

PROSPECT CAPITAL CORP
Form 10-Q
May 12, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

**TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
Commission File Number: 333-114552

PROSPECT CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

43-2048643

(I.R.S. Employer Identification No.)

10 East 40th Street

44th Floor

New York, New York

(Address of principal executive offices)

10016

(Zip Code)

(212) 448-0702

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of May 6, 2008 was 26,270,379.

**PROSPECT CAPITAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2008
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PART I: FINANCIAL INFORMATION

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

Item 1. Financial Statements

**PROSPECT CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(in 000s, except shares and per share data)**

| | |
|---|------------------------------------|
| March 31, 2008 (Unaudited) | June 30, 2007 (Audited) |
|---|------------------------------------|

| Assets | | |
|--|-------------------|-------------------|
| Investments at fair value (cost of \$436,557 and \$326,197, respectively) (Note 3): | | |
| Control investments (cost of \$147,142 and \$124,664, respectively) | \$ 141,631 | \$ 139,292 |
| Affiliate investments (cost of \$5,582 and \$14,821, respectively) | 5,582 | 14,625 |
| Non-control/Non-affiliate investments (cost of \$283,833 and \$186,712, respectively) | 281,943 | 174,305 |
| Total investments at fair value | 429,156 | 328,222 |
| Investments in money market funds | 27,249 | 41,760 |
| Cash | 16,570 | □ |
| Receivables for: | | |
| Interest | 4,039 | 2,139 |
| Dividends | 45 | 263 |
| Loan principal | 107 | □ |
| Structuring fees | □ | 1,625 |
| Investments sold | 506 | □ |
| Other | 419 | 271 |
| Prepaid expenses | 298 | 471 |
| Deferred financing costs | 1,618 | 1,751 |
| Total Assets | 480,007 | 376,502 |
| Liabilities | | |
| Credit facility payable (Note 9) | 90,667 | □ |
| Payable for investments purchased | □ | 70,000 |
| Dividends payable | 8,958 | □ |
| Due to Prospect Administration (Note 5) | 931 | 330 |
| Due to Prospect Capital Management (Note 5) | 5,562 | 4,508 |
| Accrued expenses | 1,227 | 1,312 |
| Other liabilities | 944 | 304 |
| Total Liabilities | 108,289 | 76,454 |
| Net Assets | \$ 371,718 | \$ 300,048 |
| Components of Net Assets (Note 4) | | |
| Common stock, par value \$0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 26,270,379 and 19,949,065 issued and outstanding, respectively) | \$ 26 | \$ 20 |
| Paid-in capital in excess of par | 395,571 | 299,845 |
| Distributions in excess of net investment income | (315) | (4,092) |
| Accumulated realized gains (losses) on investments | (16,163) | 2,250 |
| Unrealized appreciation (depreciation) on investments | (7,401) | 2,025 |
| Net Assets | \$ 371,718 | \$ 300,048 |
| Net Asset Value Per Share | \$ 14.15 | \$ 15.04 |

See notes to consolidated financial statements.

| | Three Months Ended March 31, 2008 | March 31, 2007 |
|--|---|-------------------|
| Investment Income | | |
| Interest income: | | |
| Control investments (Net of foreign withholding tax of \$35 and \$67, respectively) | \$ 4,556 | \$ 3,845 |
| Affiliate investments (Net of foreign withholding tax of \$0 and \$35, respectively) | 290 | 800 |
| Non-control/Non-affiliate investments | 10,044 | 4,025 |
| Total interest income | 14,890 | 8,670 |
| Dividend income: | | |
| Control investments | 3,300 | 850 |
| Money market funds | 123 | 1,245 |
| Total dividend income | 3,423 | 2,095 |
| Other income (2): | | |
| Control investments | 200 | 8 |
| Non-control/Non-affiliate investments | 3,487 | 1,296 |
| Total other income | 3,687 | 1,304 |
| Total Investment Income | 22,000 | 12,069 |
| Operating Expenses | | |
| Investment advisory fees: | | |
| Base management fee (Note 5) | 2,388 | 1,531 |
| Income incentive fee (Note 5) | 3,230 | 1,754 |
| Total investment advisory fees | 5,618 | 3,285 |
| Interest expense and credit facility costs | 1,863 | 353 |
| Chief Compliance Officer and Sub-administration fees | 228 | 164 |
| Legal fees | 449 | 593 |
| Valuation services | 198 | 92 |
| Audit and tax related fees | 45 | 43 |
| Recruitment and other professional fees | 18 | 4 |
| Insurance expense | 64 | 72 |
| Directors' fees | 55 | 55 |
| Other general and administrative expenses | 543 | 393 |
| Total Operating Expenses | 9,081 | 5,054 |
| Net Investment Income | 12,919 | 7,015 |
| Net realized gain (loss) on investments | 208 | (1) |
| Increase (decrease) in net assets from net change in unrealized appreciation/depreciation on investments | (14,386) | (2,038) |
| Increase (Decrease) in Net Assets Resulting from Operations | \$ (1,259) | \$ 4,976 |
| Earnings(loss) per common share (Note 6) | \$ (0.05) | \$ 0.26 |

(1)

Certain amounts have been reclassified to conform to the current period's presentation.

- (2) Includes Structuring Fees of \$490, Overriding Royalty Interests of \$3,150, Deal Deposit Income of \$36 and Administrative Agent Fees of \$11 for the three months ended March 31, 2008 and Prepayment Penalty on Net Profits Interest of \$960, Deal Deposit Income of \$292, and Overriding Royalty Interests of \$52 for the three months ended March 31, 2007.

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in 000s, except per share data)
(Unaudited)

| | Nine Months Ended March 31, 2008 | March 31, 2007 |
|--|--|-------------------|
| Investment Income | | |
| Interest income: | | |
| Control investments (Net of foreign withholding tax of \$193 and \$112, respectively) | \$ 14,689 | \$ 9,455 |
| Affiliate investments (Net of foreign withholding tax of \$70 and \$202, respectively) | 1,612 | 2,837 |
| Non-control/Non-affiliate investments | 26,237 | 8,656 |
| Total interest income | 42,538 | 20,948 |
| Dividend income: | | |
| Control investments | 6,950 | 2,550 |
| Money market funds | 557 | 1,839 |
| Total dividend income | 7,507 | 4,389 |
| Other income (2): | | |
| Control investments | | 8 |
| Affiliate investments | 210 | 3 |
| Non-control/Non-affiliate investments | 5,699 | 1,324 |
| Total Other income | 5,909 | 1,335 |
| Total Investment Income | 55,954 | 26,672 |
| Operating Expenses | | |
| Investment advisory fees: | | |
| Base management fee (Note 5) | 6,366 | 3,715 |
| Income incentive fee (Note 5) | 7,861 | 3,695 |
| Total investment advisory fees | 14,227 | 7,410 |
| Interest expense and credit facility costs | 4,719 | 1,385 |
| Chief Compliance Officer and Sub-administration fees | 620 | 402 |
| Legal fees | 2,224 | 970 |
| Valuation services | 431 | 285 |
| Sarbanes-Oxley compliance expenses | 10 | 46 |
| Audit and tax related fees | 338 | 382 |
| Recruitment and other professional fees | 53 | 4 |
| Insurance expense | 192 | 219 |
| Directors' fees | 165 | 175 |
| Other general and administrative expenses | 1,531 | 612 |

| | | |
|--|-----------------|------------------|
| Total Operating Expenses | 24,510 | 11,890 |
| Net Investment Income | 31,444 | 14,782 |
| Net realized (loss) gain on investments | (18,413) | 1,949 |
| Increase (decrease) in net assets from net change in unrealized appreciation/ depreciation on investments | (9,426) | (4,851) |
| Increase (Decrease) in Net Assets Resulting from Operations | \$ 3,605 | \$ 11,880 |
| Earnings (loss) per common share (Note 6) | \$ 0.16 | \$ 0.82 |

- (1) Certain amounts have been reclassified to conform to the current period's presentation.
- (2) Includes Structuring Fees of \$2,431, Deal Deposit Income of \$72, Overriding Royalty Interests of \$3,364, Forbearance Fees of \$10 and Administrative Agent Fees of \$32 for the nine months ended March 31, 2008 and Prepayment Penalty on Net Profits Interest of \$960, Net Profits Interests of \$26, Deal Deposit Income of \$292 and Overriding Royalty Interests of \$57 for the nine months ended March 31, 2007.

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(in 000s, except share data)
(Unaudited)

| | Nine Months Ended March 31, 2008 | March 31, 2007 |
|---|--|-------------------|
| Increase in Net Assets from Operations: | | |
| Net investment income | \$ 31,444 | \$ 14,782 |
| Net realized (loss) gain on investments | (18,413) | 1,949 |
| Increase (decrease) in net assets from net change in unrealized appreciation/depreciation on investments | (9,426) | (4,851) |
| Increase (Decrease) in Net Assets Resulting from Operations | 3,605 | 11,880 |
| Dividends to Shareholders: | (27,667) | (19,790) |
| Capital Share Transactions: | | |
| Net proceeds from capital shares sold | 94,230 | 197,557 |
| Less: Offering costs of public share offerings | (1,251) | (869) |
| Reinvestment of dividends | 2,753 | 4,719 |
| Net Increase in Net Assets Resulting from Capital Share Transactions | 95,732 | 201,407 |
| Total Increase (Decrease) in Net Assets: | 71,670 | 193,497 |
| Net assets at beginning of period | 300,048 | 108,270 |
| Net Assets at End of Period | \$ 371,718 | \$ 301,767 |
| Capital Share Activity: | | |
| Shares sold | 6,150,000 | 12,526,650 |
| Shares issued through reinvestment of dividends | 171,314 | |