PROSPECT CAPITAL CORP
Form 497
May 18, 2009

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SUBJECT TO COMPLETION, DATED MAY 18, 2009

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

5,000,000 Shares

Common Stock

$ per share

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

We are offering 5,000,000 shares of our common stock. See Underwriting beginning on page S-33 of this prospectus supplement for more information regarding this offering. These shares are being offered at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders at the annual meeting of stockholders held on February 12, 2009. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See Risk Factors beginning on page S-5 and Sales of Common Stock Below Net Asset Value beginning on page S-28 of this prospectus supplement and on page 84 of the accompanying prospectus.

Our common stock is traded on the NASDAQ Global Select Market under the symbol PSEC. The last reported closing sales price for our common stock on May 15, 2009 was $9.55 per share and our most recently determined net asset value per share was $14.19 as of March 31, 2009.

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

Investing in our common stock involves risks. See Risk Factors beginning on page S-5 of this prospectus supplement and on page 9 of the accompanying prospectus.

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

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

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

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

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

Joint Bookrunning Managers

Citi **UBS Investment Bank**

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

Prospectus Supplement dated May , 2009

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

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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PROSPECTUS SUMMARY

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

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

The Company

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

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

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

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

Recent Developments

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

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

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

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The Offering

Common stock offered by us, excluding the underwriters over-allotment option	5,000,000 shares.
Common stock outstanding prior to this offering	35,180,584 shares.
Common stock outstanding after this offering, excluding the underwriters over-allotment option	40,180,584 shares.
Use of proceeds	We expect to use the net proceeds of this offering initially to maintain balance sheet liquidity, involving repayment of a portion of the amounts outstanding under our credit facility, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See Use of Proceeds in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See Risk Factors in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current distribution rate	For our third fiscal quarter of 2009, our Board of Directors declared a quarterly dividend of $0.405 per share, representing our 18th consecutive quarterly dividend increase and an annualized dividend yield of approximately % based on our May 15, 2009 closing stock price of $9.55 per share. Such dividend was payable out of earnings. Our dividend is subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

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Fees and Expenses

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

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)	5.00%(1)
Offering expenses borne by us (as a percentage of offering price)(2)	0.60%
Dividend reinvestment plan expenses(3)	None
Total stockholder transaction expenses (as a percentage of offering price)	5.60%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Combined base management fee (3.00%)(5) and incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) (2.64%)(6)	5.64%
Interest payments on borrowed funds	1.35%(7)
Other expenses	1.70%(8)
Total annual expenses	8.69%(6)(8)

Example

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 120.19	$ 245.13	$ 365.61	$ 648.34

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

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

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

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

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

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

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

(6) Based on an annualized level of incentive fee paid during our quarter ended March 31, 2009, all of which consisted of an income incentive fee. For a more detailed discussion of the calculation of the two-part incentive fee, see Management Management Services Investment Advisory Agreement in the accompanying prospectus.

(7) We may borrow additional money before and after the proceeds of this offering are substantially invested. After this offering, we will have an increased amount available for us under our $200 million credit facility. For more information, see Risk Factors Risks Relating To Our Business Changes in interest rates may affect our cost of capital and net investment income and Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Expenses Financial Condition, Liquidity and Capital Resources in the accompanying prospectus. The table above assumes that we have borrowed $200 million under our credit facility, which is the maximum amount available under the credit facility. If we do not borrow amounts following this offering, our base management fee, as a percentage of net assets attributable to common stock, will decrease from the percentage shown in the table above, as borrowings will not represent a portion of our overall assets.

(8) Other expense is based on our annualized expenses during our quarter ended March 31, 2009. See Management Management Services Administration Agreement in the accompanying prospectus.

RISK FACTORS

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

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

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

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

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

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

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending February 12, 2010 as described in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than

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the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information and hypothetical examples of these risks, see Sales of Common Stock Below Net Asset Value in this prospectus supplement and in the accompanying prospectus.

USE OF PROCEEDS

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

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

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CAPITALIZATION

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

- on an actual basis; and
- on an as adjusted basis giving effect to the distribution of shares in connection with our dividend reinvestment plan on April 20, 2009 and our sale of 3,680,000 shares of our common stock on April 22, 2009, at a net price of $7.32 per share after deducting offering expenses of $210,000 payable by us and to reductions of borrowings under our credit facility; and
- on an as further adjusted basis giving effect to the transactions noted in the prior column, to the sale of 5,000,000 shares in this offering, at a net price of $ per share after deducting estimated offering expenses of approximately $300,000 payable by us, and our receipt of the estimated net proceeds from this offering and to reductions of borrowings under our credit facility.

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

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

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

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

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

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

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

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DISTRIBUTIONS AND PRICE RANGE OF COMMON STOCK

We have paid and intend to continue to distribute quarterly dividends to our stockholders out of assets legally available for distribution. Our dividends, if any, will be determined by our Board of Directors. Certain amounts of the quarterly distributions may from time to time be paid out of our capital rather than from earnings for the quarter as a result of our deliberate planning or by accounting reclassifications although we intend that our cumulative distributions over the course of the year will not exceed our taxable income by more than an insignificant amount.

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

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

In December 2008, our Board of Directors elected to retain a portion of our profits generated in the quarter ended September 30, 2008 and pay a 4% excise tax on such retained earnings. The tax of $532,479 was paid during the quarter ended March 31, 2009.

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

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

With respect to the dividends paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies were treated as taxable income and distributed to stockholders. For the fiscal year ended June 30, 2008, we paid total dividends of approximately $39.5 million. For the first three quarters of the fiscal year ending June 30, 2009, we paid total dividends of approximately $36.5 million.

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

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

		Stock Price		Premium (Discount) of High to NAV	Premium (Discount) of Low to NAV	Dividend
	NAV(1)	High(2)	Low(2)			Declared
Twelve Months Ending June 30, 2005						
First quarter	$ 13.67	$ 15.45	$ 14.42	13.0%	5.5%	
Second quarter	13.74	15.15	11.63	10.3%	(15.4)%	$ 0.100
Third quarter	13.74	13.72	10.61	(0.1)%	(22.8)%	0.125
Fourth quarter	14.59	13.47	12.27	(7.7)%	(15.9)%	0.150
Twelve Months Ending June 30, 2006						
First quarter	$ 14.60	$ 13.60	$ 11.06	(6.8)%	(24.2)%	$ 0.200
Second quarter	14.69	15.46	12.84	5.2%	(12.6)%	0.280
Third quarter	14.81	16.64	15.00	12.4%	1.3%	0.300
Fourth quarter	15.31	17.07	15.83	11.5%	3.4%	0.340
Twelve Months Ending June 30, 2007						
First quarter	$ 14.86	$ 16.77	$ 15.30	12.9%	3.0%	$ 0.380
Second quarter	15.24	18.79	15.60	23.3%	2.4%	0.385
Third quarter	15.18	17.78	16.40	17.1%	8.0%	0.3875
Fourth quarter	15.04	18.68	16.91	24.2%	12.4%	0.390
Twelve Months Ending June 30, 2008						
First quarter	$ 15.08	$ 18.68	$ 14.16	23.9%	(6.1)%	$ 0.3925
Second quarter	14.58	17.17	11.22	17.8%	(23.0)%	0.395
Third quarter	14.15	16.00	13.55	13.1%	(4.2)%	0.400
Fourth quarter	14.55	16.12	13.18	10.8%	(9.4)%	0.40125
Twelve Months Ending June 30, 2009						
First quarter	$ 14.63	$ 14.24	$ 11.12	(2.7)%	(24.0)%	$ 0.4025
Second quarter	14.43	13.08	6.29	(9.4)%	(56.4)%	0.40375
Third quarter	14.19	12.89	6.38	(9.2)%	(55.0)%	0.405
Fourth Quarter (to 5/15/09)	(3)	10.48	7.95	(3)	(3)	

(1)

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

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

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

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

The below table sets forth each class of our outstanding securities as of March 31, 2009.

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Registrant or for its Account	(4) Amount Outstanding Exclusive of Amount Shown Under(3)
Common Stock	100,000,000	0	31,286,128

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SELECTED CONDENSED FINANCIAL DATA

You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus. Financial information for the twelve months ended June 30, 2008, 2007, 2006 and 2005 and for the period from April 13, 2004 (inception) through June 30, 2004 has been derived from the audited financial statements for that period. Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results for the three and nine months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2009. See Management s Discussion and Analysis of Financial Condition and Results of Operations starting on page S-13 for more information.

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

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

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

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

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

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

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

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

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

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

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

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

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

Note on Forward Looking Statements

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

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

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

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

Market Conditions

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

We believe that Prospect Capital is well positioned to navigate through these adverse market conditions. As a BDC, we are limited to a maximum 1 to 1 debt to equity ratio, and as of March 31, 2009, our debt to equity ratio was 0.31 to 1. As of March 31, 2009, we have borrowed $137,567 against our credit facility with Rabobank Nederland. The revolving period for this facility continues until June 6, 2009, with a term out

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maturity on June 6, 2010, and we expect to enter into a new extended facility prior to this date. While we are optimistic, we cannot guarantee the completion of such extension. See Risk Factors Failure to extend our existing credit facility could harm our results of operations and ability to pay expenses and make distributions in this prospectus supplement.

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

Critical Accounting Policies and Estimates

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

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X, and the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our March 31, 2009, June 30, 2008, and March 31, 2008 financial statements include our accounts and the accounts of Prospect Capital Funding, LLC, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

Investment Classification

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

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

Investment Valuation

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

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

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

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

2) the independent valuation firm engaged by our Board of Directors conducts independent appraisals and makes their own independent assessment;

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

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

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

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. We adopted this statement on a prospective basis beginning in the quarter ended September 30, 2008. Adoption of this statement did not have a material effect on our financial.

FAS 157 classifies the inputs used to measure these fair values into the following hierarchy:

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

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

Level 3: Unobservable inputs for the asset or liability.

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

The changes to generally accepted accounting principles from the application of FAS 157 relate to the definition of fair value, framework for measuring fair value, and the expanded disclosures about fair value measurements. FAS 157 applies to fair value measurements already required or permitted by other standards.

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In accordance with FAS 157, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

Revenue Recognition

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

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

Dividend income is recorded on the ex-dividend date.

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

Loans are placed on non-accrual status when principal or interest payments are past due 90 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management s judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management s judgment, are likely to remain current. At March 31, 2009, four loan investments were on non-accrual status: Appalachian Energy Holdings LLC (AEH), Integrated Contract Services, Inc. (Integrated or ICS), Wind River Resources Corp. and Wind River II Corp. (Wind River), and Change Clean Energy, Inc. f/k/a Worcester Energy Partners, Inc., Worcester Energy Co., Inc., (WECO) and Biochips LLC (collectively Biomass). The loan principal of these loans amounted to $69,491 at March 31, 2009.

Introduction

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

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

Statement of Assets and Liabilities Overview

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

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

Investment Activity

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

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

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

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

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

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

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

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

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

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

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

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

Quarter-End	Acquisitions(1)	Dispositions(2)
March 31, 2009	$ 6,356	$ 10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	$ 802,600	$ 231,494

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

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

Investment Holdings

As of March 31, 2009, we continue to pursue our investment strategy. Despite our name change to Prospect Capital Corporation and the termination of our policy to invest at least 80% of our net assets in energy companies in May 2007, we currently have a concentration of investments in companies in the energy and energy related industries. Some of the companies in which we invest have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their business objective or the value of our investment in them may decline substantially or fall to zero.

Our portfolio had an annualized current yield of 15.1% and 16.8% across all our long-term debt and certain equity investments as of March 31, 2009 and March 31, 2008, respectively. This yield includes interest from all of our long-term investments as well as dividends from GSHI and NRG Manufacturing, Inc. (NRG). The 1.7% decrease is primarily due to non-accrual loans. For the three months ended March 31, 2009, total foregone interest related to loans on non-accrual status was $3,940. As of March 31, 2009, we reversed $322 of interest income recognized in prior periods related to AEH and Wind River. We expect the current yield to continue to decline over time as we increase the size of the portfolio. Monetization of other equity positions that we hold is not included in this yield calculation. In each of our portfolio companies, we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

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

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

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

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

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

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

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

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

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

Investment Valuation

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

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

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of $555,041, excluding money market investments.

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

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

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

Five debt investments were made to companies that are not performing in line with budget expectations as of March 31, 2009. For these investments (AEH, Conquest Cherokee, LLC, Deb Shops, Inc. (Deb Shops), Iron Horse, and Wind River Resources Corp. and Wind River II Corp.) we expect full recovery. We used higher market interest rates to take into account the increased credit risk and general changes in current interest rates for similar assets to determine their fair value.

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

Gas Solutions Holdings, Inc.

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

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

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

In early May 2008, Gas Solutions II Ltd purchased a series of propane puts at $0.10 out of the money and at prices of $1.53 per gallon and $1.394 per gallon covering the periods May 1, 2008 through April 30, 2009 and May 1, 2009 through April 30, 2010, respectively. These hedges have been executed at close to the highest historical market propane prices ever achieved. Such hedges preserve the upside of Gas Solutions II Ltd to benefit from potential future changes in commodity prices. GSHI generated approximately $26,172 of EBITDA for the fiscal year ending December 31, 2008, an increase of 67.1% from the 2007 results.

In determining the value of GSHI, we have utilized several valuation techniques to determine the value of the investment. These techniques offer a wide range of values. Our Board of Directors has determined the value to be $85,186 for our debt and equity positions at March 31, 2009 based upon a combination of a discounted cash flow analysis, a public comparables analysis and review of recent indications of interest. At

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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 subject to borrowing base determinations and our equity capital is currently comprised entirely of common equity.

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

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

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

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

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

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

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

Results of Operations

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

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

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

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Investment Income

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

Investment income consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including net profits interest, overriding royalties interest and structuring fees. The following table details the various components of investment income and the related levels of debt investments for the three and nine months ended March 31, 2009 and March 31, 2008:

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

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

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

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

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

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

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

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

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

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), credit facility costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate our Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions in accordance with our Administration Agreement with Prospect Administration. Operating expenses were $8,949 and $9,081 for the three months ended March 31, 2009 and March 31, 2008, respectively. For the nine months ended March 31, 2009 and March 31, 2008, operating expenses were $31,499 and $24,510, respectively.

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

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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.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2009	2008	2009	2008
Interest expense	$ 1,101	$ 1,584	$ 4,043	$ 3,781
Amortization of deferred financing costs	180	180	540	547
Commitment and other fees	64	99	245	391
Total	$ 1,345	$ 1,863	$ 4,828	$ 4,719
Weighted-average debt outstanding	$ 144,887	$ 110,792	$ 132,099	$ 80,009
Weighted-average interest rate incurred	3.08%	5.74%	4.08%	6.27%
Facility amount at beginning of period	$ 200,000	$ 200,000	$ 200,000	$ 200,000

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

As our asset base has grown and we have added complexity to our capital raising activities, due, in part, to our securitization credit facility initiated in June 2007, we have commensurately increased the size of our administrative and financial staff, accounting for a significant increase in the overhead allocation from Prospect Administration. Over the last year, Prospect Administration has added several additional staff members, including a senior finance professional, a treasurer, a corporate counsel and other finance professionals. As our portfolio continues to grow, we expect to continue to increase the size of our administrative and financial staff on a basis that provides increasing returns to scale. However, initial investments in administrative and financial staff may not provide returns to scale immediately, perhaps not until the portfolio increases to a greater size. Other allocated expenses from Prospect Administration have, as expected, increased alongside with the increase in staffing and asset base.

Legal costs decreased significantly from $2,224 for the nine months ended March 31, 2008 to $590 for the nine months ended March 31, 2009 as there were reduced costs for litigation.

Net Realized Gain (Loss)

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

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

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

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

Financial Condition, Liquidity and Capital Resources

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

For the nine months ended March 31, 2009 and March 31, 2008, our operating activities used $25,552 and $150,705 of cash, respectively. Financing activities provided $25,446 and $167,275 of cash during the nine months ended March 31, 2009 and March 31, 2008, respectively which included the payments of dividends of $32,413 and $15,956, during the nine months ended March 31, 2009 and March 31, 2008, respectively.

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

We have funded and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. At March 31, 2009, we had a $200,000 revolving credit facility on which $137,567 was outstanding. This facility matures on June 6, 2009, and we are currently negotiating for an extension and expansion of the facility. See Risk Factors Failure to extend our existing credit facility could harm our results of operations and ability to pay expenses and make distributions in this prospectus supplement.

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

Off-Balance Sheet Arrangements

At March 31, 2009, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Developments Since the End of the Fiscal Quarter

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

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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 $28,520 in gross proceeds and $27,166 of net proceeds after recognizing $1,114 of underwriting discounts and commissions and $210 of estimated offering costs.

SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our annual meeting of stockholders held on February 12, 2009, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from NAV per share during the 12 month period following such approval. In order to sell shares pursuant to this authorization, a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount. We are also permitted to sell shares of common stock below NAV per share in rights offerings, although we will not do so under this prospectus supplement.

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

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

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

We will not sell shares under a prospectus supplement to the post-effective amendment to the registration statement of which this prospectus forms a part (the current amendment) if the cumulative dilution to our NAV per share from offerings under the current amendment exceeds 15%. This would be measured separately for each offering pursuant to the current amendment by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV at the time of the first offering is $15.00 and we have 30 million shares outstanding, sale of 6 million shares at net proceeds to us of $7.50 per share (a 50% discount) would produce dilution of 8.33%. If we subsequently determined that our NAV per share increased to $15.75 on the then 36 million shares outstanding and then made an additional offering, we could, for example, sell approximately an additional 7.2 million shares at net proceeds to us of $9.45 per share, which would produce dilution of

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

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

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

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

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

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

Impact On Existing Stockholders Who Do Not Participate in the Offering

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

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

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

Impact On Existing Stockholders Who Do Participate in the Offering

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

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

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

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

Impact On New Investors

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

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per share compared to the price they pay for their shares. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution or accretion for new investors that will be experienced by a new investor who purchases the same percentage (0.10%) of the shares in the offering as the stockholder in the prior examples held immediately prior to the offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. It is not possible to predict the level of market price decline that may occur. NAV has not been finally determined for any day after March 31, 2009. The table below is shown based upon the pro-forma NAV calculated by us taking into account the dilutive effects on our NAV per share of our issuance of shares in connection with out dividend reinvestment plan on April 20, 2009 and our April 22, 2009 sale noted above. For purposes of illustration, the table below assumes that our March 31, 2009 NAV per share has been reduced by 5.29% to $13.44 per share as a result of the foregoing transactions.

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

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UNDERWRITING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notice to Prospective Investors in the European Economic Area

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

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

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

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

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

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

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

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

Notice to Prospective Investors in the United Kingdom

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

Notice to Prospective Investors in France

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

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

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

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

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

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

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

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

Notice to Prospective Investors in Hong Kong

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

Notice to Prospective Investors in Japan

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

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Notice to Prospective Investors in Singapore

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

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

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

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

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

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

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

where the transfer is by operation of law.

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

LEGAL MATTERS

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act of 1933, with respect to our common stock offered by this prospectus supplement. The registration statement contains additional information about us and the common stock being

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registered by this prospectus supplement. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2008, are available free of charge by contacting us at 10 East 40th Street, 44th floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC s Internet site at http://www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, D.C. 20549-0102.

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

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

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

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

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

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

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

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

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

		March 31, 2009 (unaudited)			
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Control Investments (25.00% or greater of voting control)					
Ajax Rolled Ring & Machine	South Carolina/ Manufacturing				
Unrestricted common shares (7 total unrestricted common shares issued and outstanding and 681.85 restricted common shares issued and outstanding)		6	$	$	0.0%
Series A convertible preferred shares (7,222.6 total preferred shares issued and outstanding)		6,142.6	6,057	1,100	0.2%
Senior secured note Tranche A, 10.50%, 4/01/2013(4),(28)		$ 21,597	21,597	21,597	4.9%
Subordinated secured note Tranche B, 11.50% plus 6.00% PIK, 4/01/2013(4),(29)		$ 11,500	11,500	11,500	2.6%
			39,154	34,197	7.7%
C&J Cladding LLC(4)	Texas/Metal Services				
Warrant, common units, expiring 3/30/2014 (1,000 total company units outstanding)		400	580	5,279	1.2%
Senior secured note, 14.00%, 3/30/2012(12)		$ 3,900	3,434	4,193	0.9%
			4,014	9,472	2.1%
Change Clean Energy Holdings, Inc. (CCEHI), Worcester Energy Co, Inc. (WECO), and Worcester Energy Holdings, Inc. (WEHI) (together Biomass)(9)	Maine/Biomass Power				
CCEHI common shares (1,000 total common shares issued and outstanding)		1,000	6,000	6,000	1.4%
WECO common shares (552 total common shares issued and outstanding)		282	1,625		0.0%
		100			0.0%

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

		March 31, 2009 (unaudited)				
Portfolio Investments(1)	**Locale/Industry**		**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)				
Control Investments (25.00% or greater of voting control)						
Common shares (100 total common shares outstanding)			100	5,022	60,186	13.6%
Senior secured note, 18.00%, 12/22/2018(4)		$	25,000	25,000	25,000	5.6%
				30,022	85,186	19.2%
Integrated Contract Services, Inc.(5)	North Carolina/ Contracting					
Common stock (100 total common shares outstanding)			49	717		0.0%
Series A preferred shares (10 total Series A preferred shares outstanding)			10			0.0%
Junior secured note, stated rate 7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due		$	14,003	14,003	3,030	0.7%
Senior secured note, stated rate 7.00% plus 7.00% PIK plus 6.00% default Interest, in non-accrual status effective 10/09/2007, past due		$	800	800	800	0.2%
Senior demand note, 15.00%, 6/30/2009(6)		$	1,170	1,170	1,170	0.2%
				16,690	5,000	1.1%
Iron Horse Coiled Tubing, Inc.	Alberta, Canada/ Production Services					
Common shares (2,231 total class A common shares outstanding)			1,781	$ 268	$	0.0%
Senior secured note, 15.00%, 4/30/2009		$	9,250	9,234	7,163	1.6%
Bridge Loan, 15.00% plus 3.00% PIK, 4/30/2009		$	9,752	9,752	9,602	2.2%

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

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

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

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

		March 31, 2009 (unaudited)			
Portfolio Investments(1)	**Locale/Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value(2)**	**% of Net Assets**
		(In thousands, except share data)			
Affiliate Investments (5.00% to 24.99% of voting control)					
Senior Secured Debt Tranche A, 14.00% plus 3.00% PIK plus 3.00% default interest, non-accrual status effective 11/01/2008, matures 1/31/2011		$ 2,080	2,080	1,925	0.4%
Senior Secured Debt Tranche B, 14.00% plus 3.00% PIK plus 3.00% default interest, non-accrual status effective 11/01/2008, matures 5/01/2009		$ 2,009	2,009	558	0.1%
			5,150	2,483	0.5%
Biotronic NeuroNetwork	Michigan/ Healthcare				
Preferred shares (85,000 total preferred shares outstanding)(26)		9,925.455	2,300	2,272	0.5%
Senior secured note, 11.50% plus 1.00% PIK, 2/21/2013(4),(27)		$ 26,095	26,096	26,064	5.9%
			28,396	28,336	6.4%
Total Affiliate Investments			33,546	30,819	6.9%
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
American Gilsonite Company	Utah/Specialty Minerals				
Membership interest units in AGC/PEP, LLC(11)		99.9999%	1,031	3,366	0.8%
Senior subordinated note, 12.00% plus 3.00% PIK, 3/14/2013(4)		$ 14,783	14,783	15,073	3.4%
			15,814	18,439	4.2%

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

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

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

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

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

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

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

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

	June 30, 2008 (audited)		
	Par Value/ Shares	Fair &nb	% of