PROSPECT CAPITAL CORP
Form 497
November 10, 2010

Table of Contents

**Filed Pursuant to Rule 497(e)**
**Registration No. 333-164270**

**PROSPECTUS SUPPLEMENT**
**(To Prospectus dated March 4, 2010)**

**Up to 9,750,000 Shares**

**Common Stock**

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

We have entered into separate equity distribution agreements, each dated November 10, 2010, with each of Barclays Capital Inc., or Barclays, RBC Capital Markets, LLC, or RBC, BB&T Capital Markets, a division of Scott & Stringfellow, LLC, or BB&T and KeyBanc Capital Markets Inc., or Key, relating to shares of common stock offered by this prospectus supplement and the accompanying prospectus. We sometimes refer to Barclays, RBC, BB&T and Key individually as a Sales Manager and together as the Sales Managers.

The equity distribution agreements provide that we may offer and sell up to 9,750,000 shares of our common stock from time to time through the Sales Managers, as our agents for the offer and sale of such common stock. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act of 1933, as amended, or the 1933 Act, including sales made directly on the NASDAQ Global Select Market or sales made to or through a market maker other than on an exchange.

Each Sales Manager will receive from us a commission equal to 2% of the gross sales price of all shares of common stock sold through it as Sales Manager under the applicable equity distribution agreement. No Sales Manager is required to sell any specific number or dollar amount of common stock, but each will use its commercially reasonable efforts to sell the common stock offered by this prospectus supplement and the accompanying prospectus. See Plan of Distribution on page S-60 of this prospectus supplement.

These shares of common stock may be offered at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders at the 2009 annual meeting of stockholders held on December 11, 2009. We are currently seeking stockholder approval at our upcoming 2010 annual meeting, to be held on December 10, 2010, to continue for an additional year our ability to issue shares of common stock below net asset value. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See Risk Factors beginning on page S-7 and Sales of Common Stock Below Net Asset Value beginning on page S-55 of this prospectus supplement and on page 80 of the accompanying prospectus.

Our common stock is traded on the NASDAQ Global Select Market under the symbol PSEC. The last reported closing sales price for our common stock on November 9, 2010 was $10.50 per share and our most recently determined net asset value per share was $10.24 as of September 30, 2010 ($10.11 on an as adjusted basis solely to give effect to our distribution with a record date of October 29, 2010, our issuance of common stock on October 29, 2010 in connection with our dividend reinvestment plan, and our sale of 4,929,556 shares of common stock during the period from September 28, 2010 through October 29, 2010 (with settlement dates of October 1, 2010 through November 3, 2010).

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 supplement or the accompanying prospectus.

**Investing in our common stock involves risks. See Risk Factors beginning on page S-7 of this prospectus supplement and on page 9 of the accompanying prospectus.**

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

**Barclays Capital** **RBC Capital Markets** **BB&T Capital Markets** **KeyBanc Capital Markets**
**A division of Scott & Stringfellow, LLC**

Prospectus Supplement dated November 10, 2010

Table of Contents

## FORWARD-LOOKING STATEMENTS

Our annual report on Form l0-K for the year ended June 30, 2010, any of our quarterly reports on Form 10-Q or current reports on Form 8-K, or any other oral or written statements made in press releases or otherwise by or on behalf of Prospect Capital Corporation, including this prospectus supplement and the accompanying prospectus, may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the 1934 Act, which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as intends, intend, intended, goal, estimate, estimates, expects, expect, project, projected, projections, plans, seeks, anticipates, anticipated, should, could, may, will, future, believe, believes and scheduled and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

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

the adequacy of our cash resources and working capital,

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

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

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the Securities and Exchange Commission, Internal Revenue Service, the NASDAQ Global Select Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and

**Table of Contents**

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

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying prospectus, respectively, should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in Risk Factors and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the 1933 Act.

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

## TABLE OF CONTENTS

### PROSPECTUS SUPPLEMENT



### PROSPECTUS

Table of Contents

## PROSPECTUS SUMMARY

*This summary highlights some information from this prospectus supplement and the accompanying prospectus, and it may not contain all of the information that is important to you. To understand the terms of the common stock offered hereby, you should read this prospectus supplement and the accompanying prospectus carefully. Together, these documents describe the specific terms of the shares of common stock 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.*

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

### The Company

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

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

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

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

As of September 30, 2010, we held investments in 57 portfolio companies. The aggregate fair value as of September 30, 2010 of investments in these portfolio companies held on that date is approximately $830 million. Our portfolio across all our long-term debt and certain equity investments had an annualized current yield of 13.4% as of

September 30, 2010. The yield includes interest as well as dividends.

## Recent Developments

**Sales Pursuant to the September 24, 2010 Equity Distribution Agreements**

We previously entered into equity distributions agreements, dated September 24, 2010, with each of RBC, BMO Capital Markets Corp., or BMO , and Key for the offer and sale of up to 6,000,000 shares of our common stock. We completed the sale of 5,231,956 shares of our common stock pursuant to the September 24, 2010 equity distribution agreements, resulting in net proceeds of approximately $50.3 million after deducting related expenses, including commissions to the sales agents. The sales pursuant to these distribution agreements were executed by RBC, BMO and Key and the sales commissions to RBC, BMO and Key were $0.3 million, $0.3 million and $0.4 million, respectively. Each of the September 24, 2010 equity distribution agreements has been terminated.

**Stock Issuance in Connection with Dividend Reinvestment Plan**

On October 29, 2010, we issued 92,999 shares of our common stock in connection with our dividend reinvestment plan.

**Dividends**

On November 8, 2010, we announced the declaration of monthly dividends in the following amounts and with the following record and payment dates:

$0.100875 per share for November 2010 to holders of record on November 30, 2010 with a payment date of December 31, 2010;

$0.101000 per share for December 2010 to holders of record on December 31, 2010 with a payment date of January 31, 2011; and

$0.101125 per share for January 2011 to holders of record on January 31, 2011 with a payment date of February 28, 2011.

**Credit Facility**

On November 1, 2010, we announced an increase in commitments to our credit facility of $20 million. The commitments to the credit facility now stand at $260 million.

**Recent Investment Activity**

On October 12, 2010, we made a senior secured debt investment of $32.5 million in ICON Health & Fitness, Inc., a leading manufacturer and marketer of branded health and fitness equipment.

**Table of Contents**

## The Offering

| | |
|---|---|
| Common stock offered by us | Up to 9,750,000 shares. |
| Common stock outstanding as of the date of this prospectus supplement | 83,423,918 shares. |
| Use of proceeds | We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See Use of Proceeds 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 | On August 26, 2010 and November 8, 2010, we announced that our Board of Directors declared monthly distributions in the following amounts and with the following record and payment dates:<br><br>$0.100750 per share for October 2010 to holders of record on October 29, 2010 with a payment date of November 30, 2010;<br><br>$0.100875 per share for November 2010 to holders of record on November 30, 2010 with a payment date of December 31, 2010;<br><br>$0.101000 per share for December 2010 to holders of record on December 31, 2010 with a payment date of January 31, 2011; and<br><br>$0.101125 per share for January 2011 to holders of record on January 31, 2011 with a payment date of February 28, 2011,<br><br>representing an annualized distribution yield (based on the October 2010 distribution) of approximately 11.5% based on our November 9, 2010 closing stock price of $10.50 per share. Such distributions are expected to be payable out of earnings. Our distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend. |

*Fees and Expenses*

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. In these tables, we assume that we have borrowed $260 million under our credit facility, which is the maximum amount currently available under the credit facility. As of November 9, 2010, we had $14.3 million outstanding under our credit facility and, based on the assets currently pledged as collateral on the facility, an additional approximately $183.0 million was available to us for borrowing under our credit facility. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by you, us or Prospect Capital, or that we will pay fees or expenses, th Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

| | |
|---|---|
| **Stockholder transaction expenses:** | |
| Sales load (as a percentage of offering price)(1) | 2.00% |
| Offering expenses borne by us (as a percentage of offering price)(2) | 0.15% |
| Dividend reinvestment plan expenses(3) | None |
| Total stockholder transaction expenses (as a percentage of offering price) | 2.15% |
| **Annual expenses (as a percentage of net assets attributable to common stock)(4):** | |
| Management Fees(5) | 2.70% |
| Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6) | 2.61% |
| Interest payments on borrowed funds | 1.38%(7) |
| Acquired Fund Fees and Expenses | 0.01%(8) |
| Other expenses | 1.70% |
| Total annual expenses | 8.40%(6) |

*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 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 | $ 78.11 | $ 190.05 | $ 300.24 | $ 568.20 |

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.**

**Table of Contents**

(1) Represents the commission with respect to our shares of common stock being sold in this offering, which we will pay to the Sales Managers in connection with sales of common stock effected by the Sales Managers in this offering. There is no guaranty that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

(2) The offering expenses of this offering are estimated to be approximately $150,000.

(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 September 30, 2010. 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 $260 million (the size of our credit facility), the 2% management fee of gross assets equals 2.70% of net assets. See Business Management Services Investment Advisory Agreement in the accompanying prospectus and footnote 6 below.

(6) Based on an annualized level of incentive fee paid during our first fiscal quarter ended September 30, 2010, 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 Services Investment Advisory Agreement in this prospectus supplement and Business 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 credit facility and we will continue to seek additional commitments to upsize the facility to up to $300 million. For more information, see Risk Factors Risks Relating To Our Business Changes in interest rates may affect our cost of capital and net investment income and Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources in this prospectus supplement. The table above assumes that we have borrowed $260 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) The Company s stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of September 30, 2010. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company s average net assets used in calculating this percentage was based on net assets of approximately $803 million as of September 30, 2010.

**Table of Contents**

## SELECTED CONDENSED FINANCIAL DATA

You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the twelve months ended June 30, 2010, 2009, 2008, 2007 and 2006 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months ended September 30, 2010 and 2009 has been derived from unaudited financial data. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See Management s Discussion and Analysis of Financial Condition and Results of Operations starting on page S-9 for more information.

| | For the Three Months Ended September 30, | | For the Year Ended June 30, | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2008 | 2007 | 2006 |
| | | | (In thousands except data relating to shares, per share and number of portfolio companies) | | | | |
| **rformance Data:** | | | | | | | |
| erest income | $ 28,921 | $ 14,835 | $ 86,518 | $ 62,926 | $ 59,033 | $ 30,084 | $ 13,26 |
| vidend income | 2,194 | 6,218 | 15,366 | 22,793 | 12,033 | 6,153 | 3,60 |
| her income | 4,097 | 464 | 12,675 | 14,762 | 8,336 | 4,444 | |
| tal investment ome | 35,212 | 21,517 | 114,559 | 100,481 | 79,402 | 40,681 | 16,86 |
| erest and credit ility expenses | (2,261) | (1,374) | (8,382) | (6,161) | (6,318) | (1,903) | (64 |
| estment advisory pense | (9,525) | (6,289) | (30,727) | (26,705) | (20,199) | (11,226) | (3,86 |
| her expenses | (2,431) | (1,536) | (8,260) | (8,452) | (7,772) | (4,421) | (3,80 |
| tal expenses | (14,217) | (9,199) | (47,369) | (41,318) | (34,289) | (17,550) | (8,31 |
| t investment ome | 20,995 | 12,318 | 67,190 | 59,163 | 45,113 | 23,131 | 8,55 |
| alized and ealized gains sses) | 4,585 | (18,696) | (47,565) | (24,059) | (17,522) | (6,403) | 4,33 |
| t increase crease) in net ets from erations | $ 25,580 | $ (6,378) | $ 19,625 | $ 35,104 | $ 27,591 | $ 16,728 | $ 12,89 |
| **r Share Data:** | | | | | | | |
| | $ 0.34 | $ (0.13) | $ 0.33 | $ 1.11 | $ 1.17 | $ 1.06 | $ 1.8 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| t increase crease) in net ets from erations(1) | | | | | | | |
| tributions lared per share | $ (0.31) | $ (0.41) | $ (1.33) | $ (1.62) | $ (1.59) | $ (1.54) | $ (1.1 |
| erage weighted res outstanding the period | 74,177,194 | 49,804,906 | 59,429,222 | 31,559,905 | 23,626,642 | 15,724,095 | 7,056,84 |
| **sets and bilities Data:** | | | | | | | |
| estments | $ 830,177 | $ 510,798 | $ 748,483 | $ 547,168 | $ 497,530 | $ 328,222 | $ 133,96 |
| ner assets | 40,423 | 104,697 | 84,212 | 119,857 | 44,248 | 48,280 | 4,51 |
| tal assets | 870,600 | 615,495 | | | | | |