

PROSPECT CAPITAL CORP  
Form 10-Q  
February 09, 2009

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**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 Quarter Ended December 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 January 31, 2009 was 29,786,128.

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

**Item 1. Financial Statements**

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
**December 31, 2008 and June 30, 2008**  
**(in thousands, except share and per share data)**

	<b>December 31, 2008 (Unaudited)</b>	<b>June 30, 2008 (Audited)</b>
<b>Assets</b>		
Investments at fair value (cost of \$571,537 and \$496,805, respectively, Note 3)		
Control investments (cost of \$216,242 and \$203,661, respectively)	\$ 216,448	\$ 205,827
Affiliate investments (cost of \$33,496 and \$5,609, respectively)	31,721	6,043

Non-control/Non-affiliate investments (cost of \$321,799 and \$287,535, respectively)	307,492	285,660
Total investments at fair value	555,661	497,530
Investments in money market funds	22,606	33,000
Cash	2,438	555
Receivables for:		
Interest	4,430	4,094
Dividends	19	4,248
Loan principal	□	71
Managerial assistance	405	380
Prepaid prospective deal expenses	86	□
Other	204	187
Prepaid expenses	778	273
Deferred financing costs	1,350	1,440
<b>Total Assets</b>	<b>587,977</b>	<b>541,778</b>
<b>Liabilities</b>		
Credit facility payable	138,667	91,167
Dividends payable	11,966	11,845
Due to Prospect Administration (Note 7)	683	695
Due to Prospect Capital Management (Note 7)	5,629	5,946
Accrued expenses	2,101	1,104
Other liabilities	1,128	1,398
<b>Total Liabilities</b>	<b>160,174</b>	<b>112,155</b>
<b>Net Assets</b>	<b>\$ 427,803</b>	<b>\$ 429,623</b>
<b>Components of Net Assets</b>		
Common stock, par value \$0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 29,637,928 and 29,520,379 issued and outstanding, respectively)	\$ 30	\$ 30
Paid-in capital in excess of par	442,838	441,332
Undistributed net investment income	13,122	1,508
Accumulated realized losses on investments	(12,311)	(13,972)
Unrealized (depreciation) appreciation on investments	(15,876)	725
<b>Net Assets</b>	<b>\$ 427,803</b>	<b>\$ 429,623</b>
<b>Net Asset Value Per Share</b>	<b>\$ 14.43</b>	<b>\$ 14.55</b>

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For The Three and Six Months Ended December 31, 2008 and 2007**  
**(in thousands, except share and per share data)**  
**(Unaudited)**

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2008	2007	2008	2007
<b>Investment Income</b>				

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Interest Income

Control investments (Net of foreign withholding tax of \$62, \$69, \$109, and \$158, respectively)	\$ 5,075	\$ 5,285	\$ 11,797	\$ 10,348
Affiliate investments (Net of foreign withholding tax of \$0, \$35, \$0, and \$70, respectively)	1,075	655	1,635	1,322
Non-control/Non-affiliate investments	11,091	8,876	21,365	15,978
Total interest income	17,241	14,816	34,797	27,648

Dividend income

Control investments	4,584	2,200	9,168	3,650
Money market funds	81	266	220	434
Total dividend income	4,665	2,466	9,388	4,084

Other income: (Note 4)

Control/Affiliate investments	87	□	831	10
Non-control/Non-affiliate investments	220	1,281	12,996	2,212
Total other income	307	1,281	13,827	2,222
<b>Total Investment Income</b>	<b>22,213</b>	<b>18,563</b>	<b>58,012</b>	<b>33,954</b>

**Operating Expenses**

Investment advisory fees:

Base management fee (Note 7)	2,940	2,112	5,763	3,978
Income incentive fee (Note 7)	2,990	2,665	8,865	4,631
Total investment advisory fees	5,930	4,777	14,628	8,609

Interest and credit facility expenses	1,965	1,618	3,483	2,856
Sub-administration fees (including former Chief Financial Officer and Chief Compliance Officer)	217	206	467	392
Legal fees	184	569	483	1,775
Valuation services	110	120	422	233
Audit, compliance and tax related fees	306	43	629	293
Allocation of overhead from Prospect Administration (Note 7)	588	260	1,176	520
Insurance expense	63	64	124	128
Directors' fees	62	55	143	110
Other general and administrative expenses	295	191	462	503
Tax expense	533	□	533	10

<b>Total Operating Expenses</b>	<b>10,253</b>	<b>7,903</b>	<b>22,550</b>	<b>15,429</b>
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<b>Net Investment Income</b>	<b>11,960</b>	<b>10,660</b>	<b>35,462</b>	<b>18,525</b>
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Net realized gain (loss) on investments	16	(18,610)	1,661	(18,621)
Net change in unrealized appreciation/depreciation on investments	(5,452)	4,264	(16,601)	4,960

<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>\$ 6,524</b>	<b>\$ (3,686)</b>	<b>\$ 20,522</b>	<b>\$ 4,864</b>
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Net increase (decrease) in net assets resulting from operations per share: (Note 6)	\$ 0.22	\$ (0.16)	\$ 0.69	\$ 0.23
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Dividends declared per share:	\$ 0.40	\$ 0.39	\$ 0.80	\$ 0.78
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See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For The Six Months Ended December 31, 2008 and 2007**  
**(in thousands, except share data)**  
**(Unaudited)**

	For The Six Months Ended December 31,	
	2008	2007
<b>Increase in Net Assets from Operations:</b>		
Net investment income	\$ 35,462	\$ 18,525
Net realized gain (loss) on investments	1,661	(18,621)
Net change in unrealized appreciation/depreciation on investments	(16,601)	4,960
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>20,522</b>	<b>4,864</b>
<b>Dividends to Shareholders:</b>	<b>(23,848)</b>	<b>(17,200)</b>
<b>Capital Share Transactions:</b>		
Net proceeds from capital shares sold	□	57,436
Less: Offering costs of public share offerings	□	(567)
Reinvestment of dividends	1,506	1,243
<b>Net Increase in Net Assets Resulting from Capital Share Transactions</b>	<b>1,506</b>	<b>58,112</b>
<b>Total (Decrease) Increase in Net Assets:</b>	<b>(1,820)</b>	<b>45,776</b>
Net assets at beginning of period	429,623	300,048
<b>Net Assets at End of Period</b>	<b>\$ 427,803</b>	<b>\$ 345,824</b>
<b>Capital Share Activity:</b>		
Shares sold	□	3,700,000
Shares issued through reinvestment of dividends	117,549	72,073
Net increase in capital share activity	117,549	3,772,073
Shares outstanding at beginning of period	29,520,379	19,949,065
<b>Shares Outstanding at End of Period</b>	<b>29,637,928</b>	<b>23,721,138</b>

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For The Six Months Ended December 31, 2008 and 2007**  
**(in thousands, except share data)**  
**(Unaudited)**

	For The Six Months Ended December 31,	
	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Net increase in net assets resulting from operations	\$ 20,522	\$ 4,864

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Net realized (gain) loss on investments	(1,661)	18,621
Net change in unrealized appreciation/depreciation on investments	16,601	(4,960)
Accretion of original issue discount on investments	(2,128)	(1,442)
Amortization of deferred financing costs	360	367
Gain on settlement of net profits interest	(12,576)	□
<b>Change in operating assets and liabilities:</b>		
Payments for purchases of investments	(70,513)	(160,517)
Payment-In-Kind interest	(931)	(722)
Proceeds from sale of investments and collection of investment principal	13,077	37,172
Purchases of cash equivalents	(19,999)	(189,960)
Sales of cash equivalents	19,999	189,945
Net decrease investments in money market funds		