

PROSPECT CAPITAL CORP

Form 497

July 01, 2009

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

**PROSPECTUS SUPPLEMENT  
(To Prospectus dated June 26, 2009)**

**4,500,000 Shares  
Common Stock  
\$9.00 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 4,500,000 shares of our common stock. See **Underwriting** beginning on page S-35 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-6 and **Sales of Common Stock Below Net Asset Value** beginning on page S-30 of this prospectus supplement and on page 75 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 June 30, 2009 was \$9.20 per share and our most recently determined net asset value per share was \$14.19 as of March 31, 2009 (\$12.42 on an adjusted basis solely to give effect to our common stock issuances on April 20, 2009 in connection with our dividend reinvestment plan and on April 27, 2009 and May 26, 2009 in underwritten common stock offerings).

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](http://www.sec.gov) where such information is available without charge upon written or oral request. Our Internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus.

**Investing in our common stock involves risks. See **Risk Factors** beginning on page S-6 of this prospectus supplement and on page 10 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.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$ 9.00	\$ 40,500,000
Sales Load (underwriting discounts and commissions)	\$ 0.45	\$ 2,025,000
Proceeds to Prospect Capital Corporation, before expenses(1)	\$ 8.55	\$ 38,475,000

(1) Before deducting estimated offering expenses payable by us of approximately \$200,000.

The underwriters have the option to purchase up to an additional 675,000 shares of common stock at the public offering price, less the sales load (underwriting discounts and commissions) and (to the extent exercised after July 8, 2009) the amount of the dividend otherwise payable to holders of record on July 8, 2009, 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 \$46,575,000, and the total sales load (underwriting discounts and commissions) will be \$2,328,750. The proceeds to us would be \$44,246,250, before deducting estimated offering expenses payable by us of approximately \$200,000 and the possible discount of up to \$274,218 to the extent the over-allotment is exercised after July 8, 2009.

The underwriters expect to deliver the shares to purchasers on or about July 7, 2009.

*Joint Book Running Managers*

**Fox-Pitt Kelton  
Cochran Caronia Waller**

**Oppenheimer & Co.**

**RBC Capital Markets**

*Joint Lead Manager*

**BB&T Capital Markets**

*Co-Managers*

**Ladenburg Thalmann & Co. Inc.**

**Maxim Group LLC**

Prospectus Supplement dated June 30, 2009

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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 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.

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

As of 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**

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

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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 \$27.0 million of net proceeds after recognizing \$1.4 million of underwriting discounts and commissions and \$210,000 of estimated offering costs.

On May 26, 2009, we issued 7.76 million shares of our common stock in an underwritten equity offering at \$8.25 per share, raising \$64.0 million in gross proceeds and \$60.5 million of net proceeds after recognizing \$3.20 million of underwriting discounts and commissions and \$300,000 of estimated offering costs.

On June 23, 2009, we declared a dividend for our fourth fiscal quarter (for the fiscal year ending June 30, 2009) of \$0.40625 per share. The ex-dividend date is July 6, 2009, the record date is July 8, 2009, and the payment date is July 20, 2009. Investors in this offering will receive this dividend to the extent they continue to hold the shares they acquire on the record date.

On June 25, 2009, we closed an extension of our revolving credit facility with Rabobank Nederland. The new credit facility has \$175 million committed as of June 25, 2009 and includes an accordion feature which allows the credit facility to be increased to up to \$250 million of commitments in the aggregate to the extent additional or existing lenders commit to increase the commitments. While we expect to add additional lenders in order to reach the maximum size, no assurance can be given in this regard. As of June 30, 2009, approximately \$946,000 was available to us for borrowing under our credit facility. As we make additional investments which are eligible to be pledged under the credit facility, we will generate additional availability to the extent such investments are eligible to be placed into the borrowing base. The revolving period of the credit facility extends through June 2010, with an additional one year amortization period after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due if required by the lenders. Interest on borrowings under the credit facility is one-month Libor plus 400 basis points, subject to a minimum Libor floor of 200 basis points. Additionally, Rabobank charges a fee on the unused portion of the credit facility equal to 100 basis points. As of June 30, 2009 we had \$124.8 million outstanding under our credit facility. The credit facility will be used, together with our equity capital, to make additional long-term investments.

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**The Offering**

Common stock offered by us, excluding the underwriters over-allotment option	4,500,000 shares.
Common stock outstanding prior to this offering	42,943,084 shares.
Common stock outstanding after this offering, excluding the underwriters over-allotment option	47,443,084 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 fourth fiscal quarter of 2009, our Board of Directors declared a quarterly dividend of \$0.40625 per share, representing an annualized dividend yield of approximately 17.7% based on our June 30, 2009 closing stock price of \$9.20 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 \$175 million under our recently completed extended credit facility, which is the maximum amount currently available under the credit facility. As of June 30, 2009, we had \$124.8 million outstanding under our credit facility. As of June 30, 2009, approximately \$946,000 was available to us for borrowing under our credit facility. Except where the context suggests otherwise, whenever this prospectus supplement contains a reference to fees or expenses paid by you, us or Prospect Capital, or that we will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor

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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)	0.49%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	5.49%
<b>Annual expenses (as a percentage of net assets attributable to common stock)(4):</b>	
Combined base management fee (2.88%)(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)	5.52%
Interest payments on borrowed funds	2.37%(7)
Other expenses	2.50%(8)
Total annual expenses	10.39%(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	\$ 128.19	\$ 268.71	\$ 401.60	\$ 703.12

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 \$200,000.
- (3) The expenses of the dividend reinvestment plan are included in other expenses.
- (4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at March 31, 2009. See Capitalization in this prospectus supplement.

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- (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 \$175 million (the size of our credit facility), the 2% management fee of gross assets equals 2.88% 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 \$175 million extended credit facility and we will continue to seek additional lenders to upsize the facility to up to \$250 million. For more information, see Risk Factors Risks Relating To Our Business Changes in interest rates may affect our cost of capital and net investment income and Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Expenses Financial Condition, Liquidity and Capital Resources in the accompanying prospectus. The table above assumes that we have borrowed \$175 million under our credit facility, which is the maximum amount currently available under the credit facility. If we do not borrow amounts following this offering, our base management fee, as a percentage of net assets attributable to common stock, will decrease from the percentage shown in the table above, as borrowings will not represent a portion of our overall assets.
- (8) Other expense is based on our annualized expenses during our quarter ended March 31, 2009, as adjusted for the increased costs anticipated in connection with the extended credit facility. See Management Management Services Administration Agreement in the accompanying prospectus.

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**RISK FACTORS**

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

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

The U.S. financial markets have been experiencing a high level of volatility, disruption and distress, which was exacerbated by the failure of several major financial institutions in the last few months of 2008. In addition, the U.S. economy has entered a recession, which is likely to be severe and prolonged. Similar conditions have occurred in the financial markets and economies of numerous other countries and could worsen, both in the U.S. and globally. These conditions have raised the level of many of the risks described in the accompanying prospectus and could have an adverse effect on our portfolio companies as well as on our business, financial condition, results of operations, dividend payments, credit facility, access to capital, valuation of our assets (including our NAV as of June 30, 2009 which has not yet been determined by our Board of Directors) and our stock price.

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

Our portfolio consists primarily of level 3 assets for which there is no actively traded market. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. During the period beginning June 27, 2007 until June 26, 2009, the S&P/LSTA Index (comprising approximately the largest 1000 leveraged loans outstanding from time to time) declined by 22%. 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.

***Our most recent net asset value was calculated on March 31, 2009 and our NAV when calculated effective June 30, 2009 may be higher or lower.***

Our most recently estimated NAV per share is \$12.42 on an as adjusted basis solely to give effect to our issuances of common shares on April 20, 2009 in connection with our dividend reinvestment plan and on April 27, 2009 and May 26, 2009 in underwritten common stock offerings versus \$14.19 determined by us as of March 31, 2009. NAV as of June 30, 2009 may be higher or lower than \$12.42 based on potential changes in valuations as of June 30, 2009. Our Board of Directors has not yet determined the fair value of portfolio investments as of June 30, 2009. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from an independent valuation firm, our Investment Advisor and the audit committee of our Board of Directors.

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

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending February 12, 2010 as described in the accompanying prospectus. The issuance or sale by us of shares of our

common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information about recent sales below NAV per share, see [Recent Sales of Common Stock Below Net Asset Value](#) in this prospectus supplement and for additional information and hypothetical examples of these risks, see [Sales of Common Stock Below Net Asset Value](#) in this prospectus supplement and in the accompanying prospectus.

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**USE OF PROCEEDS**

The net proceeds from the sale of 4,500,000 shares of our common stock in this offering will be \$38,275,000 (or \$44,046,250 if the over-allotment is exercised in full prior to July 8, 2009 or \$43,772,032 if the over-allotment is exercised in full after July 8, 2009) after deducting estimated offering expenses of approximately \$200,000 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.

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

On June 25, 2009, we extended the revolving period for our credit facility with Rabobank Nederland until June 2010. As of June 30, 2009 we had \$124.8 million outstanding under our credit facility. As of June 30, 2009, approximately \$946,000 was available to us for borrowing under the credit facility. Interest on borrowings under our credit facility is charged at one-month Libor plus 400 basis points, subject to a minimum Libor floor of 200 basis points. Additionally, Rabobank charges a fee on the unused portion of the credit facility equal to 100 basis points.



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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, our sale of 3,680,000 shares of our common stock on April 27, 2009, at a net price of \$7.32 per share after deducting offering expenses of approximately \$210,000 payable by us and our sale of 7,762,500 shares of our common stock on May 26, 2009, at a net price of \$8.21 per share after deducting offering expenses of approximately \$300,000 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 4,500,000 shares in this offering, at a net price of \$8.51 per share after deducting estimated offering expenses of approximately \$200,000 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.

	<b>Actual</b>	<b>As of March 31, 2009 As Adjusted for Issuances After March 31, 2009 and for Reduction of Borrowings</b>	<b>As Further Adjusted for this Offering(2)</b>
	<b>(In 000s, except shares and per share data) (Unaudited)</b>		
Long-term debt, including current maturities:			
Borrowings under senior credit facility	\$ 137,567	\$ 124,800(1)	\$ 124,800(1)
Amount owed to affiliates	6,555	6,555	6,555
<b>Total long-term debt</b>	<b>144,122</b>	<b>131,355</b>	<b>131,355</b>
Stockholders' equity:			
Common stock, par value \$0.001 per share (100,000,000 common shares authorized; 31,286,128 shares outstanding actual, 42,943,084(3) shares outstanding as adjusted and 47,443,084(4) shares outstanding as further adjusted)	31	43	47
Paid-in capital in excess of par value	456,398	545,706	583,977
Undistributed net investment income	12,171	12,171	12,171

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Accumulated realized losses on investments	(12,311)	(12,311)	(12,311)
Net unrealized depreciation on investments	(12,265)	(12,265)	(12,265)
Total stockholders' equity	444,024	533,344	571,619
Total capitalization	\$ 588,146	\$ 664,699	\$ 702,974

- (1) As of June 25, 2009 and June 30, 2009, we had approximately \$124.8 million outstanding under our credit facility, representing a \$12.8 million reduction of borrowings subsequent to March 31, 2009.
- (2) 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.
- (3) Includes 214,456 shares of our common stock issued on April 20, 2009 in connection with our dividend reinvestment plan, 3,680,000 shares in connection with our sale of our common stock on April 27, 2009 and 7,762,500 shares in connection with our sale of common stock on May 26, 2009.
- (4) Excludes any shares issued upon the exercise of the underwriters' over-allotment option.

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

<b>Date of Offering</b>	<b>Price Per Share to Public</b>	<b>Shares Issued</b>	<b>Estimated Net Asset Value Per Share</b>	<b>Percentage Dilution</b>	
March 18, 2009	\$ 8.20	1,500,000	\$ 14.43	2.20	%
April 22, 2009	\$ 7.75	3,680,000	\$ 14.15	5.05	%
May 19, 2009	\$ 8.25	7,762,500	\$ 13.44	7.59	%

**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.

Our most recently declared quarterly dividend of \$0.40625 per share for the quarter ended June 30, 2009, is likely to exceed net investment income for the quarter, although our dividends declared during our fiscal year ending June 30, 2009 are expected to be less than our investment income for such fiscal year. No assurance can be given that we will maintain the amount of our current dividends or that such dividends will be made solely out of our investment income.

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

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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.

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.

	NAV(1)	Stock Price High(2)	Low(2)	Premium (Discount) of High to NAV	Premium (Discount) of Low to NAV	Dividend Declared
<b>Twelve Months Ending June 30, 2005</b>						
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
<b>Twelve Months Ending June 30, 2006</b>						
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
<b>Twelve Months Ending June 30, 2007</b>						
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

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Fourth quarter	15.04	18.68	16.91	24.2%	12.4%	0.390
<b>Twelve Months Ending June 30, 2008</b>						
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
<b>Twelve Months Ending June 30, 2009</b>						
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 6/30/09)	(3)(4)	10.48	7.95	(4)	(4)	0.40625

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- (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) Our most recently determined NAV per share was \$14.19 as of March 31, 2009 (\$12.42 on an as adjusted basis solely to give effect to our issuances of common shares on April 20, 2009 in connection with our dividend reinvestment plan and on April 27, 2009 and May 26, 2009 in underwritten common stock offerings). NAV as of June 30, 2009 may be higher or lower than \$12.42 based on potential changes in valuations as of June 30, 2009.
- (4) NAV has not yet been finally determined for any day after March 31, 2009.

On June 30, 2009, the last reported sales price of our common stock was \$9.20 per share.

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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**Table of Contents****SELECTED CONDENSED FINANCIAL DATA**

You should read the selected condensed financial data below with the Financial Statements and Notes thereto included in this prospectus supplement. 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-14 for more information.

	<b>For the Year/Period Ended June 30,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004(1)</b>
	<b>(In thousands except data relating to shares, per share and number of portfolio companies)</b>				
<b>Performance Data:</b>					
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)
<b>Per Share Data(2):</b>					
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
<b>Assets and Liabilities Data:</b>					



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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. These net profits interests were settled in May 2009.

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	<b>For the Three Months Ended March 31,</b>		<b>For the Nine Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands except data relating to shares, per share and number of portfolio companies)</b>			
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Performance Data:</b>				
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
<b>Per Share Data(1):</b>				
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
<b>Assets and Liabilities Data:</b>				
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

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Net assets	\$	444,024	\$	371,718	\$	444,024	\$	371,718
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**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, remaining after loan was paid. These net profits interests were settled in May 2009.

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

*(All figures in this discussion 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 business development company, 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, which outstanding balance was reduced to \$124.9 million on June 25, 2009, concurrent with the closing of the credit facility extension. As we make additional investments which are eligible to be pledged under the credit facility, we will generate additional availability. The revolving period for the extended credit facility continues until June 25, 2010, with an expected maturity on June 25, 2011.

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We also continue to generate liquidity through public stock offerings and the realization of portfolio investments. On March 19, 2009, April 27, 2009, and May 26, 2009, we completed public stock offerings for 1.5 million shares, 3.68 million shares, and 7.763 million shares, of our common stock at \$8.20 per share, \$7.75 per share, and \$8.25 per share, raising \$12,300, \$28,520 and \$64,041 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;

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- 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.



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.

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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 had 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).



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**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 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 a 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:

<b>Quarter-End</b>	<b>Acquisitions(1)</b>	<b>Dispositions(2)</b>
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 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 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 Appalachian Energy Holdings, LLC ( 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

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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 AEH and Biotronic.

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

<b>Level of Control</b>	<b>March 31, 2009</b>		<b>June 30, 2008</b>	
	<b>Fair Value</b>	<b>Percent of Portfolio</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>
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%
<b>Total Portfolio</b>	<b>\$ 594,295</b>	<b>100.0%</b>	<b>\$ 530,530</b>	<b>100.0%</b>

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

<b>Type of Investment</b>	<b>March 31, 2009</b>		<b>June 30, 2008</b>	
	<b>Fair Value</b>	<b>Percent of Portfolio</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>
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%
<b>Total Portfolio</b>	<b>\$ 594,295</b>	<b>100.0%</b>	<b>\$ 530,530</b>	<b>100.0%</b>

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**

<b>Geographic Exposure</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>
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:

Industry Sector	March 31, 2009		June 30, 2008	
	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 GSHI. While we wish to unlock the value in GSHI, we do not wish to enter into any agreement at any time that does not recognize the long term value we see in GSHI. As a well hedged midstream asset, which will generate predictable and consistent cash flows to us, GSHI 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

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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

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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:

	<b>As of March 31, 2009</b>		<b>As of June 30, 2008</b>	
	<b>Facility Amount</b>	<b>Amount Outstanding</b>	<b>Facility Amount</b>	<b>Amount Outstanding</b>
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:

	<b>Payments Due By Period</b>		
	<b>Less Than 1 Year</b>	<b>1 - 3 Years</b>	<b>More Than 3 Years</b>
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:

	<b>As of March 31, 2009</b>		<b>As of June 30, 2008</b>	
Net Assets	\$	444,024	\$	429,623
Shares of common stock outstanding		31,286,128		29,520,379
Net asset value per share	\$	14.19(1)	\$	14.55

- (1) Our most recently determined NAV per share was \$14.19 as of March 31, 2009 (\$12.42 on an as adjusted basis solely to give effect to our issuances of common shares on April 20, 2009 in connection with our dividend reinvestment plan and on April 27, 2009 and May 26, 2009 in underwritten common stock offerings). NAV as of June 30, 2009 may be higher or lower than \$12.42 based on potential changes in valuations as of June 30, 2009. Our Board of Directors has not yet determined the fair value of portfolio investments as of June 30, 2009. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from an independent valuation firm, our Investment Advisor and the audit committee of our Board of Directors.

At March 31, 2009, we had 31,286,128 shares 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



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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:

	<b>For the Three Months Ended March 31,</b>		<b>For the Nine Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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

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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.

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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.

	<b>For the Three Months Ended March 31,</b>		<b>For the Nine Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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
<b>Total</b>	<b>\$ 1,345</b>	<b>\$ 1,863</b>	<b>\$ 4,828</b>	<b>\$ 4,719</b>
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.

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 and May 2009, we issued an additional \$28,520 and \$64,041, respectively, in common stock, reducing the remaining availability to approximately \$249,000.

## **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 \$26,955 of net proceeds after recognizing \$1,355 of underwriting discounts and commissions and \$210 of estimated offering costs.

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On May 26, 2009, we issued 7.76 million shares of our common stock in an underwritten equity offering at \$8.25 per share, raising \$64,041 in gross proceeds and \$60,539 of net proceeds after recognizing \$3,202 of underwriting discounts and commissions and \$300 of estimated offering costs.

In May 2009, we closed out our investment in Charlevoix, when the final payment was received on the outstanding net profits interests of \$75 in conjunction with a sale of Charlevoix.

On June 23, 2009, we declared a dividend for our fourth fiscal quarter (for the fiscal year ending June 30, 2009) of \$0.40625 per share. The ex-dividend date is July 6, 2009, the record date is July 8, 2009, and the payment date is July 20, 2009.

On June 25, 2009, we closed an extension of our revolving credit facility with Rabobank Nederland. The new credit facility has \$175 million committed as of June 25, 2009 and includes an accordion feature which allows the credit facility to be increased to up to \$250 million of commitments in the aggregate to the extent additional or existing lenders commit to increase the commitments. While we expect to add additional lenders in order to reach the maximum size, no assurance can be given in this regard. The revolving period of the credit facility extends through June 2010, with an additional one year amortization period after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due if required by the lenders. Interest on borrowings under the credit facility is one-month Libor plus 400 basis points, subject to a minimum Libor floor of 200 basis points. Additionally, Rabobank charges a fee on the unused portion of the credit facility equal to 100 basis points. As of June 30, 2009 we had \$124.8 million outstanding under our credit facility. As of June 30, 2009, approximately \$946,000 was available to us for borrowing under our credit facility. As we make additional investments which are eligible to be pledged under the credit facility, we will generate additional availability to the extent such investments are eligible to be placed into the borrowing base. The credit facility will be used, together with our equity capital, to make additional long-term investments.

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**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 twelve month period following such approval. In order to sell shares pursuant to this authorization a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount. We are 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 limit would be measured separately for each offering pursuant to the current amendment by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV at

the time of the first offering is \$12.42 and we have 43 million shares outstanding, sale of 12 million shares at net proceeds to us of \$6.21 per share (a 50% discount) would produce dilution of 10.91%. If we subsequently determined that our NAV per share increased to \$13.00 on the then 55 million shares outstanding and then made an additional offering, we could, for example, sell approximately an additional 4.9 million shares at net proceeds to us of \$6.50 per share, which would produce dilution of 4.09%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

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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 our dividend reinvestment plan on April 20, 2009 and our April 27, 2009 and May 26, 2009 sales noted above. For purposes of illustration, the table below assumes that our March 31, 2009 NAV per share has been reduced by 12.47% to \$12.42 per share as a result of the foregoing transactions. The following example assumes a sale of 4,500,000 shares at a sales price to the public of \$9.00 with a 5% underwriting discount and commissions and \$200,000 of expenses (\$8.51 per share net).

	<b>Prior to Sale Below NAV</b>	<b>Following Sale</b>	<b>% Change</b>
<b>Offering Price</b>			
Price per Share to Public		\$ 9.00	
Net Proceeds per Share to Issuer		\$ 8.51	
<b>Decrease to NAV</b>			
Total Shares Outstanding	42,943,084	47,443,084	10.48%
NAV per Share	\$ 12.42	\$ 12.05	(2.99)%
<b>Dilution to Nonparticipating Stockholder</b>			
Shares Held by Stockholder A	42,943	42,943	0.00%
Percentage Held by Stockholder A	0.10%	0.09%	(9.49)%
Total NAV Held by Stockholder A	\$ 533,344	\$ 517,401	(2.99)%
Total Investment by Stockholder A (Assumed to be \$12.42 per Share)		\$ 533,344	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$ (15,943)	
NAV per Share Held by Stockholder A after offering		\$ 12.05	
Investment per Share Held by Stockholder A (Assumed to be \$12.42 on Shares Held Prior to Sale)	\$ 12.42	\$ 12.42	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.37)	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(2.99)%

**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.

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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., 2,250 shares, which is 0.05% of the offering rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 6,750 shares, which is 0.15% 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 our dividend reinvestment plan on April 20, 2009 and our April 27, 2009 and May 26, 2009 sales noted above. For purposes of illustration, the table below assumes that our March 31, 2009 NAV per share has been reduced by 12.47% to \$12.42 per share as a result of the foregoing transactions. The following example assumes a sale of 4,500,000 shares at a sales price to the public of \$9.00 with a 5% underwriting discount and commissions and \$200,000 of expenses (\$8.51 per share net).

	<b>Prior to Sale Below NAV</b>	<b>50% Participation Following Sale</b>	<b>% Change</b>	<b>150% Participation Following Sale</b>	<b>% Change</b>
<b>Offering Price</b>					
Price per Share to Public		\$ 9.00		\$ 9.00	
Net Proceeds per Share to Issuer		\$ 8.51		\$ 8.51	
<b>Decrease/Increase to NAV</b>					
Total Shares Outstanding	42,943,084	47,443,084	10.48%	47,443,084	10.48%
NAV per Share	\$ 12.42	\$ 12.05	(2.99)%	\$ 12.05	(2.99)%
<b>Dilution/Accretion to Participating Stockholder</b>					
Shares Held by Stockholder A	42,943	45,193	5.24%	49,693	15.72%
Percentage Held by Stockholder A	0.10%	0.10%	(4.74)%	0.10%	4.74%
Total NAV Held by Stockholder A	\$ 533,344	\$ 544,510	2.09%	\$ 598,728	12.26%
Total Investment by Stockholder A (Assumed to be \$12.42 per Share on Shares held Prior to Sale)		\$ 553,594		\$ 594,094	
Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment)		\$ (9,084)		\$ 4,634	
NAV per Share Held by Stockholder A		\$ 12.05		\$ 12.05	
Investment per Share Held by Stockholder A (Assumed to Be \$12.42 on Shares Held Prior to Sale)	\$ 12.42	\$ 12.25		\$ 11.96	
Dilution/Accretion per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ (0.20)		\$ 0.09	
Percentage Dilution/Accretion to Stockholder A (Dilution/Accretion per Share			(1.64)%		0.78%

Divided by Investment per Share)

### **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

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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 our dividend reinvestment plan on April 20, 2009 and our April 27, 2009 and May 26, 2009 sales noted above. For purposes of illustration, the table below assumes that our March 31, 2009 NAV per share has been reduced by 12.47% to \$12.42 per share as a result of the foregoing transactions. The following example assumes a sale of 4,500,000 shares at a sales price to the public of \$9.00 with a 5% underwriting discount and commissions and \$200,000 of expenses (\$8.51 per share net).

	<b>Prior to Sale Below NAV</b>	<b>Following Sale</b>	<b>% Change</b>
<b><i>Offering Price</i></b>			
Price per Share to Public		\$ 9.00	
Net Proceeds per Share to Issuer		\$ 8.51	
<b><i>Decrease/Increase to NAV</i></b>			
Total Shares Outstanding	42,943,084	47,443,084	10.48%
NAV per Share	\$ 12.42	\$ 12.05	(2.99)%
<b><i>Dilution/Accretion to New Investor A</i></b>			
Shares Held by Investor A	0	4,500	
Percentage Held by Investor A	0.00%	0.01%	
Total NAV Held by Investor A	\$ 0	\$ 54,218	
Total Investment by Investor A (At Price to Public)		\$ 40,500	
Total Dilution/Accretion to Investor A (Total NAV Less Total Investment)		\$ 13,718	
NAV per Share Held by Investor A		\$ 12.05	
Investment per Share Held by Investor A	\$ 0.00	\$ 9.00	
Dilution/Accretion per Share Held by Investor A (NAV per Share Less Investment per Share)		\$ 3.05	
Percentage Dilution/Accretion to Investor A (Dilution/Accretion per Share Divided by Investment per Share)			33.87%

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Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, Oppenheimer & Co. Inc. and RBC Capital Markets Corporation are acting 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 agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

<b>Underwriter</b>	<b>Number of Shares</b>
Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC.	1,125,000
Oppenheimer & Co. Inc.	1,125,000
RBC Capital Markets Corporation	1,125,000
BB&T Capital Markets, a division of Scott & Stringfellow, LLC	675,000
Ladenburg Thalmann & Co. Inc.	225,000
Maxim Group LLC	225,000
Total	4,500,000

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.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the shares to dealers at the public offering price less a concession not to exceed \$0.27 per share. If all of the shares are not sold at the initial offering price, Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, Oppenheimer & Co. Inc. and RBC Capital Markets Corporation may change the public offering price and the other selling terms. We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 675,000 additional shares of common stock at the public offering price less the underwriting discount and, to the extent exercised after July 8, 2009, the amount of the dividend otherwise payable to holders of record on July 8, 2009. 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.

We, our officers and directors, the Investment Adviser and the officers and directors of our Investment Adviser have agreed that, subject to certain exceptions, for a period of 30 days from the date of this prospectus, we and they will not, without the prior written consent of Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, Oppenheimer & Co. Inc. and RBC Capital Markets Corporation dispose of or hedge any shares of our common stock or any securities convertible into or exchangeable for our common stock. The representatives may release any of the securities subject to these lock-up agreements at any time without notice.

If, during the period that begins on the date that is 15 calendar days plus three business days before the last day of the 30-day lock-up period and ends on the last day of the 30-day lock-up period, (1) we issue an earnings release, or

material news or a material event relating to us occurs, or (2) prior to the expiration of the 30-day lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 30-day lock-up period, then the 30-day lock-up period will be extended until the expiration of the date that is 15 calendar days plus three business days after the date on which the issuance of the earnings release or the material news or material event occurs, unless we obtain a written waiver from Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, Oppenheimer & Co. Inc. and RBC Capital Markets Corporation

**Other**

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

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The following table shows the sales load (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' option to purchase additional shares of common stock.

	<b>No Exercise</b>	<b>Full Exercise</b>
Per Share	\$ 0.4500	\$ 0.4500
Total	\$ 2,025,000	\$ 2,328,750

In connection with the offering, Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, Oppenheimer & Co. Inc. and RBC Capital Markets Corporation, on behalf of the underwriters, may purchase and sell shares of common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Covered short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered syndicate 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. Transactions to close out the covered syndicate short involve either purchases of the common stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make naked short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. 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. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, Oppenheimer & Co. Inc. or RBC Capital Markets Corporation repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock 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 or 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 common stock 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 common stock during a specified period and must be discontinued when that limit is reached. Passive market making may cause the price of the common stock 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.

We estimate that our portion of the total expenses of this offering will be approximately \$200,000.

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

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representatives will allocate shares to underwriters that may make

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Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

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

The addresses of the underwriters are: Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, 420 Fifth Avenue, 5th Floor, New York, NY 10001; Oppenheimer & Co. Inc., 300 Madison Avenue, 5th Floor, New York, NY, 10017; RBC Capital Markets Corporation, Three World Financial Center, 200 Vesey Street, 8th Floor, New York, NY 10281; BB&T Capital Markets, a division of Scott & Stringfellow, LLC at 2nd Floor, 909 East Main Street, Richmond, VA 23219; Ladenburg Thalmann & Co. Inc., 520 Madison Avenue, New York, NY 10022; and Maxim Group LLC, 405 Lexington Avenue, 2nd Floor, New York, NY 10174.

## **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 Clifford Chance US LLP, New York, New York. Clifford Chance US LLP will rely as to certain matters of Maryland law upon Venable LLP.

## **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](mailto: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.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
**March 31, 2009 and June 30, 2008**

	<b>March 31, 2009</b>	<b>June 30, 2008</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>(In thousands, except share and per share data)</b>	
<b>ASSETS</b>		
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
 <b>Total Assets</b>	 <b>602,806</b>	 <b>541,778</b>
 <b>LIABILITIES</b>		
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
 <b>Total Liabilities</b>	 <b>158,782</b>	 <b>112,155</b>
 <b>Net Assets</b>	 <b>\$ 444,024</b>	 <b>\$ 429,623</b>

**Components of Net Assets**

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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
<b>Net Assets</b>	<b>\$ 444,024</b>	<b>\$ 429,623</b>
<b>Net Asset Value Per Share</b>	<b>\$ 14.19</b>	<b>\$ 14.55</b>

See notes to consolidated financial statements.

**Table of Contents****PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three and Nine Months Ended March 31, 2009 and 2008**

	<b>For the Three Months</b>		<b>For the Nine Months</b>	
	<b>Ended March 31,</b>		<b>Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except share and per share data)</b>			
	<b>(Unaudited)</b>			

**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
<b>Total interest income</b>	<b>16,065</b>	<b>14,890</b>	<b>50,862</b>	<b>42,538</b>

## Dividend income

Control investments	4,400	3,300	13,568	6,950
Money market funds	45	123	265	557
<b>Total dividend income</b>	<b>4,445</b>	<b>3,423</b>	<b>13,833</b>	<b>7,507</b>

## Other income: (Note 4)

Control/Affiliate investments		200	831	210
Non-control/Non-affiliate investments	159	3,487	13,155	5,699
<b>Total other income</b>	<b>159</b>	<b>3,687</b>	<b>13,986</b>	<b>5,909</b>

**Total Investment Income**

	<b>20,669</b>	<b>22,000</b>	<b>78,681</b>	<b>55,954</b>
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**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
<b>Total investment advisory fees</b>	<b>5,907</b>	<b>5,618</b>	<b>20,535</b>	<b>14,227</b>
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
	<b>588</b>	<b>588</b>	<b>1,764</b>	<b>1,108</b>

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	
<b>Total Operating Expenses</b>	<b>8,949</b>	<b>9,081</b>	<b>31,499</b>	<b>24,510</b>
<b>Net Investment Income</b>	<b>11,720</b>	<b>12,919</b>	<b>47,182</b>	<b>31,444</b>
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)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>\$ 15,331</b>	<b>\$ (1,259)</b>	<b>\$ 35,853</b>	<b>\$ 3,605</b>
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.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****For the Nine Months Ended March 31, 2009 and 2008**

	<b>For the Nine Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except share data) (Unaudited)</b>	
<b>Increase in Net Assets from Operations:</b>		
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)
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>35,853</b>	<b>3,605</b>
<b>Dividends to Shareholders:</b>	<b>(36,519)</b>	<b>(27,667)</b>
<b>Capital Share Transactions:</b>		
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
<b>Net Increase in Net Assets Resulting from Capital Share Transactions</b>	<b>15,067</b>	<b>95,732</b>
<b>Total Increase in Net Assets:</b>	<b>14,401</b>	<b>71,670</b>
Net assets at beginning of period	429,623	300,048
<b>Net Assets at End of Period</b>	<b>\$ 444,024</b>	<b>\$ 371,718</b>
<b>Capital Share Activity:</b>		
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
<b>Shares Outstanding at End of Period</b>	<b>31,286,128</b>	<b>26,270,379</b>

See notes to consolidated financial statements.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Months Ended March 31, 2009 and 2008**

	<b>For the Nine Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except share data) (Unaudited)</b>	
<b>Cash Flows from Operating Activities:</b>		
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)	
<b>Change in operating assets and liabilities:</b>		
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
<b>Net Cash Used In Operating Activities:</b>	<b>(25,552)</b>	<b>(150,705)</b>
<b>Cash Flows from Financing Activities:</b>		
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

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

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS****March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	March 31, 2009 (unaudited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Control Investments (25.00% or greater of voting control)</b>					
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 <sup>(4),(28)</sup>		\$ 21,597	21,597	21,597	4.9%
Subordinated secured note Tranche B, 11.50% plus 6.00% PIK, 4/01/2013 <sup>(4),(29)</sup>		\$ 11,500	11,500	11,500	2.6%
			39,154	34,197	7.7%
C&J Cladding LLC <sup>(4)</sup>	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 <sup>(12)</sup>		\$ 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 )	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%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	March 31, 2009 (unaudited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Control Investments (25.00% or greater of voting control)</b>					
Gas Solutions Holdings, Inc. <sup>(3)</sup>	Texas/Gas Gathering and Processing				
Common shares (100 total common shares outstanding)		100	\$ 5,022	\$ 60,186	13.6%
Senior secured note, 18.00%, 12/22/2018 <sup>(4)</sup>		\$ 25,000	25,000	25,000	5.6%
			30,022	85,186	19.2%
Integrated Contract Services, Inc. <sup>(5)</sup>	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 <sup>(6)</sup>		\$ 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%

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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%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	March 31, 2009 (unaudited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Control Investments (25.00% or greater of voting control)</b>					
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 <sup>(4)(8)</sup>		\$ 13,080	13,080	13,080	3.0%
			15,397	28,259	6.4%
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. <sup>(23)</sup>	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%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	March 31, 2009 (unaudited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Affiliate Investments (5.00% to 24.99% of voting control)</b>					
Appalachian Energy Holdings LLC <sup>(10)(4)</sup>	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 fully-diluted class A common units outstanding)		6,025	172		0.0%
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%
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) <sup>(26)</sup>		9,925.455	2,300	2,272	0.5%

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Senior secured note, 11.50% plus 1.00% PIK, 2/21/2013 <sup>(4),(27)</sup>	\$	26,095	26,096	26,064	5.9%
			28,396	28,336	6.4%
Total Affiliate Investments			33,546	30,819	6.9%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	March 31, 2009 (unaudited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
<b>Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)</b>					
American Gilsonite Company	Utah/Specialty Minerals				
Membership interest units in AGC/PEP, LLC <sup>(11)</sup>		99.9999%	\$ 1,031	\$ 3,366	0.8%
Senior subordinated note, 12.00% plus 3.00% PIK, 3/14/2013 <sup>(4)</sup>		\$ 14,783	14,783	15,073	3.4%
			15,814	18,439	4.2%
Castro Cheese Company, Inc. <sup>(4)</sup>	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 <sup>(13)(4)</sup>	Tennessee/Oil and Gas Production				
Senior secured note, 13.00%, 5/05/2009 <sup>(14)</sup>		\$ 10,200	10,191	8,807	2.0%
Deb Shops, Inc. <sup>(4)</sup>	Pennsylvania/ Retail				
Second lien debt, 9.26%, 10/23/2014 <sup>(25)</sup>		\$ 15,000	14,611	5,466	1.2%
Diamondback Operating, LP <sup>(4)</sup>	Oklahoma/ Oil and Gas Production				
Net profit interests, 15% payable on equity distributions <sup>(33)</sup>				456	0.1%
Freedom Marine Services LLC <sup>(15),(4)</sup>	Louisiana/ Shipping Vessels				
		\$ 7,162	7,081	7,151	1.6%



Subordinated secured note, 12.00% plus  
4.00% PIK, 12/31/2011<sup>(17)</sup>

H&M Oil & Gas, LLC <sup>(15),(4)</sup>

Texas/Oil and  
Gas Production

Senior secured note, 13.00%,  
6/30/2010<sup>(16)</sup>

\$	50,500	50,500	52,804	11.9%
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See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	March 31, 2009 (unaudited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
<b>Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)</b>					
IEC Systems LP ( IEC )/ Advanced Rig Services LLC ( ARS <sup>(4)</sup> )	Texas/ Oilfield Fabrication				
IEC senior secured note, 12.00% plus 3.00% PIK, 11/20/2012 <sup>(30)</sup>		\$ 22,011	\$ 22,011	\$ 22,890	5.1%
ARS senior secured note, 12.00% plus 3.00% PIK, 11/20/2012 <sup>(30)</sup>		\$ 13,189	13,189	13,625	3.1%
			35,200	36,515	8.2%
Maverick Healthcare, LLC <sup>(4)</sup>	Arizona/ Healthcare				
Common units (79,000,000 total class A common units outstanding)		1,250,000			0.0%
Preferred units (79,000,000 total preferred units outstanding)		1,250,000	1,252	1,333	0.3%
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%
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) <sup>(32)</sup>		1,844,440	150	175	0.0%
Peerless Manufacturing Co. <sup>(4)</sup>	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. <sup>(4)</sup>	Alabama/ Pharmaceuticals					
Second lien debt, 8.96%, 4/30/2015 <sup>(18)</sup>		\$	12,000	11,948	10,250	2.3%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	March 31, 2009 (unaudited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
<b>Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)</b>					
Regional Management Corp. <sup>(4)</sup>	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. <sup>(4)</sup>	Pennsylvania/ Manufacturing				
Second lien debt, 10.20%, 6/22/2014 <sup>(19)</sup>		\$ 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) <sup>(24)</sup>		2,000	2,000	4,210	0.9%
Second lien debt, 14.00%, 10/31/2013 <sup>(4)</sup>		\$ 18,000	18,000	18,000	4.1%
			20,000	22,210	5.0%
Stryker Energy, LLC <sup>(20)(4)</sup>	Ohio/ Oil and Gas Production				
Subordinated secured revolving credit facility, 12.00%, 12/01/2011 <sup>(21)</sup>		\$ 29,500	29,124	30,725	6.9%
TriZetto Group	California/ Healthcare				
Subordinated unsecured note, 12.00% plus 1.50% PIK, 10/01/2016 <sup>(4)</sup>		\$ 15,036	14,893	15,095	3.4%
Unitek <sup>(4)</sup>	Pennsylvania/ Technical Services				
Second lien debt, 13.08%, 12/31/2013 <sup>(22)</sup>		\$ 11,500	11,355	11,500	2.6%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	March 31, 2009 (unaudited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)</b>					
Wind River Resources Corp. and Wind River II Corp. <sup>(4)(15)</sup>	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 <sup>(31)</sup>		\$ 15,000	\$ 15,000	\$ 12,504	2.9%
<b>Total Non-Control/Non-Affiliate Investments</b>			312,016	303,959	68.5%
<b>Total Portfolio Investments</b>			567,306	555,041	125.0%
<b>Money Market Funds</b>					
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) <sup>(4)</sup>		2,378,260	2,378	2,378	0.5%
<b>Total Money Market Funds</b>			39,254	39,254	8.8%
<b>Total Investments</b>			\$ 606,560	\$ 594,295	133.8%

See notes to consolidated financial statements.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	June 30, 2008 (audited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Control Investments (25.00% or greater of voting control)</b>					
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 <sup>(4)</sup>		\$ 21,890	21,890	21,890	5.1%
Subordinated secured note Tranche B, 11.50% plus 6.00% PIK, 4/01/2013 <sup>(4)</sup>		\$ 11,500	11,500	11,500	2.6%
			39,683	39,683	9.2%
C&J Cladding LLC <sup>(4)</sup>	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 <sup>(12)</sup>		\$ 4,800	4,085	4,607	1.1%
			4,665	6,829	1.6%
Gas Solutions Holdings, Inc. <sup>(3)</sup>	Texas/ Gas Gathering and Processing				
Common shares (100 total common shares outstanding)		100	5,221	41,542	9.7%
Subordinated secured note, 18.00%, 12/22/2009 <sup>(4)</sup>		\$ 20,000	20,000	20,000	4.7%

25,221      61,542      14.4%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	June 30, 2008 (audited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Control Investments (25.00% or greater of voting control)</b>					
Integrated Contract Services, Inc. <sup>(5)</sup>	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%
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 <sup>(6)</sup>		\$ 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 <sup>(7)</sup>		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 <sup>(4)(8)</sup>		\$ 13,080	13,080	13,080	3.0%

15,397 21,736 5.0%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	June 30, 2008 (audited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Control Investments (25.00% or greater of voting control)</b>					
R-V Industries, Inc.	Pennsylvania/ Manufacturing				
Common shares (800,000 total common shares issued and outstanding)		545,107	\$ 5,031	\$ 8,064	1.9%
Warrants, common shares, expiring 6/30/2017		200,000	1,682	2,959	0.7%
Senior secured note, 15.00%, 6/30/2017 <sup>(4)</sup>		\$ 7,526	5,912	7,526	1.8%
			12,625	18,549	4.4%
Worcester Energy Partners, Inc. <sup>(9)</sup>	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%
Yatesville Coal Holdings, Inc. <sup>(23)</sup>	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%
<b>Total Control Investments</b>			203,661	205,827	48.0%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	June 30, 2008 (audited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
(In thousands, except share data)					
<b>Affiliate Investments (5.00% to 24.99% of voting control)</b>					
Appalachian Energy Holdings LLC <sup>(10)(4)</sup>	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%
<b>Total Affiliate Investments</b>			5,609	6,043	1.4%
<b>Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)</b>					
American Gilsonite Company	Utah/ Specialty Minerals				
Membership interest in AGC/PEP, LLC <sup>(11)</sup>		99.9999%	1,000	1,000	0.2%
Subordinated secured note, 12.00% plus 3.00% PIK, 3/14/2013 <sup>(4)</sup>		\$ 14,632	14,632	14,632	3.4%
			15,632	15,632	3.6%
Conquest Cherokee, LLC <sup>(13)(4)</sup>					

	Tennessee/Oil and Gas Production				
Senior secured note, 13.00%, 5/05/2009 <sup>(14)</sup>		\$ 10,200	10,125	9,923	2.3%
	Pennsylvania/ Retail				
Deb Shops, Inc. <sup>(4)</sup> Second lien debt, 10.69%, 10/23/2014 <sup>(25)</sup>		\$ 15,000	14,577	13,428	3.1%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	June 30, 2008 (audited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
<b>Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)</b>					
Deep Down, Inc. <sup>(4)</sup>	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 <sup>(15)(4)</sup>	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 <sup>(15)(4)</sup>	Louisiana/ Shipping Vessels				
Subordinated secured note, 12.00% plus 4.00% PIK, 12/31/2011 <sup>(17)</sup>		\$ 6,948	6,850	6,805	1.6%
H&M Oil & Gas, LLC <sup>(15)(4)</sup>	Texas/ Oil and Gas Production				
Senior secured note, 13.00%, 6/30/2010 <sup>(16)</sup>		\$ 50,500	50,500	50,500	11.8%
IEC Systems LP ( IEC )/Advanced Rig Services LLC ( ARS <sup>(4)</sup> )	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%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	June 30, 2008 (audited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
<b>Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)</b>					
Maverick Healthcare, LLC <sup>(4)</sup>	Arizona/ Healthcare				
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. <sup>(4)</sup>	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. <sup>(4)</sup>	Alabama/ Pharmaceuticals				
Second lien debt, 12.45% (18), 4/30/2015		\$ 12,000	11,944	11,523	2.7%
Regional Management Corp. <sup>(4)</sup>	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. <sup>(4)</sup>	Pennsylvania/ Manufacturing					
Second lien debt, 11.06% <sup>(19)</sup> , 6/24/2014		\$	9,750	9,574	9,574	2.2%

See notes to consolidated financial statements.

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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

Portfolio Investments <sup>(1)</sup>	Locale/Industry	Par Value/ Shares Ownership %	June 30, 2008 (audited)		% of Net Assets
			Cost	Fair Value <sup>(2)</sup>	
<b>Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)</b>					
Shearer s Foods, Inc.	Ohio/ Food Products				
Membership interest units Mistral Chip Holdings, LLC (45,300 total membership units outstanding) <sup>(24)</sup>		2,000	\$ 2,000	\$ 2,000	0.5%
Second lien debt, 14.00%, 10/31/2013 <sup>(4)</sup>		\$ 18,000	18,000	17,351	4.0%
			20,000	19,351	4.5%
Stryker Energy, LLC <sup>(20)(4)</sup>	Ohio/ Oil and Gas Production				
Subordinated secured revolving credit facility, 12.00%, 11/30/2011 <sup>(21)</sup>		\$ 29,500	\$ 29,041	\$ 28,518	6.6%
Unitek <sup>(4)</sup>	Pennsylvania/ Technical Services				
Second lien debt, 12.75% <sup>(22)</sup> , 12/27/2012		\$ 11,500	11,337	11,337	2.6%
Wind River Resources Corp. and Wind River II Corp. <sup>(4)</sup>	Utah/Oil and Gas Production				
Senior secured note, 13.00%, 7/31/2010		\$ 15,000	15,000	14,690	3.4%
<b>Total Non-Control/Non-Affiliate Investments</b>			287,535	285,660	66.4%
<b>Total Portfolio Investments</b>			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) <sup>(4)</sup>	7,045,610	7,046	7,046	1.6%
<b>Total Money Market Funds</b>		33,000	33,000	7.6%
<b>Total Investments</b>		\$ 529,805	\$ 530,530	123.4%

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**

**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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

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

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**March 31, 2009 and June 30, 2008**

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

**Note 1. Organization**

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

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

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

**Note 2. Significant Accounting Policies**

The following are significant accounting policies consistently applied by us:

***Basis of Presentation***

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

***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.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2009****(Unaudited)****(In thousands, except share and per share data)**

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:

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

	<b>For the Periods Ended March 31, 2009</b>	
	<b>Three Months</b>	<b>Nine Months</b>
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)

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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 <i>Net change in unrealized appreciation/depreciation</i> in the Consolidated Statement of Operations:	\$ 4,421	(\$ 8,612)
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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

**Table of Contents****PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2009****(Unaudited)****(In thousands, except share and per share data)**

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:

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



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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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Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2009****(Unaudited)****(In thousands, except share and per share data)****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:

<b>Issuances of Common Stock</b>	<b>Number of Shares Issued</b>	<b>Gross Proceeds Raised</b>	<b>Underwriting Fees</b>	<b>Offering Expenses</b>	<b>Offering Price</b>
<b>During the nine months ended March 31, 2009</b>					
March 19, 2009	1,500,000	\$ 12,300	\$	\$ 513	\$ 8.200
<b>During the nine months ended March 31, 2008</b>					
March 31, 2008	1,150,000	\$ 17,768	\$ 759	\$ 350	\$ 15.450
March 28, 2008	1,300,000	19,786		350	15.220
<b>November 13, 2007 over-allotment</b>	<b>200,000</b>	<b>3,268</b>	<b>163</b>		<b>16.340</b>
<b>October 17, 2007</b>	<b>3,500,000</b>	<b>57,190</b>	<b>2,860</b>	<b>551</b>	<b>16.340</b>

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**

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

**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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

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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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

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.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2009****(Unaudited)****(In thousands, except share and per share data)****Note 8. Financial Highlights**

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>	<b>March 31,</b>	<b>March 31,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Per Share Data<sup>(1)</sup>:</b>				
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 <sup>(2)</sup>	(25.44)%	19.69%	(27.80)%	(5.76)%
Total return based on net asset value <sup>(2)</sup>	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
<b>Ratio / Supplemental Data:</b>				
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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	<b>For the Year Ended</b>				
	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>June 30, 2004(3)</b>
<b>Per Share Data<sup>(1)</sup>:</b>					
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 <sup>(2)</sup>	(15.90)%	12.65%	44.90%	(13.46)%	
Total return based on net asset value <sup>(2)</sup>	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	
<b>Ratio / Supplemental Data:</b>					
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.

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**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

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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)**

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

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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.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2009**

**(Unaudited)**

**(In thousands, except share and per share data)**

**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 June 26, 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 40<sup>th</sup> Street, 44<sup>th</sup> 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 June 26, 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

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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