantially or fall to zero. Dividends that we pay prior to being fully invested may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested and levered. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of our shares may decline.

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us to make the types of investments that we make in target companies. We compete with other business development companies, public and private funds, commercial and investment banks and commercial financing companies. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified, a trend we expect to continue.

Many of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more or fuller relationships with borrowers and sponsors than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. We cannot assure you that the competitive pressures we face will not have a materially adverse effect on our business, financial condition and results of operations. Also, as a result of existing and increasing competition and our competitors ability to provide a total package solution, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We do not seek to compete primarily based on the interest rates that we offer, and we believe that some of our competitors make loans with interest rates that are comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors pricing, terms and structure. If we match our competitors pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

Most of our portfolio investments are recorded at fair value as determined in good faith by our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments.

A large percentage of our portfolio investments consist of securities of privately held companies. Hence, market quotations are generally not readily available for determining the fair values of such investments. The determination of fair value, and thus the amount of unrealized losses we may incur in any year, is to a degree subjective, and the Investment Adviser has a conflict of interest in making the determination. We value these securities quarterly at fair value as determined in good faith by our Board of Directors based on input from our Investment Adviser, a third party independent valuation firm and our audit committee. Our Board of Directors utilizes the services of an independent valuation firm to aid it in determining the fair value of any securities. The types of factors that may be considered in determining the fair values of our investments include the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow, current market interest rates and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, the valuations may fluctuate significantly over short periods of time due to changes in current market conditions. The determinations of fair value by our Board of Directors may differ materially from the values that would have been used if an active market and market quotations existed for these investments. Our net asset value could be adversely affected if the determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

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

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

- A likelihood of greater volatility in the net asset value and market price of our common stock;
- Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements that are more stringent than those imposed by the 1940 Act;
- The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;
- Increased operating expenses due to the cost of leverage, including issuance and servicing costs;
- Convertible or exchangeable securities issued in the future may have rights, preferences and privileges more favorable than those of our common stock; and
- Subordination to lenders superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds are distributed to our stockholders.

For example, the amount we may borrow under our revolving credit facility is determined, in part, by the fair value of our investments. If the fair value of our investments declines, we may be forced to sell investments at a loss to maintain compliance with our borrowing limits. Other debt facilities we may enter into in the future may contain similar provisions. Any such forced sales would reduce our net asset value and also make it difficult for the net asset value to recover.

Our Investment Adviser and our Board of Directors in their best judgment nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks.

Changes in interest rates may affect our cost of capital and net investment income.

A significant portion of the debt investments we make bears interest at fixed rates and the value of these investments could be negatively affected by increases in market interest rates. In addition, as the interest rate on our revolving credit facility is at a variable rate based on an index, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, a significant increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which would reduce our net investment income.

We need to raise additional capital to grow because we must distribute most of our income.

We need additional capital to fund growth in our investments. A reduction in the availability of new capital could limit our ability to grow. 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, to our stockholders to maintain our RIC status. As a result, such earnings are not available to fund investment originations. We have sought additional capital by borrowing from financial institutions and may issue debt securities or additional equity securities. If we fail to obtain funds from such sources or from other sources to fund our investments, we could be limited in our ability to grow, which may have an adverse effect on the value of our common stock. In addition, as a business development company, we are generally required to maintain a ratio of at least 200% of total assets to total borrowings, which may restrict our ability to borrow in certain circumstances.

The lack of liquidity in our investments may adversely affect our business.

We generally make investments in private companies. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or our Investment Adviser has material non-public information regarding such portfolio company.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest or dividend rates payable on the debt or equity securities we acquire, the default rate on debt securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, the seasonality of the energy industry, weather patterns, changes in energy prices and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Potential conflicts of interest could impact our investment returns.

Our executive officers and directors, and the executive officers of our Investment Adviser, Prospect Capital Management, may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our best interests or those of our stockholders. Nevertheless, it is possible that new investment opportunities that meet our investment objective may come to the attention of one of these entities in connection with another investment advisory client or program, and, if so, such opportunity might not be offered, or otherwise made available, to us. However, as an investment adviser, Prospect Capital Management has a fiduciary obligation to act in the best interests of its clients, including us. To that end, if Prospect Capital Management or its affiliates manage any additional investment vehicles or client accounts in the future, Prospect Capital Management will endeavor to allocate investment opportunities in a fair and equitable manner over time so as not to discriminate unfairly against any client. If Prospect Capital Management chooses to establish another investment fund in the future, when the investment professionals of Prospect Capital Management identify an investment, they will have to choose which investment fund should make the investment.

In the course of our investing activities, under the Investment Advisory Agreement we pay base management and incentive fees to Prospect Capital Management, and reimburse Prospect Capital Management for certain expenses it incurs. As a result of the Investment Advisory Agreement, there may be times when the senior management team of Prospect Capital Management has interests that differ from those of our stockholders, giving rise to a conflict.

Prospect Capital Management receives a quarterly income incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income incentive fee is subject to a fixed quarterly hurdle rate before providing an income incentive fee return to the Investment Adviser. This fixed hurdle rate was determined when then current interest rates were relatively low on a historical basis. Thus, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that our Investment Adviser will receive an income incentive fee than if interest rates on our investments remained constant or decreased. Subject to the receipt of any requisite stockholder approval under the 1940 Act, our Board of Directors may readjust the hurdle rate by amending the Investment Advisory Agreement.

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that has a deferred interest feature, it is possible that interest accrued under such loan that has previously been included in the calculation of the income incentive fee will become uncollectible. If this happens, our Investment Adviser is not required to reimburse us for any such income incentive fee payments. If we do not have sufficient liquid assets to pay this incentive fee or distributions to stockholders on such accrued income, we may be required to liquidate assets in order to do so. This fee structure could give rise to a conflict of interest for our Investment Adviser to the extent that it may encourage the Investment Adviser to favor debt financings that provide for deferred interest, rather than current cash payments of interest.

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We have entered into a royalty-free license agreement with Prospect Capital Management. Under this agreement, Prospect Capital Management agrees to grant us a non-exclusive license to use the name Prospect Capital. Under the license agreement, we have the right to use the Prospect Capital name for so long as Prospect Capital Management or one of its affiliates remains our Investment Adviser. In addition, we rent office space from Prospect Administration, an affiliate of Prospect Capital Management, and pay Prospect Administration our allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations as Administrator under the Administration Agreement, including rent and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. This may create conflicts of interest that our Board of Directors monitors.

Our incentive fee could induce Prospect Capital Management to make speculative investments.

The incentive fee payable by us to Prospect Capital Management may create an incentive for our Investment Adviser to make investments on our behalf that are more speculative or involve more risk than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable is determined (calculated as a percentage of the return on invested capital) may encourage the Investment Adviser to use leverage to increase the return on our investments. Increased use of leverage and this increased risk of replacement of that leverage at maturity, would increase the likelihood of default, which would disfavor holders of our common stock. Similarly, because the Investment Adviser will receive an incentive fee based, in part, upon net capital gains realized on our investments, the Investment Adviser may invest more than would otherwise be appropriate in companies whose securities are likely to yield capital gains, as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to Prospect Capital Management could create an incentive for our Investment Adviser to invest on our behalf in instruments, such as zero coupon bonds, that have a deferred interest feature. Under these investments, we would accrue interest income over the life of the investment but would not receive payments in cash on the investment until the end of the term. Our net investment income used to calculate the income incentive fee, however, includes accrued interest. For example, accrued interest, if any, on our investments in zero coupon bonds will be included in the calculation of our incentive fee, even though we will not receive any cash interest payments in respect of payment on the bond until its maturity date. Thus, a portion of this incentive fee would be based on income that we may not have yet received in cash and in the event of default may never receive.

Changes in laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the local, state and U.S. Federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, changes in these laws or regulations could have a materially adverse effect on our business. For additional information regarding the regulations we are subject to, see Regulation.

Risks Relating To Our Operation As A Business Development Company

Our Investment Adviser and its senior management team have limited experience managing a business development company under the 1940 Act.

The 1940 Act imposes numerous constraints on the operations of business development companies. For example, business development companies are, with narrow exceptions, required to invest at least 70% of their total assets in securities of certain privately held, thinly traded or distressed U.S. companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Our Investment

Adviser s and its senior management team s limited experience in managing a portfolio of assets under such constraints may hinder their ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. In addition, our investment strategies differ in some ways from those of other investment funds that have been managed in the past by the investment professionals.

A failure on our part to maintain our status as a business development company would significantly reduce our operating flexibility.

If we do not continue to qualify as a business development company, we might be regulated as a registered closed-end investment company under the 1940 Act; our failure to qualify as a BDC would make us subject to additional regulatory requirements, which may significantly decrease our operating flexibility by limiting our ability to employ leverage.

If we fail to qualify as a RIC, we will have to pay corporate-level taxes on our income, and our income available for distribution would be reduced.

To maintain our qualification for U.S. Federal income tax purposes as a RIC under Subchapter M of the Code, and obtain RIC tax treatment, we must meet certain source of income, asset diversification and annual distribution requirements.

The source of income requirement is satisfied if we derive at least 90% of our annual gross income from interest, dividends, payments with respect to certain securities loans, gains from the sale or other disposition of stock, securities or options thereon or foreign currencies, or other income derived with respect to our business of investing in such stock, securities or currencies, and net income from interests in qualified publicly traded partnerships, as defined in the Code.

The annual distribution requirement for a RIC is satisfied if we 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, to our stockholders on an annual basis. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify for RIC tax treatment. If we are unable to obtain cash from other sources, we may fail to qualify for RIC tax treatment and, thus, may be subject to corporate-level income tax.

To maintain our qualification as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses.

If we fail to qualify as a RIC for any reason or become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount of our distributions. Such a failure would have a materially adverse effect on us and our stockholders. For additional information regarding asset coverage ratio and RIC requirements, see Regulation Senior Securities and Material U.S. Federal Income Tax Considerations .

Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital.

We have incurred indebtedness under our revolving credit facility and, in the future, may issue preferred stock and/or borrow additional money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test, which could prohibit us from paying dividends and could prohibit us from qualifying as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments or sell additional shares of common stock at a time when such sales may be disadvantageous in order to repay a portion of our indebtedness. In addition, issuance of additional common stock could dilute the percentage ownership of our current stockholders in us.

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As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain circumstances, including if (1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders best interests 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.

To generate cash for funding new investments, we pledged a substantial portion of our portfolio investments under our revolving credit facility. These assets are not available to secure other sources of funding or for securitization. Our ability to obtain additional secured or unsecured financing on attractive terms in the future is uncertain.

Alternatively, we may securitize our future loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to such subsidiary. This could include the sale of interests in the loans by the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools. We would retain a portion of the equity in the securitized pool of loans. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings, if any. Moreover, the successful securitization of our loan portfolio exposes us to a risk of loss for the equity we retain in the securitized pool of loans and might expose us to losses because the residual loans in which we do not sell interests may tend to be those that are riskier and more likely to generate losses. A successful securitization may also impose financial and operating covenants that restrict our business activities and may include limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. The 1940 Act may also impose restrictions on the structure of any securitizations.

Our common stock may trade at a discount to our net asset value per share.

Common stock of BDCs, like that of closed-end investment companies, frequently trades at a discount to current net asset value. Recently, our common stock has traded at a discount to our net asset value, adversely affecting our ability to raise capital. The risk that our common stock may continue to trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline.

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

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 12 month period following such approval in accordance with the exception described above in Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital. 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 net asset value per share (as well as in the aggregate net asset value 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. They may also experience a reduction in the market price of our common stock. For additional information and hypothetical examples of these risks, see Sales of Common Stock Below Net Asset Value and the prospectus supplement pursuant to which such sale is made.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For U.S. Federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount, which could be significant relative to our overall investment activities, or increases in loan balances as a result of payment-in-kind arrangements, are included in our taxable income before we receive any corresponding cash payments. We also may be required to include in taxable income certain other amounts that we do not receive in cash. While we focus primarily on investments that will generate a current cash return, our investment portfolio currently includes, and we may continue to invest in, securities that do not pay some or all of their return in periodic current cash distributions.

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the income incentive fee will become uncollectible.

Since in some cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty meeting the tax requirement to 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, to maintain RIC tax treatment. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC treatment and thus become subject to corporate-level income tax. See Regulation Senior Securities and Material U.S. Federal Income Tax Considerations .

Our ability to enter into transactions with our affiliates is restricted.

We are prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any security or other property from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits joint transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. We are prohibited from buying or selling any security or other property from or to our Investment Adviser and its affiliates and persons with whom we are in a control relationship, or entering into joint transactions with any such person, absent the prior approval of the SEC.

Risks Relating To Our Investments

We may not realize gains or income from our investments.

We seek to generate both current income and capital appreciation. However, the securities we invest in may not appreciate and, in fact, may decline in value, and the issuers of debt securities we invest in may default on interest and/or principal payments. Accordingly, we may not be able to realize gains from our investments, and any gains that we do realize may not be sufficient to offset any losses we experience. See Business Our Investment Objective and Policies .

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Our portfolio is concentrated in a limited number of portfolio companies in the energy industry, which subject us to a risk of significant loss if any of these companies defaults on its obligations under any of the securities that we hold or if the energy industry experiences a downturn.

As of December 31, 2008, we had invested in a number of companies in the energy and energy related industries. A consequence of this lack of diversification is that the aggregate returns we realize may be significantly and adversely affected if a small number of such investments perform poorly or if we need to write down the value of any one investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments are concentrated in relatively few portfolio companies. In addition, to date we have concentrated on making investments in the energy industry. While we expect to be less focused on the energy and energy related industries in the future, we anticipate that we will continue to have significant holdings in the energy and energy related industries. As a result, a downturn in the energy industry could materially and adversely affect us.

The energy industry is subject to many risks.

We have a significant concentration in the energy industry. Our definition of energy, as used in the context of the energy industry, is broad, and different sectors in the energy industry may be subject to variable risks and economic pressures. As a result, it is difficult to anticipate the impact of changing economic and political conditions on our portfolio companies and, as a result, our financial results. The revenues, income (or losses) and valuations of energy companies can fluctuate suddenly and dramatically due to any one or more of the following factors:

Commodity Pricing Risk. Energy companies in general are directly affected by energy commodity prices, such as the market prices of crude oil, natural gas and wholesale electricity, especially for those that own the underlying energy commodity. In addition, the volatility of commodity prices can affect other energy companies due to the impact of prices on the volume of commodities transported, processed, stored or distributed and on the cost of fuel for power generation companies. The volatility of commodity prices can also affect energy companies ability to access the capital markets in light of market perception that their performance may be directly tied to commodity prices. Historically, energy commodity prices have been cyclical and exhibited significant volatility. Although we generally prefer risk controls, including appropriate commodity and other hedges, by certain of our portfolio companies, if available, some of our portfolio companies may not engage in hedging transactions to minimize their exposure to commodity price risk. For those companies that engage in such hedging transactions, they remain subject to market risks, including market liquidity and counterparty creditworthiness. In addition, such companies may also still have exposure to market prices if such companies do not produce volumes or other contractual obligations in accordance with such hedging contracts.

Regulatory Risk. The profitability of energy companies could be adversely affected by changes in the regulatory environment. The businesses of energy companies are heavily regulated by U.S. Federal, state and local governments in diverse ways, such as the way in which energy assets are constructed, maintained and operated and the prices energy companies may charge for their products and services. Such regulation can change over time in scope and intensity. For example, a particular by-product of an energy process may be declared hazardous by a regulatory agency, which can unexpectedly increase production costs. Moreover, many state and U.S. Federal environmental laws provide for civil penalties as well as regulatory remediation, thus adding to the potential liability an energy company may face. In addition, the deregulation of energy markets and the unresolved regulatory issues related to some power markets such as California create uncertainty in the regulatory environment as rules and regulations may be adopted on a transitional basis. We cannot assure you that the deregulation of energy markets will continue and if it continues, whether its impact on energy companies profitability will be positive.

Production Risk. The profitability of energy companies may be materially impacted by the volume of crude oil, natural gas or other energy commodities available for transporting, processing, storing, distributing or power generation. A significant decrease in the production of natural gas, crude oil, coal or other energy commodities, due to the decline of production from existing facilities, import supply

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disruption, depressed commodity prices, political events, Organization of Petroleum Exporting Countries actions or otherwise, could reduce revenue and operating income or increase operating costs of energy companies and, therefore, their ability to pay debt or dividends.

Demand Risk. A sustained decline in demand for crude oil, natural gas, refined petroleum products and electricity could materially affect revenues and cash flows of energy companies. Factors that could lead to a decrease in market demand include a recession or other adverse economic conditions, an increase in the market price of the underlying commodity, higher taxes or other regulatory actions that increase costs, or a shift in consumer demand for such products.

Depletion and Exploration Risk. A portion of any one energy company s assets may be dedicated to natural gas, crude oil and/or coal reserves and other commodities that naturally deplete over time. Depletion could have a materially adverse impact on such company s ability to maintain its revenue. Further, estimates of energy reserves may not be accurate and, even if accurate, reserves may not be fully utilized at reasonable costs. Exploration of energy resources, especially of oil and gas, is inherently risky and requires large amounts of capital.

Weather Risk. Unseasonable extreme weather patterns could result in significant volatility in demand for energy and power. In addition, hurricanes, storms, tornados, floods, rain, and other significant weather events could disrupt supply and other operations at our portfolio companies as well as customers or suppliers to such companies. This volatility may create fluctuations in earnings of energy companies.

Operational Risk. Energy companies are subject to various operational risks, such as failed drilling or well development, unscheduled outages, underestimated cost projections, unanticipated operation and maintenance expenses, failure to obtain the necessary permits to operate and failure of third-party contractors (for example, energy producers and shippers) to perform their contractual obligations. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction, expanding operations through acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risk factors arising from their specific business strategies.

Competition Risk. The progress in deregulating energy markets has created more competition in the energy industry. This competition is reflected in risks associated with marketing and selling energy in the evolving energy market and a competitor s development of a lower-cost energy or power source, or of a lower cost means of operations, and other risks arising from competition.

Valuation Risk. Since mid-2001, excess power generation capacity in certain regions of the United States has caused substantial decreases in the market capitalization of many energy companies. While such prices have recovered to some extent, we can offer no assurance that such decreases in market capitalization will not recur, or that any future decreases in energy company valuations will be insubstantial or temporary in nature.

Terrorism Risk. Since the September 11th attacks, the U.S. government has issued public warnings indicating that energy assets, specifically those related to pipeline infrastructure, production facilities and transmission and distribution facilities, might be specific targets of terrorist activity. The continued threat of terrorism and related military activity will likely increase volatility for prices of natural gas and oil and could affect the market for products and services of energy companies. In addition, any future terrorist attack or armed conflict in the United States or elsewhere may undermine economic conditions in the United States in general.

Financing Risk. Some of our portfolio companies rely on the capital markets to raise money to pay their existing obligations. Their ability to access the capital markets on attractive terms or at all may be affected by any of the risks associated with energy companies described above, by general economic and market conditions or by other factors. This may in turn affect their ability to satisfy their obligations with us.

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Our investments in prospective portfolio companies may be risky and we could lose all or part of our investment.

Some of our portfolio companies 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 and the value of our investment in them may decline substantially or fall to zero.

In addition, investment in the middle market companies that we are targeting involves a number of other significant risks, including:

- these companies may have limited financial resources and may be unable to meet their obligations under their securities that we hold, which may be accompanied by a deterioration in the value of their securities or of any collateral with respect to any securities and a reduction in the likelihood of our realizing on any guarantees we may have obtained in connection with our investment;

- they may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors actions and market conditions, as well as general economic downturns;

- because many of these companies are privately held companies, public information is generally not available about these companies. As a result, we will depend on the ability of our Investment Adviser to obtain adequate information to evaluate these companies in making investment decisions. If our Investment Adviser is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and we may lose money on our investments;

- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a materially adverse impact on our portfolio company and, in turn, on us;

- they may have less predictable operating results, may from time to time be parties to litigation, may be engaged in changing businesses with products subject to a risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

- they may have difficulty accessing the capital markets to meet future capital needs.

In addition, our executive officers, directors and our Investment Adviser could, in the ordinary course of business, be named as defendants in litigation arising from proposed investments or from our investments in the portfolio companies.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

The U.S. and most other economies have entered a recessionary period, which may be prolonged and severe. Our portfolio companies will generally be affected by the conditions and overall strength of the national, regional and local economies, including interest rate fluctuations, changes in the capital markets and changes in the prices of their primary commodities and products. These factors also impact the amount of residential, industrial and commercial growth in the energy industry. Additionally, these factors could adversely impact the customer base and customer collections of our portfolio companies.

As a result, many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans or meet other obligations during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease, during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

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A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company s ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt or preferred equity, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt or equity holding and subordinate all or a portion of our claim to those of other creditors.

The lack of liquidity in our investments may adversely affect our business.

We make investments in private companies. A portion of these investments may be subject to legal and other restrictions on resale, transfer, pledge or other disposition or will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our investment adviser has or could be deemed to have material non-public information regarding such business entity.

We may have limited access to information about privately held companies in which we invest.

We invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of our Investment Adviser s investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investment.

We may not be in a position to control a portfolio investment when we are a debt or minority equity investor and its management may make decisions that could decrease the value of our investment.

We make both debt and minority equity investments in portfolio companies. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

We may invest in mezzanine debt and dividend-paying equity securities issued by our portfolio companies. Our portfolio companies usually have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, the securities in which we invest. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of the securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying the senior security holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with securities in which we invest, we would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

We may not be able to fully realize the value of the collateral securing our debt investments.

Although a substantial amount of our debt investments are protected by holding security interests in the assets of the portfolio companies, we may not be able to fully realize the value of the collateral securing our investments due to one or more of the following factors:

- our debt investments are primarily made in the form of mezzanine loans, therefore our liens on the collateral, if any, are subordinated to those of the senior secured debt of the portfolio companies, if any. As a result, we may not be able to control remedies with respect to the collateral;
- the collateral may not be valuable enough to satisfy all of the obligations under our secured loan, particularly after giving effect to the repayment of secured debt of the portfolio company that ranks senior to our loan;
- bankruptcy laws may limit our ability to realize value from the collateral and may delay the realization process;
- our rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral;
- the need to obtain regulatory and contractual consents could impair or impede how effectively the collateral would be liquidated and could affect the value received; and
- some or all of the collateral may be illiquid and may have no readily ascertainable market value. The liquidity and value of the collateral could be impaired as a result of changing economic conditions, competition, and other factors, including the availability of suitable buyers.

Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates potential investments in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although currently most of our investments are, and we expect that most of our investments will be, U.S. dollar-denominated, our investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments.

We may expose ourselves to risks if we engage in hedging transactions.

We may employ hedging techniques to minimize certain investment risks, such as fluctuations in interest and currency exchange rates, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase.

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Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

The success of our hedging transactions depends on our ability to correctly predict movements, currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies.

Our Board of Directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse to us and could impair the value of our stockholders investment.

Our Board of Directors has the authority to modify or waive our current operating policies and our strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, financial condition, and value of our common stock. However, the effects might be adverse, which could negatively impact our ability to pay dividends and cause stockholders to lose all or part of their investment.

Risks Relating To Our Securities

Investing in our securities may involve a high degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be speculative and aggressive, and therefore, an investment in our shares may not be suitable for someone with low risk tolerance.

The market price of our securities may fluctuate significantly.

The market price and liquidity of the market for our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in the energy industry, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of RIC qualification;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

departure of one or more of Prospect Capital Management s key personnel;

operating performance of companies comparable to us;

changes in prevailing interest rates;

litigation matters;

general economic trends and other external factors; and

loss of a major funding source.

Sales of substantial amounts of our securities in the public market may have an adverse effect on the market price of our securities.

As of March 17, 2009, we have 29,786,128 shares of common stock outstanding. Sales of substantial amounts of our securities or the availability of such securities for sale could adversely affect the prevailing market price for our securities. If this occurs and continues it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

There is a risk that you may not receive dividends or that our dividends may not grow over time.

We have made and intend to continue to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Our charter and bylaws and the Maryland General Corporation Law contain provisions that may have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interest. These provisions may prevent you from being able to sell shares of our common stock at a premium over the current of prevailing market prices.

Our charter provides for the classification of our Board of Directors into three classes of directors, serving staggered three-year terms, which may render a change of control or removal of our incumbent management more difficult. Furthermore, any and all vacancies on our Board of Directors will be filled generally only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term until a successor is elected and qualifies.

Our Board of Directors is authorized to create and issue new series of shares, to classify or reclassify any unissued shares of stock into one or more classes or series, including preferred stock and, without stockholder approval, to amend our charter to increase or decrease the number of shares of common stock that we have authority to issue, which could have the effect of diluting a stockholder s ownership interest. Prior to the issuance of shares of common stock of each class or series, including any reclassified series, our Board of Directors is required by our governing documents to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series of shares of stock.

Our charter and bylaws also provide that our Board of Directors has the exclusive power to adopt, alter or repeal any provision of our bylaws, and to make new bylaws. The Maryland General Corporation Law also contains certain provisions that may limit the ability of a third party to acquire control of us, such as:

The Maryland Business Combination Act, which, subject to certain limitations, prohibits certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of the common stock or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, imposes special minimum price provisions and special stockholder voting requirements on these combinations; and

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> The Maryland Control Share Acquisition Act, which provides that control shares of a Maryland corporation (defined as shares of common stock which, when aggregated with other shares of common stock controlled by the stockholder, entitles the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares of common stock.

The provisions of the Maryland Business Combination Act will not apply, however, if our Board of Directors adopts a resolution that any business combination between us and any other person will be exempt from the provisions of the Maryland Business Combination Act. Although our Board of Directors has adopted such a resolution, there can be no assurance that this resolution will not be altered or repealed in whole or in part at any time. If the resolution is altered or repealed, the provisions of the Maryland Business Combination Act may discourage others from trying to acquire control of us.

As permitted by Maryland law, our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of our common stock. Although our bylaws include such a provision, such a provision may also be amended or eliminated by our Board of Directors at any time in the future.

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

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

The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Risk Factors and Forward-Looking Statements appearing elsewhere herein.

Overview

Introduction

We are a financial services company that primarily lends 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 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. To date we have invested primarily in industries related to the industrial/energy economy. However, we continue to widen our strategy focus in other sectors of the economy to diversify our portfolio holdings.

Market Conditions

In 2008, 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 generally weaker today than two years ago.

We believe that Prospect Capital is well positioned to navigate through these adverse market conditions. As a BDC, we are limited to a maximum 1 to 1 debt to equity ratio, and as of December 31, 2008, our debt to equity ratio was 0.32 to 1. As of December 31, 2008, we have borrowed $138,667 against our credit facility with Rabobank Nederland. The revolving period for this facility continues until June 6, 2009, with a term out maturity on June 6, 2010, and we expect to enter into a new extended facility prior to this date. While we are optimistic, we cannot guarantee the completion of such extension.

We also continue to generate liquidity through the realization of portfolio investments, including the loan to Diamondback Operating L.P., such loan which was repaid in January 2009. As is typical for our portfolio, we currently have investments in various stages in the exit process that continue to draw interest from prospective buyers.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or 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 December 31, 2008, June 30, 2008, December 31, 2007 and June 30, 2007 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 presumed to exist when a company or individual possesses 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 possession of 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.

Short-term investments that mature in 60 days or less and are viewed as creditworthy, such as U.S. Treasury Bills, are valued at amortized cost, which approximates fair value. The amortized cost method involves recording a security at its cost (i.e., principal amount plus any premium and less any discount) on the date of purchase and thereafter amortizing/ accreting that difference between the principal amount due at maturity and cost assuming a constant yield to maturity as determined at the time of purchase. Short-term securities that mature in more than 60 days are valued at current market quotations by an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, or otherwise by a principal market maker or a primary market dealer). Investments in money market mutual funds are valued at their net asset value as of the close of business on the day of valuation.

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

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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.

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 discounts 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 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, or FASB, issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements , or FAS 157. FAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. We have adopted this statement on a prospective basis beginning in the quarter ended September 30, 2008. Adoption of this statement did not have a material effect on our financial statements for that quarter or for the current quarter ended December 31, 2008.

FAS 157 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 FAS 157 relate to the definition of fair value, framework for measuring fair value, and the expanded disclosures about fair value measurements. FAS 157 applies to fair value measurements already required or permitted by other standards. In accordance with FAS 157, 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.

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.

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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 interest 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. At December 31, 2008 two loans extended to Integrated Contract Services, Inc., or Integrated, and one loan extended to Worcester Energy Partners, Inc., or WEPI, were on non-accrual status. The loan principal of these loans amounted to $55,747 at December 31, 2008.

Statement of Assets and Liabilities Overview

During the six months ended December 31, 2008, net assets have decreased by $1,820 from $429,623 as of June 30, 2008 to $427,803 as of December 31, 2008. This net decrease in assets resulted from a $20,522 increase from operations, offset by $23,848 in dividends declared to our stockholders. During this six-month period we recognized net investment income of $35,462, net realized gains on investments of $1,661 and a decrease in net assets due to changes in unrealized appreciation/ depreciation of investments of $16,601. The result was the $20,522 increase in net assets resulting from operations.

The aggregate value of our portfolio investments was $555,661 and $497,530 as of December 31, 2008 and June 30, 2008, respectively. During the six months ended December 31, 2008, our net cost of investments increased by $74,732, or 15.0%, as we invested in three new investments and follow-on investments while we sold one investment, received repayment on another investment, and settled the net profit interests on a third investment. This increased level of investment was financed by increased borrowings on our credit facility. At December 31, 2008, we were invested in 31 long-term portfolio investments (including a net profits interest remaining in Charlevoix).

During the fiscal year ended June 30, 2008, net assets increased by $129,575, from $300,048 to $429,623. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $138,744, dividend reinvestments of $2,753, and another $27,591 from operations. These increases, in turn, were offset by $39,513 in dividend distributions to our stockholders. The $27,591 increase in net assets resulting from operations is net of the following: Net investment income of $45,113, realized loss on investments of $16,222, and a net decrease in net assets due to changes in unrealized appreciation/depreciation of investments of $1,300. The realized losses were mainly due to the sale of Central Illinois Energy, LLC, or CIE, and Advantage Oilfield Group Ltd., or AOG. The net unrealized depreciation was driven by significant write-downs in our investments in, Integrated, WEPI, and our coal holdings (Whymore, Genesis, North Fork Collieries LLC, or North Fork, and Unity Virginia Holdings LLC, or Unity now consolidated into Yatesville), which, in turn, were almost offset by write-ups for our investments in GSHI, and by the disposition of previously written-down investments in AOG and in ESA.

The aggregate value of our portfolio investments was $497,530 and $328,222 as of June 30, 2008 and June 30, 2007, respectively. During the fiscal year ended June 30, 2008, our net cost of investments increased by $170,608, or 51.6%, as we invested in 15 new and follow-on investments while we sold three investments and we received repayment on five other investments.

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

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Investment Activity

During the six months ended December 31, 2008, we completed three new investments and several follow-on investments in existing portfolio companies, totaling approximately $83,089. The more significant of these investments are described briefly in the following:

On August 1, 2008, we provided $7,400 in debt financing to Castro Cheese Company, Inc., or Castro, based in Houston, Texas. Castro is a leading manufacturer, marketer, and distributor of Hispanic cheeses and creams.

On August 4, 2008, we provided $15,000 in debt financing to support the take-private acquisition of the TriZetto Group, or TriZetto. TriZetto is a leading healthcare information technology company.

On August 21, 2008, we provided a $26,000 senior secured debt financing and co-invested $2,300 in equity alongside Great Point Partners, LLC, or Great Point, in its growth recapitalization of BNN Holdings Corp. d/b/a Biotronic NeuroNetwork, or Biotronic, based in Ann Arbor, Michigan. Biotronic is the largest independent national provider of intra-operative neurophysiological monitoring services.

On July 23, 2008, September 8, 2008, and November 7, 2008 we made follow-on secured debt investments of $400, $2,700, and $2,900 respectively in Iron Horse Coiled Tubing, Inc., or Iron Horse, in support of the build out of additional equipment.

On December 10, 2008 we made a follow-on investment of $5,000 in Gas Solutions Holdings, Inc., or GSHI or Gas Solutions for the repayment of third-party bank senior credit facility.

During the year ended June 30, 2008, we completed 15 new investments and several follow-on investments in existing portfolio companies, totaling approximately $311,947. The more significant of these investments are described briefly in the following:

On July 31, 2007, we provided $15,000 growth financing to Wind River, a privately-held oil and gas production business based in Salt Lake City, Utah. The investment was in the form of senior secured notes with a net profits interest.

On August 8, 2007, we provided $6,000 growth and recapitalization financing to Deep Down, a deepwater drilling services and manufacturing provider based in Houston, Texas. The investment was in the form of senior secured notes and warrants.

On August 28, 2007, we provided $9,200 growth and recapitalization financing to Diamondback, an oil and gas production company based in Tulsa, Oklahoma. The investment was in the form of senior secured notes with a net profits interest.

On October 9, 2007, we made a second lien debt investment of $9,750 in Resco Products, Inc., a leading designer and manufacturer of refractory materials based in Pittsburgh, Pennsylvania.

On October 17, 2007, we made a $3,000 follow-on secured debt investment in NRG, in support of NRG s acquisition of Dynafab Corporation, or Dynafab. Dynafab is a manufacturer of a range of metal structures and vessels for use in the oil and gas and transportation industries, including fuel tanks for on-road and off-road vehicles as well as various drilling rig components.

On October 19, 2007, we made a second lien debt investment of approximately $5,000 in a leading provider of outsourced technical services based in Pennsylvania. The Company s investment is supporting the acquisition of this service provider by HM Capital Partners, L.P., or HM, a $1.6 billion private equity fund based in Dallas, Texas. HM s investment professionals previously were principals with Hicks, Muse, Tate & Furst, Inc.

On November 1, 2007, we made a second lien secured debt investment, as well as a small equity co-investment, aggregating approximately $13,750 in Maverick Healthcare Group, L.L.C. (d/b/a Preferred Homecare) a leading comprehensive home healthcare services provider based in Mesa, Arizona.

On November 5, 2007, we invested approximately $18,000 in second lien secured financing in Shearer s, a snack food manufacturer based in Brewster, Ohio, with Winston Partners as the private equity financial sponsor.

On November 9, 2007, we made a second lien debt investment of $12,000 in Qualitest, and its affiliates, a leading manufacturer and distributor of generic pharmaceuticals based in Huntsville, Alabama.

On November 14, 2007, we entered into an agreement to invest in a second lien secured debt from Deb Shops of $15,000. This transaction was consummated on December 10, 2007. Deb Shops is a leading specialty apparel retailer based in Philadelphia, Pennsylvania.

On November 21, 2007, we provided combined debt financing of $25,386 to IEC and ARS, two related oilfield service companies based in Houston, Texas. This investment took the form of two separate senior secured instruments with cross-collateralized guarantees and a NPI in each company.

On February 11, 2008, we made a $5,121 senior secured loan to North Fork, a Kentucky-based mining and coal production company. We also have a controlling equity interest in North Fork.

On March 5, 2008, we made an additional secured Term C debt investment of approximately $6,500 in Unitek Acquisition, Inc., or Unitek, a leading provider of outsourced technical services based in Blue Bell, Pennsylvania. We have now extended in the aggregate $11,500 of debt capital to Unitek.

On March 14, 2008, we provided debt financing of $14,500 to support the acquisition of American Gilsonite Company, or AGC by a private equity firm based in New York. AGC is a specialty mineral company with operations based in Bonanza, Utah. Furthermore, we made an additional $1,000 investment in the equity of AGC.

On April 3, 2008, we provided $39,800 of first and second lien debt and equity for the recapitalization of Ajax, a custom forger of seamless rolled steel rings located in York, South Carolina. Our debt is secured by a first lien on inventory, machinery, and certain other assets of Ajax. The equity interest purchased in Ajax is controlling in nature and was made alongside equity co-investments by Ajax s senior managers.

On April 30, 2008, we provided debt financing of $20,000 to support the acquisition by Peerless, headquartered in Dallas, Texas, of Nitram. Peerless is a leading designer, manufacturer, and marketer of industrial environmental separation and filtration systems while Nitram focuses on separation, heat transfer, pulsation dampening, and industrial silencing products. Peerless and Nitram serve a diversified, global list of customers in industries such as oil and gas production, gas pipelines, chemical and petrochemical processing, and power generation.

During the six months ended December 31, 2008, we closed-out 2 positions which are briefly described below.

On July 3, 2008, we exercised our warrant for 4,960,585 shares of common stock in Deep Down, Inc., or Deep Down. As permitted by the terms of the warrant, we elected to make this exercise on a cashless basis entitling us to 2,618,129 common shares. On August 1, 2008, we sold all the shares acquired receiving $1,649 of net proceeds.

On August 27, 2008, R-V Industries, Inc., or R-V repaid the $7,526 debt outstanding to us.

On September 30, 2008, we settled our net profits interests, or NPIs, in IEC Systems LP, or IEC and Advanced Rig Services LLC, or 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 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.

For the year ended June 30, 2008, we closed-out seven positions which are briefly described below.

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On August 16, 2007, Arctic completely paid its loan with an additional prepayment penalty of $461 for the loan. Including the prepayment premium, we realized a 20% cash internal rate of return on this investment, representing 1.25 times cash on cash (not including the equity investments that the Company continues to hold). On April 30, 2008, we fully exited out of our investment in Arctic through the sale of our equity interest in Arctic for approximately $3,400.

On December 5, 2007, we received $5,099 from the sale of our debt investment in CIE, an ethanol project.

On December 28, 2007 and December 31, 2007, we entered into two agreements which monetized our investment in AOG. These transactions generated aggregate proceeds of $3,939 for us.

On February 20, 2008, Ken-Tex Energy Corp., or Ken-Tex, repaid the $10,800 debt that it owed us. As part of the transaction, we also sold back our NPI and overriding royalty interest, ORRI, in Ken-Tex. In addition to the debt repayment, this transaction generated $3,300 in the form of a prepayment penalty and the sale of the NPI and ORRI.

On March 5, 2008, we closed out our position of common shares of Evolution Petroleum Corp. , or Evolution, at a gain of $486.

On March 31, 2008, TLOGH, L.P. repaid the $15,500 debt that it owed to us.

On June 6, 2008, Deep Down repaid the $12,000 debt that it owed us. We realized an approximately 29% cash-on-cash internal rate of return, or IRR on the Deep Down investment, representing a 1.2 times cash-on-cash multiple, from a prepayment premium of approximately $450, upfront fees, and interest. At June 30, 2008, we own a warrant to purchase approximately 5.0 million shares of Deep Down common stock at an exercise price of $0.507 per share. On July 3, 2008, we exercised our warrant on a cashless basis entitling us to 2,618,129 common shares. On August 1, 2008, we sold all the shares acquired receiving $1,649 of net proceeds.

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

Quarter-End	Acquisitions(1)	Dispositions(2)
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	**$**	**796,244**	**$**	**220,712**

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

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

Investment Holdings

As of December 31, 2008, we continued 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, 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 16.0% and 15.6% across all our long-term debt and certain equity investments as of December 31, 2008 and December 31, 2007, respectively. This yield includes interest from all of our long-term investments as well as dividends from Gas Solutions Holdings, Inc., or GSHI, NRG Manufacturing, Inc., or NRG and Ajax Rolled Ring & Machine, or Ajax. 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 December 31, 2008, we own controlling interests in Ajax Rolled Ring & Machine, or Ajax, C&J Cladding, LLC, or C&J, GSHI, Integrated, Iron Horse, NRG, R-V, WEPI and Yatesville Coal Holdings, Inc., or Yatesville. We also own affiliated interests in Appalachian Energy Holdings, LLC, or AEH, and Biotronic.

The following is a summary of our investment portfolio by level of control at December 31, 2008 and 2007:

	December 31, 2008		December 31, 2007	
Level of Control	**Fair Value**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Control	$ 216,448	37.4%	$ 150,156	32.3%
Affiliate	31,721	5.5%	5,288	1.2%

Non-Control/Non-Affiliate	307,492	53.2%	284,641	61.2%
Money Market Funds	22,606	3.9%	24,734	5.3%
Total Portfolio	**$ 578,267**	**100.0%**	**$ 464,819**	**100.0%**

The following is a summary of our investment portfolio by level of control at June 30, 2008 and 2007:

	June 30, 2008		June 30, 2007	
Level of Control	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	$ 205,827	38.8%	$ 145,121	39.5%
Affiliate	6,043	1.2%	14,625	4.0%
Non-Control/Non-Affiliate	285,660	53.8%	168,476	45.2%
Money Market Funds	33,000	6.2%	41,760	11.3%
Total Portfolio	$ 530,530	100.0%	$ 369,982	100.0%

The following is our investment portfolio presented by type of investment at December 31, 2008 and December 31, 2007, respectively:

	December 31, 2008		December 31, 2007	
Type of Investment	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
Money Market Funds	$ 22,606	3.9%	$ 24,734	5.3%
Senior Secured Debt	247,009	42.7%	251,258	54.1%
Subordinated Secured Debt	198,736	34.4%	28,157	27.6%
Subordinated Unsecured Debt	13,930	2.4%		0.0%
Preferred Stock	8,804	1.5%	1,388	0.3%
Common Stock	72,892	12.6%	53,939	11.6%
Membership Interests	5,780	1.0%		0.0%
Warrants	8,510	1.5%	5,343	1.1%
Total Portfolio	**$ 578,267**	**100.0%**	**$ 464,819**	**100.0%**

The following is our investment portfolio presented by type of investment at June 30, 2008 and June 30, 2007, respectively:

	June 30, 2008		June 30, 2007	
Type of Investment	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
Money Market Funds	$ 33,000	6.2%	$ 41,760	11.3%
Senior Secured Debt	203,985	38.5%	202,243	54.7%

Subordinated Secured Debt	215,585	40.6%	78,905	21.3%
Preferred Stock	6,455	1.2%	106	0.0%
Common Stock	59,563	11.2%	43,517	11.8%
Membership Interests	3,000	0.6%		0.0%
Warrants	8,942	1.7%	3,451	0.9%
Total Portfolio	$ 530,530	100.0%	$ 369,982	100.0%

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The following is our investment portfolio presented by geographic location of the investment at December 31, 2008 and December 31, 2007, respectively:

	December 31, 2008		December 31, 2007	
Geographic Exposure	**Fair Value**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Canada	$ 13,347	2.3%	$ 9,053	2.0%
Midwest US	77,239	13.4%	46,990	10.1%
Northeast US	52,582	9.1%	67,997	14.6%
Southeast US	122,121	21.1%	79,810	17.2%
Southwest US	245,607	42.5%	221,235	47.6%
Western US	44,765	7.7%	15,000	3.2%
Money Market Funds	22,606	3.9%	24,734	5.3%
Total Portfolio	**$ 578,267**	**100.0%**	**$ 464,819**	**100.0%**

The following is our investment portfolio presented by geographic location of the investment at June 30, 2008 and June 30, 2007, respectively:

	June 30, 2008		June 30, 2007	
Geographic Exposure	**Fair Value**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Western US	$ 30,322	5.7%	$	0.0%
Southeast US	128,512	24.2%	70,545	19.1%
Southwest US	211,177	39.9%	157,097	42.5%
Midwest US	47,869	9.0%	36,942	10.0%
Northeast US	68,468	12.9%	44,558	12.0%
Canada	11,182	2.1%	19,080	5.1%
Money Market Funds	33,000	6.2%	41,760	11.3%
Total Portfolio	$ 530,530	100.0%	$ 369,982	100.0%

The following is our investment portfolio presented by industry sector of the investment at December 31, 2008 and December 31, 2007, respectively:

	December 31, 2008		December 31, 2007	
Industry Sector	**Fair Value**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**

Biomass Power	$ 10,900	1.9%	$ 24,413	5.3%
Construction Services	4,265	0.7%	5,288	1.1%
Contracting	5,000	0.9%	5,000	1.1%
Financial Services	21,507	3.7%	25,000	5.4%
Food Products	28,274	4.9%	18,000	3.9%
Gas Gathering and Processing	77,158	13.3%	47,500	10.2%
Healthcare	54,839	9.5%	13,750	3.0%
Manufacturing	103,203	17.7%	57,964	12.4%
Metal Services	9,195	1.6%	6,076	1.3%
Mining and Coal Production	25,848	4.5%	15,795	3.4%
Oilfield Fabrication	36,155	6.3%	25,387	5.5%
Oil and Gas Production	110,549	19.1%	134,796	29.0%
Pharmaceuticals	9,692	1.7%	11,941	2.6%
Production Services	13,347	2.3%	22,993	4.9%
Retail	10,139	1.8%	14,555	3.1%
Shipping Vessels	6,993	1.2%	6,700	1.4%
Specialty Minerals	17,248	3.0%		0.0%
Technical Services	11,349	2.0%	4,927	1.1%
Money Market Funds	22,606	3.9%	24,734	5.3%
Total Portfolio	**$ 578,267**	**100.0%**	**$ 464,819**	**100.0%**

The following is our investment portfolio presented by industry sector of the investment at June 30, 2008 and June 30, 2007, respectively:

	June 30, 2008		June 30, 2007	
Industry Sector	**Fair Value**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Biofuels/Ethanol	$	0.0%	$ 8,000	2.1%
Biomass Power	15,580	2.9%	25,047	6.8%
Construction Services	6,043	1.1%	15,305	4.1%
Contracting	5,000	0.9%	5,000	1.3%
Financial Services	23,699	4.5%	25,000	6.8%
Food Products	19,351	3.7%		0.0%
Gas Gathering and Processing	61,542	11.6%	44,500	12.0%
Healthcare	13,752	2.6%		0.0%
Manufacturing	109,542	20.7%	41,376	11.2%
Metal Services	6,829	1.3%	5,829	1.6%
Mining and Coal Production	25,726	4.9%	18,499	5.0%
Oilfield Fabrication	24,854	4.7%		0.0%
Oil and Gas Production	112,850	21.3%	110,243	29.8%
Pharmaceuticals	11,523	2.2%		0.0%
Production Services	14,038	2.6%	22,870	6.2%
Retail	13,428	2.5%		0.0%
Shipping Vessels	6,804	1.3%	6,553	1.8%
Specialty Minerals	15,632	2.9%		0.0%
Technical Services	11,337	2.1%		0.0%
Money Market Funds	33,000	6.2%	41,760	11.3%
Total Portfolio	$ 530,530	100.0%	$ 369,982	100.0%

Investment Valuation

In determining the fair value of our portfolio investments at December 31, 2008, the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of $511,622 to $593,857, 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 $555,661, 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 fiscal year ended June 30, 2008 and continuing through December 31, 2008, several general economic factors have occurred which have affected the valuation of our investment portfolio.

Generally, interest rates offered on loans similar to those that we have originated have changed since our investments were consummated. While we do not believe that there has been any diminution of credit quality, general changes in current interest rates would affect the price for which we could sell these assets and we have adjusted our fair value of these assets to reflect such changes. We have adjusted the value of fourteen debt investments based upon such general changes in market interest rates including: AEH, Biotronic, C&J, Deb Shops, Inc. (Deb Shops), Castro, H&M Oil & Gas, LLC, Freedom Marine Services LLC, Maverick Healthcare LLC, Qualitest Pharmaceuticals, Inc. (Qualitest), Regional Management Corp. (RMC), Resco Products, Inc. (Resco), Shearer s Food Inc., Stryker Energy, LLC, and TriZetto.

Three debt investments were made to companies that are not performing in line with budget expectations. These investments (Conquest Cherokee, LLC, Iron Horse, and Wind River Resources Corp. and Wind River II Corp.) are adequately collateralized and we expect full recovery. For these assets, we used higher 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.

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 assets 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 and 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 latter two metrics on both an absolute and a percentage of revenues basis) over the past four years.

During the past year, 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 late March 2008, Royal Bank of Canada provided a $38,000 term loan to Gas Solutions II Ltd, a wholly owned subsidiary of GSHI, the proceeds of which were used to refinance all of Citibank s approximately $8,000 of outstanding senior secured debt as well as to make a $30,000 cash distribution to GSHI. We had non-recourse access to this cash at GSHI. In December 2008, we lent an additional $5,000 to GSHI which enabled the company to repay the loan to the Royal Bank of Canada. Upon repayment, we now hold a first lien position in GSHI, improving our leverage position with our lender.

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 have been 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 has generated approximately $21,200 of EBITDA for the first ten months ending October 31, 2008. Annualizing the current year results, this is an increase of 73.7% from the 2007 results.

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 $77,158 for our debt and equity positions at December 31, 2008 based upon a combination of a discounted cash flow analysis, a public comparables analysis and review of recent indications of interest. GSHI is valued $47,126 above its amortized cost, compared to the $36,321 unrealized gain recorded at June 30, 2008.

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Integrated Contract Services, Inc.

Our investment in ICS is under enhanced review by our senior management team due to existing or potential payment and/or covenant defaults under the contracts governing these investments. ICS owns 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.

We have a senior-secured, first-lien debt position with collateral in the form of receivables, real estate, other assets, guaranties, and the stock of THS. Based upon an analysis of the liquidation value of the ESA assets and the enterprise value of THS, our Board of Directors reaffirmed the fair value of our investment in ICS at $5,000, a reduction of $11,675 from its amortized cost, compared to the $11,464 unrealized loss recorded at June 30, 2008.

R-V Industries, Inc.

R-V demonstrated strong performance in operations throughout 2008 with trailing twelve-month EBITDA increasing by over 50% since our closing in May 2007. R-V continues to pay down debt, repaying $7,000 of our debt during the fiscal year ended June 30, 2008. Our Board of Directors, upon recommendation from senior management, has set the value of the R-V investment at $18,549 at June 30, 2008, $5,924 above its amortized cost, compared to valuing the R-V investment at par at June 30, 2007. During the quarter ended September 30, 2008, R-V repaid the remainder of its senior secured debt owed to us. Our Board of Directors, upon recommendation from senior management, has set the value of the R-V equity investment at $11,991 at September 30, 2008, $5,241 above its amortized cost.

Worcester Energy Partners, Inc.

WEPI is under enhanced review by our senior management team due to poor operating results since investment. We have installed a new manager at WEPI who continues to institute new controls to reduce costs and improve efficiency. WEPI has negotiated an interim agreement with the buyer of its energy production and is now earning revenues sufficient to cover its debt service requirements. Our Board of Directors, upon recommendation from senior management, has set the value of the WEPI investment based upon an enterprise valuation at $10,900 at December 31, 2008, a reduction of $31,307 from its amortized cost, compared to the $22,141 unrealized loss recorded at June 30, 2008.

Yatesville Coal Holdings, Inc.

As we previously discussed, all of our coal holdings are now held in one consolidated entity, Yatesville. The consolidated group has seen an improvement in operating results primarily from increased prices in coal, improved production, reductions in operating expenses from the consolidation of the management and operations and the allocation of assets to their most efficient use. Until a longer track record is established or a viable sales process is in place, we will continue to value Yatesville on an asset basis. Our Board of Directors, upon recommendation from senior management, has set the value of the Yatesville investment at $25,848 at December 31, 2008, a reduction of $18,253 from its amortized cost, compared to the $14,694 unrealized loss recorded at June 30, 2008.

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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 up to $200,000 of debt and our equity capital is currently comprised entirely of common equity.

We had $138,667 and $91,167 of borrowings at December 31, 2008 and June 30, 2008, respectively. These borrowings were made against a credit facility in place at Rabobank Nederland. The maintenance of this facility requires us to pay a fee for the amount not drawn upon. Through November 30, 2007, this fee is assessed at the rate of 37.5 basis points per annum of the amount of that unused portion; after that date, this rate increased to 50.0 basis points per annum if that unused portion was greater than 50% of the total amount of the facility. The following table shows the facility amounts and outstanding borrowings at September 30, 2008, June 30, 2008 and June 30, 2007:

	December 31, 2008		June 30, 2008		June 30, 2007	
	Facility Amount	**Amount Outstanding**	**Facility Amount**	**Amount Outstanding**	**Facility Amount**	**Amount Outstanding**
Revolving Credit Facility	$ 200,000	$ 138,667	$ 200,000	$ 91,167	$ 200,000	$

The following table shows the contractual maturity of our revolving credit facility at December 31, 2008:

	Payments Due By Period			
	Less than 1 Year	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Credit Facility Payable	$ 138,667	$	$	$

During the quarter ended December 31, 2008, we did not raise any additional equity as the market was not conducive to a public offering. The following table shows the calculation of net asset value per share as of December 31, 2008 June 30, 2008 and June 30, 2007:

	December 31, 2008	**June 30, 2008**	**June 30, 2007**
Net Assets	$ 427,803	$ 429,623	$ 300,048
Shares of common stock outstanding	29,637,928	29,520,379	19,949,065
Net asset value per share	$ 14.43	$ 14.55	$ 15.04

At December 31, 2008, we had 29,637,928 of our common stock issued and outstanding.

Results of Operations

For the three months ended December 31, 2008 and December 31, 2007, the net increase (decrease) in net assets resulting from operations was $6,524 and ($3,686), respectively, representing $0.22 and ($0.16) per share, respectively. We experienced a net realized and unrealized loss of $5,436 or approximately $0.18 per share in the three months ended December 31, 2008. This compares with the net realized and unrealized loss of $14,346 during the three months ended December 31, 2007 or approximately ($0.62) per share.

For the six months ended December 31, 2008 and December 31, 2007, the net increase in net assets resulting from operations was $20,522 and $4,864, respectively, representing $0.69 and $0.23 per share, respectively. We experienced a net realized and unrealized loss of $14,940 or approximately $0.50 per share in the six months ended December 31, 2008. This compares with the net realized and unrealized loss of $13,661 during the six months ended December 31, 2007 or approximately $0.63 per share.

Net increase in net assets resulting from operations for the years ended June 30, 2008, 2007 and 2006 was $27,591, $16,728 and $12,896, respectively, representing $1.17, $1.06 and $1.83 per share, respectively. We experienced realized and unrealized gains of $4,338 or approximately $0.61 per share in the year ended June 30, 2006, primarily from the unrealized gain recognized on our investment in GSHI. During the year ended June 30, 2007, we experienced unrealized and realized losses of $6,403 or approximately $0.41 per share primarily from the write-downs of our investments in AOG. During the year ended June 30, 2008, we

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experienced unrealized and realized losses of $17,522 or approximately $0.74 per share primarily from the sales of our investments in AOG and CIE at a loss.

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, which 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, was $35,799 and $15,391 for the three months ended September 30, 2008 and September 30, 2007, respectively. The following table details the various components of investment income and the related levels of debt investment for the three and six months ended December 31, 2008 and December 31, 2007:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Interest income	$ 17,241	$ 14,816	$ 34,797	$ 27,648
Dividend income	4,665	2,466	9,388	4,084
Other income	307	1,281	13,827	2,222
Total investment income	**$ 22,213**	**$ 18,563**	**$ 58,012**	**$ 33,954**
Average debt principal of investments	$ 537,101	$ 396,741	$ 517,421	$ 360,824
Weighted-average interest rate earned	12.74%	14.86%	13.34%	14.99%

Investment income has been increasing as a larger investment portfolio has been generating greater income from both interest and dividends. Average interest income producing assets have increased from $396,741 for the three months ended December 31, 2007 to $537,101 for the three months ended December 31, 2008. Average interest income producing assets have increased from $360,824 for the six months ended December 31, 2007 to $517,421 for the six months ended December 31, 2008. While we have been able to increase the gross amount of interest income, average yields on interest bearing assets have decreased from 15.0% for the six months ended December 31, 2007 to 13.3% for six months ended December 31, 2008. The decrease in yield is the result of our increasing our asset mix in financings with private equity sponsors. We believe that such financings offer less risk, and consequently lower yields, due, in part, to lesser risk to our capital resulting from larger equity at risk underneath our capital. Holding these types of investments has allowed us to more effectively utilize our credit facility to finance such assets at an average rate of 4.7% for the six months ended December 31, 2008.

The increase in investment income is also driven by increases in income from dividends. Dividend income has grown significantly from $2,466 to $4,665 for the three months ended December 31, 2007 and December 31, 2008, respectively, and from $4,084 to $9,388 for the six months ended December 31, 2007 and

December 31, 2008, respectively. Much of the increases in dividend income is attributable to dividends received as a result of our investment in GSHI which paid $4,000 and $1,600 for the three months ended December 31, 2008 and December 31, 2007, respectively, and $8,000 and $2,450 for the six months ended December 31, 2008 and December 31, 2007, respectively. Dividends were also received from our investments in Ajax and NRG.

The increase in investment income is also the result of increases in income from other sources. The significant increase in other income reflects our settlement of our net profit interests in IEC/ ARS for $12,576. In addition to settlement of net profit interests, sources of other income include, but are not limited to, income from structuring fees and overriding royalty interests.

Investment income was $79,402, $40,681, and $16,869 for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively. Drivers of these increases include increased assets generating increased interest income along with increased income from royalty, net profits, and restructuring fees. The following table describes the various components of investment income and the related levels of debt investments:

	Year Ended June 30, 2008		Year Ended June 30, 2007		Year Ended June 30, 2006	
Interest income	$	59,033	$	30,084	$	13,268
Dividend income		12,033		6,153		3,601
Other income		8,336		4,444		
Total investment income	$	79,402	$	40,681	$	16,869
Average debt principal of investments	$	397,913	$	172,605	$	70,727
Other income Restructuring fee income	$	4,751	$	2,574	$	

Total investment income has increased from $16,869 for the year ended June 30, 2006 to $40,681 for the year ended June 30, 2007 to $79,402 for the year ended June 30, 2008. Investment income has been increasing as we continue to deploy the additional capital, raised in both debt and equity offerings, in revenue-producing assets.

Average interest income producing assets have increased from $70,727 for the year ended June 30, 2006 to $172,605 for the year ended June 30, 2007 to $397,913 for the year ended June 30, 2008. While we have been able to increase the gross amount of interest income, average yields on interest bearing assets have decreased from 18.8% for the year ended June 30, 2006 to 17.4% for the year ended June 30, 2007 to 14.8% for the year ended June 30, 2008. These decreases are the result of our increasing our asset mix in financings with private equity sponsors. We believe that such financings offer less risk, and consequently lower yields, due, in part, to lesser risk to our capital resulting from larger equity at risk underneath our capital. Holding these types of investments has allowed us to more effectively utilize our credit facility to finance such assets at an average rate of 5.67% for the year ended June 30, 2008.

Investment income is also generated from dividends and other income. Dividend income has grown significantly from $3,601 for the year ended June 30, 2006 to $6,153 for the year ended June 30, 2007 to $12,033 for the year ended June 30, 2008. We have received dividends from our investments in GSHI, R-V, Ajax, C&J and NRG. Other income has come primarily from structuring fees, overriding royalty interests, and prepayment penalties on net profits interests.

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 $10,253 and $7,903 for the three months ended December 31, 2008 and December 31, 2007, respectively. For the six months ended December 31, 2008 and December 31, 2007, they were $22,550 and $15,429, respectively. Operating expenses were $34,289, $17,550, and $8,311 for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively.

The base management fee was $2,940 and $2,112 for the three months ended December 31, 2008 and December 31, 2007, respectively. It was $5,763 and $3,978 for the six months ended December 31, 2008 and December 31, 2007, respectively. The increases in this expense are directly related to our growth in total assets. For the three months ended December 31, 2008 and December 31, 2007, we incurred $2,990 and $2,665, respectively, of income incentive fees. For the six months ended December 31, 2008 and December 31, 2007, we incurred $8,865 and $4,631, respectively, of income incentive fees. The increases in the income incentive fees are driven by increases in pre-base management fee net investment income of $14,900 and $12,772 for the three months ended December 31, 2008 and December 31, 2007, respectively. Pre-base management fee net investment income was $41,225 and $22,503 for the six months ended December 31, 2008 and December 31, 2007, respectively. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

The base investment advisory expenses were $8,921, $5,445, and $2,082 for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively. These increases are directly related to our growth in total assets. $11,278, $5,781, and $1,786 income incentive fees were earned for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively. The increases in the income incentive fees are driven by our stronger performance with respect to net investment income as evidenced by net operating income ratios of 12.66%, 9.71% and 7.90% for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three and six months ended December 31, 2008, we incurred $1,965 and $3,483, respectively of expenses related to our credit facility. This compares with expenses of $1,618 and $2,856 incurred during the three and six months ended December 31, 2007. 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 December 31,		For the Six Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Interest expense	$ 1,712	$ 1,307	$ 2,942	$ 2,197
Amortization of deferred financing costs	180	180	360	367
Commitment and other fees	73	131	181	292
Total	$ 1,965	$ 1,618	$ 3,483	$ 2,856
Weighted-average debt outstanding	$ 137,525	$ 80,348	$ 125,845	$ 64,785
Weighted-average interest rate incurred	4.95%	6.45%	4.65%	6.73%
Facility amount at beginning of period	$ 200,000	$ 200,000	$ 200,000	$ 200,000

During the years ended June 30, 2008, June 30, 2007 and June 30, 2006, we incurred $6,318, $1,903, and $642, respectively of expenses related to our credit facilities. The table below describes the various credit facility expenses and the related indicators of leveraging capacity and indebtedness.

	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2006
Interest expense	$ 5,104	$ 357	$ 422
Amortization of deferred financing costs	726	1,264	220
Commitment and other fees	488	282	
Total	$ 6,318	$ 1,903	$ 642
Weighted-average debt outstanding	$ 90,032	$ 4,282	$ 4,696
Weighted-average interest rate	5.67%	8.37%	9.01%
Facility amount at beginning of year	$ 200,000	$ 30,000	$

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As our asset base has grown and we have added complexity to our capital raising activities, due, in part, to our securitization credit facility initiated in June 2007, 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 treasurer, a corporate counsel 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.

Asset-based fees from Vastardis Capital, the sub-administrator to Prospect Administration, have also grown as assets have grown. Legal costs decreased significantly from $1,775 for the six months ended December 31, 2007 to $483 for the six months ended December 31, 2008 as there were reduced costs for litigation during the 2008 period. Legal costs for the year ended June 30, 2008 increased significantly from the year ended June 30, 2007 as we continue to vigorously defend certain legal actions against us during this period.

Net Realized Gains (Loss)

Net realized gains (losses) were $16 and $(18,610) for the three months ended December 31, 2008 and December 31, 2007, respectively. For the six months ended December 31, 2008 and December 31, 2007, net realized gains (losses) were $1,661 and $(18,621), respectively. The net realized gain of $1,661 for the six months ended December 31, 2008 was due primarily to the sale of the warrant related to Deep Down, Inc. The net realized loss of $18,610 for the six months ended December 31, 2007 was attributable primarily to our disposition of our investments in Central Illinois Energy, LLC and Advantage Oilfield Group, Ltd. (AOG) during the three months then ended.

Net realized gains (losses) were ($16,222), $1,949, and $303 for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively. The net realized loss of ($16,222) sustained in FY2008 was due mainly to the sale of CIE and AOG while the $1,949 realized gain registered for FY2007 is attributable to the sale of Evolution.

Increase (Decrease) in Net Assets from Net Changes in Unrealized Appreciation/Depreciation

Increase (decrease) in net assets from changes in unrealized appreciation/depreciation was ($5,452) and $4,264 for the three months ended December 31, 2008 and December 31, 2007, respectively. For the three months ended December 31, 2008, the $5,452 decrease in net assets from the net change in unrealized appreciation/depreciation was driven primarily by write-downs to our investments in Deb Shops, Iron Horse, Qualitest, RMC, Resco, WEPI, and Yatesville which were partially offset by unrealized appreciation of our investment in GSHI. For the three months ended December 31, 2007, the $4,264 increase in net assets from such changes is attributable to write-ups of our investments in ESA Environmental Specialists, Inc., Arctic Acquisition Corp. and C&J offset by write-downs for our investments in Integrated, WECO, and Genesis Coal Corp.

For the six months ended December 31, 2008 and December 31, 2007, net assets (decreased) increased by ($16,601) and $4,960, respectively from changes in unrealized appreciation/depreciation. The $16,601 decrease occurring during the six months ended December 31, 2008 was attributable to unrealized depreciation recognized for our investments in Deb Shops, Iron Horse, Qualitest, RMC, Resco, WEPI, and Yatesville partially offset by a write-up of our investment in GSHI. The $4,960 increase from changes in unrealized appreciation/depreciation for the six months ended December 31, 2007 was the net result of write-ups of our investments in ESA Environmental Specialists, Inc. and NRG by the disposition of AOG (which had been previously valued below cost) offset by a write-down for our investment in Integrated.

Increase (decrease) in net assets from changes in unrealized appreciation/depreciation was ($1,300), ($8,352), and $4,035 for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively. For FY2008, the ($1,300) decrease in net assets from the net change in unrealized appreciation/depreciation was driven by significant write-downs in our investments in Integrated, Worcester Energy Co., Inc., or WECO, and Yatesville partially offset by the write-up for our investment in GSHI and by the disposition of previously written-down investments in AOG and ESA. FY2007 s ($8,352) decrease in net assets from such changes is attributable to significant write-downs of our investments in AOG, ESA, Unity and Whymore which, in turn, were slightly offset by a significant write-up in the value for GSHI. For FY2006, the $4,035 increase in net assets due to changes in unrealized appreciation/depreciation was mainly attributable to a write-up of the investment in GSHI.

Financial Condition, Liquidity and Capital Resources

For the three months ended December 31, 2008 and December 31, 2007, our operating activities provided (used) $4,659 and ($102,990) of cash, respectively. Financing activities (used) provided ($3,490) and $104,326 of cash during the three months ended December 31, 2008 and December 31, 2007, respectively which included the payments of dividends of $10,376 and $0, during the three months ended December 31, 2008 and December 31, 2007, respectively.

For the six months ended December 31, 2008 and December 31, 2007, our operating activities used $23,126 and $155,568 of cash, respectively. Financing activities provided $25,009 and $156,904 of cash during the six months ended December 31, 2008 and December 31, 2007, respectively which included the payments of dividends of $22,221 and $6,587, during the six months ended December 31, 2008 and December 31, 2007, respectively. Our cash flows provided by (used in) operating activities totaled ($204,025), ($143,890), ($29,919), for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively. Financing activities provided (used) cash flows of $204,580, $143,890, and $20,332, for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, respectively. Dividends paid and declared were $24,915, $21,634, and $7,663, for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, 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. In the future, we may also use some of our funds to buy back our common stock on the open market.

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 December 31, 2008, we had a $200,000 revolving credit facility on which $138,667 was outstanding. At June 30, 2008, we had a $200,000 revolving credit facility on which $91,167 was outstanding. This facility matures on June 6, 2009, and we are currently negotiating for an extension and expansion of the facility.

On September 6, 2007, our Registration Statement on Form N-2 was declared effective by the SEC. At December 31, 2008, under the Registration Statement, we had remaining availability to issue up to approximately $354,000 of our equity securities over the next three years.

Off-Balance Sheet Arrangements

At December 31, 2008, 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 January 20, 2009, we issued 148,200 shares of our common stock in connection with the Dividend Reinvestment Plan.

On January 21, 2009, Diamondback repaid the $9,200 debt outstanding to us. We continue to hold net profit interests on this investment.

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 NAV per share during the twelve-month period following such approval.

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REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2008. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company s internal control over financial reporting as of June 30, 2008 based upon criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management determined that the Company s internal control over financial reporting was effective as of June 30, 2008 based on the criteria on Internal Control Integrated Framework issued by COSO.

Our management s assessment of the effectiveness of our internal control over financial reporting as of June 30, 2008 has been audited by BDO Seidman LLP, an independent registered public accounting firm, as stated in their report which appears in the 10-K.

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USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity and thereafter to make long-term investments in accordance with our investment objective. A supplement to this prospectus relating to each offering will provide additional detail, to the extent known at the time, regarding the use of the proceeds from such offering including any intention to utilize proceeds to pay expenses in order to avoid sales of long-term assets.

We anticipate that substantially all of the net proceeds of an offering of Securities pursuant to this prospectus will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. In addition, we expect that there will be several offerings pursuant to this prospectus; we expect that substantially all of the proceeds from all offerings will be used within three years. Pending our new investments, we plan to invest a portion of net proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment and other general corporate purposes. The management fee payable by us will not be reduced while our assets are invested in such securities. See Regulation Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

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FORWARD-LOOKING STATEMENTS

Our annual report on Form l0-K for the year ended June 30, 2008, any of our quarterly reports on Form 10-Q or current reports on Form 8-K, or any other oral or written statements made in press releases or otherwise by or on behalf of Prospect Capital Corporation including this prospectus may contain forward looking statements within the meaning of the Section 21E of the Securities Exchange Act of 1934, as amended, which involve substantial risks and uncertainties. Forward looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as intends, intend, intended, goal, estimate, estimates, expects, expect, expected, project, projected, project anticipates, anticipated, should, could, may, will, designed to, foreseeable future, believe, believes variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- our future operating results,
- our business prospects and the prospects of our portfolio companies,
- the impact of investments that we expect to make,
- the dependence of our future success on the general economy and its impact on the industries in which we invest,
- the ability of our portfolio companies to achieve their objectives,
- difficulty in obtaining financing or raising capital, especially in the current credit and equity environment,
- the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets,
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise,
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us,
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company;

the adequacy of our cash resources and working capital;

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

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

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the Securities and Exchange Commission, Internal

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Revenue Service, the New York Stock Exchange, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business; and

the risks, uncertainties and other factors we identify in Risk Factors and elsewhere in this prospectus and in our filings with the SEC.

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

DISTRIBUTIONS

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 anticipate that the tax to be paid in the quarter ending March 31, 2009 will be approximately $532,000.

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. 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 may 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. See Dividend Reinvestment Plan. 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. For the fiscal year ended June 30, 2008, we declared total dividends of approximately $39.5 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.

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The following table lists the quarterly distributions per share since shares of our common stock began being regularly quoted on The NASDAQ Global Select Market:

Date Declared	Record Date	Payment Date	Per Share	Amount
11/11/2004	12/10/2004	12/30/2004	$ 0.100	$ 705,510
2/9/2005	3/11/2005	3/30/2005	$ 0.125	$ 881,888
4/21/2005	6/10/2005	6/30/2005	$ 0.150	$ 1,058,265
9/15/2005	9/22/2005	9/29/2005	$ 0.200	$ 1,411,020
12/12/2005	12/22/2005	12/29/2005	$ 0.280	$ 1,975,428
3/15/2006	3/23/2006	3/30/2006	$ 0.300	$ 2,116,530
6/14/2006	6/23/2006	6/30/2006	$ 0.340	$ 2,401,060
7/31/2006	9/22/2006	9/29/2006	$ 0.380	$ 4,858,879
12/15/2006	12/29/2006	1/5/2007	$ 0.385	$ 7,263,926
3/14/2007	3/23/2007	3/30/2007	$ 0.3875	$ 7,666,837
6/14/2007	6/22/2007	6/29/2007	$ 0.390	$ 7,752,900
9/6/2007	9/19/2007	9/28/2007	$ 0.3925	$ 7,830,008
12/18/2007	12/28/2007	1/7/2008	$ 0.395	$ 9,369,850
3/6/2008	3/31/2008	4/16/2008	$ 0.400	$ 10,468,455
6/19/2008	6/30/2008	7/16/2008	$ 0.40125	$ 11,845,052
9/16/2008	9/30/2008	10/16/2008	$ 0.4025	$ 11,881,953
12/19/2008	12/31/2008	1/20/2009	$ 0.40375	$ 11,958,904
Total Declared				$ 101,446,465

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PRICE RANGE OF COMMON STOCK

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 net asset value per share of common stock and the high and low sales 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.

	NAV(1)	Stock Price High(2)	Low(2)	Premium (Discount) of High to NAV	Premium (Discount) of Low to NAV	Dividend Declared
Twelve Months Ending June 30, 2005						
First quarter	$ 13.67	$ 15.45	$ 14.42	13.0%	5.5%	
Second quarter	13.74	15.15	11.63	10.3%	(15.4)%	$ 0.100
Third quarter	13.74	13.72	10.61	(0.1)%	(22.8)%	0.125
Fourth quarter	14.59	13.47	12.27	(7.7)%	(15.9)%	0.150
Twelve Months Ending June 30, 2006						
First quarter	$ 14.60	$ 13.60	$ 11.06	(6.8)%	(24.2)%	$ 0.200
Second quarter	14.69	15.46	13.02	5.2%	(12.6)%	0.280
Third quarter	14.81	16.64	15.00	12.4%	1.3%	0.300
Fourth quarter	15.31	17.05	15.83	11.5%	3.4%	0.340
Twelve Months Ending June 30, 2007						
First quarter	$ 14.86	$ 16.77	$ 15.30	12.9%	2.3%	$ 0.380
Second quarter	15.24	18.79	15.60	24.5%	(0.9)%	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	$ 14.15	24.7%	(16.1)%	$ 0.3925
Second quarter	14.58	17.17	11.22	18.3%	(23.3)%	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	(0.3)%	(24.0)%	$ 0.4025
Second quarter	14.43	$ 13.08	$ 6.29	(9.4)%	(56.4)	0.40375
Third quarter (to 3/17/09)	(3)	$ 12.89	$ 6.38	(3)	(3)	

(1)

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

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

(3) NAV has not yet been finally determined for any day after December 31, 2008.

On March 17, 2009, the last reported sales price of our common stock was $7.61 per share. As of December 31, 2008, we had approximately 47 stockholders of record.

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BUSINESS

General

We are a financial services company that primarily lends 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 as amended, or the 1940 Act. We are a Maryland corporation that was organized on April 13, 2004 under the name Prospect Street Energy Corporation . We changed our name to Prospect Energy Corporation on June 23, 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. While we expect to be less focused on the energy industry in the future, we will continue to have significant holdings in the energy and energy related industries.

Our headquarters are located at 10 East 40th Street, 44th Floor, New York, NY 10016, and our telephone number is (212) 448-0702. Our investment adviser is Prospect Capital Management LLC.

Our Investment Objective and Policies

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We focus on making investments in private companies, and many of our investments are in energy companies. We are a non-diversified company within the meaning of the 1940 Act.

We concentrate on making investments in companies having annual revenues of less than $500 million and in transaction sizes of less than $250 million, which we refer to as target or middle market companies. In most cases, these middle market companies are privately-held companies at the time we invest in them.

We seek to maximize returns and protect risk for our investors by applying rigorous analysis to make and monitor our investments. While the structure of our investments varies, we can invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, mezzanine debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yield. Our investments primarily range between approximately $5 million and $50 million each, although this investment size may vary as the size of our capital base changes.

While our primary focus is on seeking current income through investment in the debt and/or dividend-paying equity securities of eligible privately-held, thinly-traded or distressed companies and long-term capital appreciation by acquiring accompanying warrants, options or other equity securities of such companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek enhanced returns for stockholders. Such investments may include investments in the debt and equity instruments of broadly-traded public companies. We expect that these public companies generally will have debt securities that are non-investment grade. Within this 30% basket, we may also invest in debt and equity securities of companies located outside of the United States.

Our investments may include other equity investments, such as warrants, options to buy a minority interest in a portfolio company, or contractual payment rights or rights to receive a proportional interest in the operating cash flow or net income of such company. When determined by our Investment Adviser to be in our best interest, we may acquire a controlling interest in a portfolio company. Any warrants we receive with our debt securities may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We have structured, and will continue to structure, some warrants to include provisions protecting our rights as a minority-interest or, if applicable, controlling-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights.

We plan to hold many of our investments to maturity or repayment, but will sell our investments earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company, or if we determine a sale of one or more of our investments to be in our best interest.

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We have qualified and elected to be treated for U.S. Federal income tax purposes as a RIC under Subchapter M of the Code. As a RIC, we generally do not have to pay corporate-level U.S. Federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To continue to qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to qualify for RIC tax treatment we must distribute to our stockholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our ordinary income plus the excess of our realized net short-term capital gains over our realized net long-term capital losses.

For a discussion of the risks inherent in our portfolio investments, see Risk Factors Risks Related to our Investments.

Industry Sectors

We have invested significantly in industrial and energy related companies. However, we continue to widen our strategy focus in other sectors of the economy to diversify our portfolio holdings. The energy industry consists of companies in the direct energy value chain as well as companies that sell products and services to, or acquire products and services from, the direct energy value chain. In this prospectus, we refer to all of these companies as energy companies and assets in these companies as energy assets. The categories of energy companies in this chain are described below. The direct energy value chain broadly includes upstream businesses, midstream businesses and downstream businesses:

Upstream businesses find, develop and extract energy resources, including natural gas, crude oil and coal, which are typically from geological reservoirs found underground or offshore, and agricultural products.

Midstream businesses gather, process, refine, store and transmit energy resources and their byproducts in a form that is usable by wholesale power generation, utility, petrochemical, industrial and gasoline customers.

Downstream businesses include the power and electricity segment as well as businesses that process, refine, market or distribute hydrocarbons or other energy resources, such as customer-ready natural gas, propane and gasoline, to end-user customers.

Ongoing Relationships with Portfolio Companies

Monitoring

Prospect Capital Management monitors our portfolio companies on an ongoing basis. Prospect Capital Management will continue to monitor the financial trends of each portfolio company to determine if it is meeting its business plan and to assess the appropriate course of action for each company.

Prospect Capital Management employs several methods of evaluating and monitoring the performance and value of our investments, which may include, but are not limited to, the following:

Assessment of success in adhering to the portfolio company s business plan and compliance with covenants;

Regular contact with portfolio company management and, if appropriate, another financial or strategic sponsor, to discuss financial position, requirements and accomplishments;

Attendance at and participation in board meetings of the portfolio company; and

Review of monthly and quarterly financial statements and financial projections for portfolio companies.

Valuation Process

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

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

Short-term investments that mature in 60 days or less and are viewed as creditworthy, such as U.S Treasury Bills, are valued at amortized cost, which approximates fair value. The amortized cost method involves recording a security at its cost (i.e., principal amount plus any premium and less any discount) on the date of purchase and thereafter amortizing/ accreting that difference between the principal amount due at maturity and cost assuming a constant yield to maturity as determined at the time of purchase. Short-term securities that mature in more than 60 days are valued at current market quotations by an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, or otherwise by a principal market maker or a primary market dealer). Investments in money market mutual funds are valued at their net asset value as of the close of business on the day of valuation.

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 firms; 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.

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 discounts 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 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, or FASB, issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements , or FAS 157. FAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. We have adopted this statement on a prospective basis beginning in the quarter ended September 30, 2008. Adoption of this statement did not have a material effect on our financial statements for that quarter or for the current quarter ended December 31, 2008.

FAS 157 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 FAS 157 relate to the definition of fair value, framework for measuring fair value, and the expanded disclosures about fair value measurements. FAS 157 applies to fair value measurements already required or permitted by other standards. In accordance with FAS 157, 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.

For a discussion of the risks inherent in determining the value of securities for which readily available market values do not exist, see Risk Factors Risks relating to our business Most of our portfolio investments are recorded at fair value as determined in good faith by our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments.

Valuation of Other Financial Assets and Financial Liabilities

In February 2007, FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 . SFAS 159 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. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. We have adopted this statement on July 1, 2008 and have elected not to value some assets and liabilities at fair value as would be permitted by SFAS 159.

The Investment Adviser

Prospect Capital Management manages our investments as our investment adviser. Prospect Capital Management is a Delaware limited liability corporation that has been registered as an investment adviser under the Advisers Act since March 31, 2004. Prospect Capital Management is led by John F. Barry III and M. Grier Eliasek, two senior executives with significant investment advisory and business experience. Both Messrs. Barry and Eliasek spend a significant amount of their time in their roles at Prospect Capital Management working on the Company s behalf. The principal executive offices of Prospect Capital Management are 10 East 40th Street, 44th Floor, New York, NY 10016. We depend on the diligence, skill and network of business contacts of the senior management of our Investment Adviser. We also depend, to a significant extent, on our Investment Adviser s investment professionals and the information and deal flow generated by those investment professionals in the course of their investment and portfolio management activities. The Investment Adviser s senior management team evaluates, negotiates, structures, closes, monitors and services our investments. Our future success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior managers of our Investment Adviser could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain our Investment Adviser or that we will continue to have access to its investment professionals or its information and deal flow. Under our Investment Advisory Agreement, we pay Prospect Capital Management investment advisory fees, which consist of an annual base management fee based on our gross assets as well as a two-part incentive fee based on our performance. Mr. Barry currently controls Prospect Capital Management. See Management Management Services Board of Directors approval of the Investment Advisory Agreement.

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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 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 may receive fees for these services. Such fees would not qualify as good income for purposes of the 90% income test that we must meet each year to qualify as a RIC. Prospect Administration provides such managerial assistance on our behalf to portfolio companies when we are required to provide this assistance.

Staffing

Mr. John F. Barry III, our chairman and chief executive officer, Mr. Grier Eliasek, our chief operating officer and president, and Mr. Brian H. Oswald, our chief financial officer, chief compliance officer, treasurer and secretary comprise our senior management. Over time, we expect to add additional officers and employees. Messrs. Barry and Eliasek each also serves as an officer of Prospect Administration and performs his respective functions under the terms of the Administration Agreement. Our day-to-day investment operations are managed by Prospect Capital Management. In addition, we reimburse Prospect Administration for our allocable portion of expenses incurred by it in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer, Chief Compliance Officer, Treasurer and Secretary and their respective staffs. See Management Management Services Administration Agreement.

Properties

We do not own any real estate or other physical properties materially important to our operation. Our corporate headquarters are located at 10 East 40th Street, 44th Floor, New York, NY 10016, where we occupy an office space pursuant to the Administration Agreement.

Legal Proceedings

On December 6, 2004, Dallas Gas Partners, L.P., or DGP, served the Company 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 the Company breached its 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 the Company s alleged agreement in September 2004 to loan DGP funds with which DGP intended to buy Gas Solutions, Ltd. for approximately $26 million. The complaint seeks relief not limited to $100 million. The Company believes that the DGP complaint is frivolous and without merit, and intend to defend the matter vigorously. 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 the Company s 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 the Company s Motion for Summary Judgment dismissing all claims by DGP, against the Company. On May 16, 2007, the Court also granted us summary judgment on DGP s liability to the Company 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 the Company s motion to dismiss all DGP s claims asserted against certain officers and affiliates of the Company. The Company s damage claims against DGP remain pending.

In May 2006, based in part on unfavorable due diligence and the absence of investment committee approval, the Company declined to extend a loan for $10 million to a potential borrower, or plaintiff. Plaintiff was subsequently