PROSPECT CAPITAL CORP
Form 497
March 19, 2009

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

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

1,500,000 Shares

Common Stock

$8.20 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 1,500,000 shares of our common stock directly to institutional investors. We have not retained any underwriter or placement agent, and we will not pay any commission or underwriting discount in connection with this offering. See "Plan of Distribution" beginning on page S–15 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 shareholders held on February 12, 2009. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See "Risk Factors" beginning on page S–6 and "Sales of Common Stock Below Net Asset Value" on page S–11 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 price for our common stock on March 18, 2009 was $8.72 per share, and our most recently determined net asset value per share was $14.43.

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–6 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	$ 8.20	$ 12,300,000
Proceeds to Prospect Capital Corporation, before expenses(1)	$ 8.20	$ 12,300,000

(1) Before deducting estimated offering expenses payable by us of approximately $600,000.

Preliminary Prospectus Supplement dated March 18, 2009

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We 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.

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

PROSPECTUS

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.”

The terms “we,” “us,” “our,” “Company,” refer to Prospect Capital Corporation; “Prospect Capital Management” and “Investm 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 December 31, 2008, we held investments in 31 portfolio companies. The aggregate fair value as of December 31, 2008 of investments in these portfolio companies held on that date is approximately $555.6 million. Our portfolio across all our long-term debt and certain equity investments had an annualized current yield of 16.0% as of December 31, 2008. The yield includes interest as well as dividends.

Recent Developments

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

On January 21, 2009, Diamondback Operating LP ("Diamondback") repaid the $9.2 million debt outstanding to us. We continue to hold net profit interests on this investment.

On February 12, 2009, our stockholders approved our ability to sell an unlimited number of shares of our common stock at any level of discount from net asset value, or NAV, per share during the twelve-month period following such approval.

The Offering

Common stock offered by us	1,500,000 shares.
Common stock outstanding prior to this offering	29,786,128 shares.
Common stock outstanding after this offering	31,286,128 shares.
Use of proceeds	We expect to use the net proceeds of this offering initially to maintain balance sheet liquidity, involving repayment of all or 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 deciding to invest in shares of our common stock.
Current distribution rate	For our second fiscal quarter of 2009, our Board of Directors declared a quarterly dividend of $0.40375 per share, representing our 17th consecutive quarterly dividend increase and an annualized dividend yield of approximately 14.6% based on our December 18, 2008 closing stock price of $11.06 per share. Our dividend is subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

Fees and Expenses

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

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)	0.00%
Offering expenses borne by us (as a percentage of offering price)(1)	4.88%
Dividend reinvestment plan expenses(2)	None
Total stockholder transaction expenses (as a percentage of offering price)	4.88%
Annual expenses (as a percentage of net assets attributable to common stock): (3)	
Combined base management fee (3.04%)(4) and incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) (2.80%)(5)	5.84%

Interest payments on borrowed funds	1.36%(6)
Other expenses	2.39%(7)
Total annual expenses	9.59%(5)(7)

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	$ 113.48	$ 239.37	$ 360.77	$ 645.66

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 net asset value, or NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See “Dividend Reinvestment Plan” in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

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

---

(1) The offering expenses of this offering are estimated to be approximately $600,000.

(2) The expenses of the dividend reinvestment plan are included in “other expenses.”

(3) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at December 31, 2008. See “Capitalization” in this prospectus supplement.

(4) 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 3.04% of net assets. See “Management — Management Services — Investment Advisory Agreement” in the accompanying prospectus and footnote 7 below.

(5)

Based on an annualized level of incentive fee paid during our quarter ended December 31, 2008, 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.

(6) We may borrow additional money before and after the proceeds of this offering are substantially invested, but, in general, will utilize debt to the maximum extent reasonably possible before issuing additional equity. 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 And Structure — Changes in interest rates may affect our cost of capital and net investment income” below 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 proportion of our overall assets.

(7) “Other expense” is based on our annualized expenses during our quarter ended December 31, 2008. 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, 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 are not the only risks we face. If any of the adverse events or conditions described below occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value ("NAV"), and the trading price of our common stock could decline, we could reduce or eliminate our dividend and you could lose all or part of your investment.

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

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

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

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 net asset value per share in certain circumstances during the one-year period ending February 12, 2009 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 net asset value per share (as well as in the aggregate net asset value of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. 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 1,500,000 shares of our common stock in this offering will be $11,700,000 after deducting estimated offering expenses of approximately $600,000 payable by us.

We expect to use the net proceeds of this offering initially to maintain balance sheet liquidity, involving repayment of all or a portion of 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. Interest under our credit facility is charged at LIBOR plus 175 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.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2008:

- on an actual basis;
- on an as-adjusted basis giving effect to the sale of 1,500,000 shares of our common stock in this offering, at a net public offering price of $7.80 per share, after deducting estimated offering expenses of approximately $600,000 payable by us, and our receipt of the estimated net proceeds from that sale.

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 December 31, 2008
	Actual