

PROSPECT CAPITAL CORP

Form 10-Q

November 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

Commission File Number: 814-00659

PROSPECT CAPITAL CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland

43-2048643

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

10 East 40th Street, 42nd Floor

New York, New York

10016

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 448-0702

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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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class of Common Stock

Outstanding at November 5, 2014

\$0.001 par value

352,597,291

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## PROSPECT CAPITAL CORPORATION

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#### FORWARD-LOOKING STATEMENTS

This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future—including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results—are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part II, "Item 1A. Risk Factors" and elsewhere in this report and in our Annual Report on Form 10-K for the year ended June 30, 2014, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES  
 (in thousands, except share and per share data)

	September 30, 2014 (Unaudited)	June 30, 2014 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,721,493 and \$1,719,242, respectively)	\$ 1,659,997	\$ 1,640,454
Affiliate investments (amortized cost of \$46,659 and \$31,829, respectively)	46,456	32,121
Non-control/non-affiliate investments (amortized cost of \$4,590,568 and \$4,620,451, respectively)	4,547,040	4,581,164
Total investments at fair value (amortized cost of \$6,358,720 and \$6,371,522, respectively)	6,253,493	6,253,739
Cash and cash equivalents	488,106	134,225
Receivables for:		
Interest, net	20,523	21,997
Other	2,765	2,587
Prepaid expenses	2,805	2,828
Deferred financing costs	65,373	61,893
Total Assets	6,833,065	6,477,269
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	411,000	92,000
Convertible Notes (Notes 5 and 8)	1,247,500	1,247,500
Public Notes (Notes 6 and 8)	647,950	647,881
Prospect Capital InterNotes® (Notes 7 and 8)	784,305	785,670
Due to broker	1,787	—
Dividends payable	38,518	37,843
Due to Prospect Administration (Note 13)	2,272	2,208
Due to Prospect Capital Management (Note 13)	3,915	3
Accrued expenses	5,877	4,790
Interest payable	35,950	37,459
Other liabilities	6,232	3,733
Total Liabilities	3,185,306	2,859,087
Net Assets	\$3,647,759	\$3,618,182
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 348,504,375 and 342,626,637 issued and outstanding, respectively) (Note 9)	\$ 349	\$ 343
Paid-in capital in excess of par (Note 9)	3,883,527	3,814,634
Undistributed net investment income	17,966	42,086
Accumulated realized losses on investments	(148,856 )	(121,098 )
Unrealized depreciation on investments	(105,227 )	(117,783 )
Net Assets	\$3,647,759	\$3,618,182
Net Asset Value Per Share (Note 16)	\$10.47	\$10.56



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except share and per share data)  
(Unaudited)

	Three Months Ended September 30,		
	2014	2013	
Investment Income			
Interest income:			
Control investments	\$45,128	\$32,633	
Affiliate investments	837	1,496	
Non-control/non-affiliate investments	98,778	78,112	
CLO fund securities	39,397	26,180	
Total interest income	184,140	138,421	
Dividend income:			
Control investments	759	7,075	
Affiliate investments	1,429	—	
Non-control/non-affiliate investments	22	3	
Money market funds	15	11	
Total dividend income	2,225	7,089	
Other income:			
Control investments	5,663	9,221	
Affiliate investments	226	2	
Non-control/non-affiliate investments	9,767	6,301	
Total other income (Note 10)	15,656	15,524	
Total Investment Income	202,021	161,034	
Operating Expenses			
Investment advisory fees:			
Base management fee (Note 13)	33,165	23,045	
Income incentive fee (Note 13)	23,616	20,584	
Total investment advisory fees	56,781	43,629	
Interest and credit facility expenses	42,914	27,407	
Legal fees	1,163	219	
Valuation services	450	439	
Audit, compliance and tax related fees	667	623	
Allocation of overhead from Prospect Administration (Note 13)	2,416	3,986	
Insurance expense	131	93	
Directors' fees	94	75	
Excise tax	—	1,000	
Other general and administrative expenses	2,942	1,226	
Total Operating Expenses	107,558	78,697	
Net Investment Income	94,463	82,337	
Net realized (loss) gain on investments	(22,911	) 3,789	
Net change in unrealized appreciation (depreciation) on investments	12,556	(6,226	)
Net Increase in Net Assets Resulting from Operations	\$84,108	\$79,900	
Net increase in net assets resulting from operations per share	\$0.24	\$0.31	
Dividends declared per share	\$(0.33	) \$(0.33	)

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except share data)

(Unaudited)

	Three Months Ended September 30,	
	2014	2013
<b>Operations</b>		
Net investment income	\$94,463	\$82,337
Net realized (loss) gain on investments	(22,911	) 3,789
Net change in unrealized appreciation (depreciation) on investments	12,556	(6,226
Net Increase in Net Assets Resulting from Operations	84,108	79,900
<b>Distributions to Shareholders</b>		
Distribution from net investment income	(114,266	) (86,676
Distribution of return of capital	—	—
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(114,266	) (86,676
<b>Common Stock Transactions</b>		
Issuance of common stock, net of underwriting costs	56,305	235,830
Less: Offering costs from issuance of common stock	(210	) (793
Value of shares issued to acquire controlled investments	—	21,006
Value of shares issued through reinvestment of dividends	3,640	3,994
Net Increase in Net Assets Resulting from Common Stock Transactions	59,735	260,037
Total Increase in Net Assets	29,577	253,261
Net assets at beginning of period	3,618,182	2,656,494
Net Assets at End of Period	\$3,647,759	\$2,909,755
<b>Common Stock Activity</b>		
Shares sold	5,536,780	21,293,338
Shares issued to acquire controlled investments	—	1,918,342
Shares issued through reinvestment of dividends	340,958	355,644
Total shares issued due to common stock activity	5,877,738	23,567,324
Shares issued and outstanding at beginning of period	342,626,637	247,836,965
Shares Issued and Outstanding at End of Period	348,504,375	271,404,289

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands, except share data)  
(Unaudited)

	Three Months Ended September 30,	
	2014	2013
<b>Operating Activities</b>		
Net increase in net assets resulting from operations	\$84,108	\$79,900
Net realized loss (gain) on investments	22,911	(3,789)
Net change in unrealized (appreciation) depreciation on investments	(12,556)	6,226
Amortization of discounts and premiums, net	13,952	9,954
Accretion of discount on Public Notes (Note 6)	69	36
Amortization of deferred financing costs	3,829	2,435
Payment-in-kind interest	(5,887)	(4,581)
Structuring fees	(10,515)	(8,660)
Change in operating assets and liabilities:		
Payments for purchases of investments	(870,803)	(522,595)
Proceeds from sale of investments and collection of investment principal	863,144	164,167
Decrease in interest receivable, net	1,474	1,393
(Increase) decrease in other receivables	(178)	2,402
Decrease in prepaid expenses	23	158
Increase in due to broker	1,787	44,074
Increase (decrease) in due to Prospect Administration	64	(1,311)
Increase (decrease) in due to Prospect Capital Management	3,912	(3,590)
Increase in accrued expenses	1,087	655
Decrease in interest payable	(1,509)	(5,697)
Increase in other liabilities	2,499	2,108
Net Cash Used in Operating Activities	97,411	(236,715)
<b>Financing Activities</b>		
Borrowings under Revolving Credit Facility (Note 4)	547,000	96,000
Principal payments under Revolving Credit Facility (Note 4)	(228,000)	(151,000)
Issuance of Prospect Capital InterNotes® (Note 7)	—	98,255
Redemptions of Prospect Capital InterNotes® (Note 7)	(1,365)	(55)
Financing costs paid and deferred	(7,309)	(2,300)
Proceeds from issuance of common stock, net of underwriting costs	56,305	235,830
Offering costs from issuance of common stock	(210)	(793)
Dividends paid	(109,951)	(80,064)
Net Cash Provided by Financing Activities	256,470	195,873
Total Increase (Decrease) in Cash and Cash Equivalents	353,881	(40,842)
Cash and cash equivalents at beginning of period	134,225	203,236
Cash and Cash Equivalents at End of Period	\$488,106	\$162,394
<b>Supplemental Disclosures</b>		
Cash paid for interest	\$40,524	\$30,165
<b>Non-Cash Financing Activities</b>		
Value of shares issued through reinvestment of dividends	\$3,640	\$3,994

Value of shares issued to acquire controlled investments	\$—	\$21,006
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See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2014 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(44)</b>						
American Property REIT Corp.(32)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	\$ 169,511	\$ 169,511	\$ 169,511	4.6%
		Common Stock (272,116 shares)		35,006	28,178	0.8%
				204,517	197,689	5.4%
Arctic Energy Services, LLC(30)	Wyoming / Oil & Gas Production	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)(3)(4)	31,640	31,640	31,640	0.9%
		Senior Subordinated Term Loan (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)(3)(4)	20,230	20,230	20,230	0.5%
		Class A Units (700 units)		9,006	9,505	0.3%
				60,876	61,375	1.7%
ARRM Services, Inc.(42)	South Carolina / Manufacturing	Senior Secured Note to Ajax Rolled Ring & Machine, LLC (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(4)	19,337	19,337	19,337	0.5%
		Series B Preferred Stock (25,000 shares)		21,156	9,399	0.3%
		Series A Convertible Preferred Stock (6,142.60 shares)		6,057	—	—%
		Common Stock (6.00 shares)		—	—	—%
				46,550	28,736	0.8%
CCPI Inc.(33)	Ohio / Manufacturing	Senior Secured Term Loan A (10.00%, due 12/31/2017)(3)	17,100	17,100	17,100	0.5%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)	8,390	8,390	8,390	0.2%
		Common Stock (14,857 shares)		8,553	7,143	0.2%
Change Clean Energy Company, LLC(8)	Maine / Energy	Membership Interest (100%)		—	—	—%
				—	—	—%
Coalbed, LLC(12)	Tennessee / Oil & Gas Production	Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	8,771	5,991	—	—%
		Membership Interest (100%)		—	—	—%
				5,991	—	—%

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		Senior Secured Term Loan A to CP Well Testing, LLC (7.00% (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)(4)	11,035	11,035	11,035	0.3%
CP Energy Services Inc.(38)	Oklahoma / Oil & Gas Production	Senior Secured Term Loan B to CP Well Testing, LLC (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(4)	72,238	72,238	72,238	2.0%
		Second Lien Term Loan to CP Well Testing, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 4/1/2019)(4)	15,000	15,000	15,000	0.4%
		Common Stock (2,924 shares)		15,227	30,913	0.8%
				113,500	129,186	3.5%
Credit Central Loan Company, LLC(22)(34)	Ohio / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)	36,333	36,333	36,333	1.0%
		Class A Shares (7,500,000 shares)		11,632	10,548	0.3%
				47,965	46,881	1.3%
Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Revolving Credit Facility – \$150,000 Commitment (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(4)(25)	40,808	40,808	40,808	1.1%
		Class A Shares (11,335,318 shares)		19,907	10,896	0.3%
				60,715	51,704	1.4%

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2014 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(44)						
First Tower Finance Company LLC(22)(29)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)	\$251,246	\$251,246	\$251,246	6.9%
		Class A Shares (83,729,323 shares)		64,544	73,729	2.0%
				315,790	324,975	8.9%
Freedom Marine Solutions, LLC(8)	Louisiana / Energy	Senior Secured Note to Vessel Company, LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.1%
		Senior Secured Note to Vessel Company II, LLC (13.00%, due 11/25/2018)	13,000	12,504	12,504	0.3%
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	16,000	16,000	16,000	0.4%
		Membership Interest (100%)		7,807	2,905	0.1%
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(4)	19,500	19,500	13,674	0.4%
		Series A Convertible Preferred Stock (99,900 shares)		25,950	—	—%
				45,450	13,674	0.4%
Harbortouch Payments, LLC(43)	Pennsylvania / Business Services	Senior Secured Term Loan A (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)(4)	130,589	130,589	130,589	3.6%
		Senior Secured Term Loan B (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)(4)	137,226	137,226	137,226	3.8%
		Senior Secured Term Loan C (13.00% (LIBOR + 9.00% with 4.00% LIBOR floor), due 9/29/2018)(4)	26,431	26,431	26,431	0.7%
		Class A Shares (535 shares)		7,489	24,005	0.6%
The Healing Staff, Inc.(9)	North Carolina / Contracting			301,735	318,251	8.7%
		Secured Promissory Notes to The Healing Staff, Inc. and Vets Securing America, Inc. (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,687	—	—%
			1,170	1,170	—	—%

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		Senior Demand Note to The Healing Staff, Inc. (15.00%, in non-accrual status effective 11/1/2010, past due)					
		Common Stock of The Healing Staff, Inc. (1,000 shares)		—	—		—%
		Common Stock of Vets Securing America, Inc. (1 share)		975	—		—%
				3,832	—		—%
		Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)	50	50	—		—%
Manx Energy, Inc.(6)(12)	Kansas / Oil & Gas Production	Series A-1 Preferred Stock (6,635 shares)		—	—		—%
		Common Stock (17,082 shares)		—	—		—%
				50	—		—%
		Revolving Line of Credit – \$7,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 12/23/2014)(4)(25)	500	500	500		—%
		Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)	18,250	18,250	18,250		0.5%
MITY, Inc.(17)	Utah / Durable Consumer Products	Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(4)	15,769	15,769	15,769		0.4%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)	6,593	6,593	6,593		0.2%
		Common Stock (42,053 shares)		7,456	11,415		0.3%
				48,568	52,527		1.4%

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2014 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(44)						
National Property REIT Corp.(40)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	\$ 138,367	\$ 138,367	\$ 138,367	3.8%
		Common Stock (84,567 shares)		26,913	28,463	0.8%
Nationwide Acceptance LLC(22)(36)	Illinois / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/18/2019) Class A Shares (24,029,326 shares)	14,820	14,820	14,820	0.4%
				12,248	13,012	0.4%
NMMB, Inc.(24)	New York / Media	Senior Secured Note (14.00%, due 5/6/2016)	3,714	3,714	1,864	0.1%
		Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2016)	7,000	7,000	3,514	0.1%
		Series A Preferred Stock (7,200 shares)		12,486	—	—%
				23,200	5,378	0.2%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)	30,411	30,411	30,411	0.8%
		Common Stock (545,107 shares)		5,087	18,876	0.5%
		Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017)		1,682	6,926	0.2%
United Property REIT Corp.(41)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	66,704	66,704	66,704	1.8%
		Common Stock (70,689 shares)		13,421	12,930	0.4%
Valley Electric Company, Inc.(35)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)	10,146	10,146	10,146	0.3%
		Senior Secured Note (10.00% plus 8.50% PIK, due 12/31/2018)	20,935	20,935	19,285	0.5%
		Common Stock (50,000 shares)		26,205	—	—%
				57,286	29,431	0.8%

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		Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)(37)	26,966	—	2,110	0.1%
Wolf Energy, LLC(12)	Kansas / Oil & Gas Production	Membership Interest (100%)		512	—	—%
		Net Profits Interest (8% of Equity Distributions)(7)		—	29	—%
				512	2,139	0.1%
Yatesville Coal Company, LLC(8)	Kentucky / Energy	Senior Secured Note (in non-accrual status effective 1/1/2009)	1,449	1,449	—	—%
		Membership Interest (100%)		—	—	—%
				1,449	—	—%
Total Control Investments				\$1,721,493	\$1,659,997	45.5%
Affiliate Investments (5.00% to 24.99% voting control)(45)						
		Senior Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 8/29/2019)(3)(4)	21,835	21,835	21,835	0.6%
BNN Holdings Corp.	Michigan / Healthcare	Senior Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 8/29/2019)(3)(4)	21,945	21,945	21,945	0.6%
		Series A Preferred Stock (9,925.455 shares)(13)		2,879	2,676	0.1%
		Series B Preferred Stock (1,753.636 shares)(13)		—	—	—%
				46,659	46,456	1.3%
Total Affiliate Investments				\$46,659	\$46,456	1.3%

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2014 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Aderant North America, Inc.(16)	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)	\$7,000	\$6,917	\$7,000	0.2%
				6,917	7,000	0.2%
AFI Shareholder, LLC (f/k/a Aircraft Fasteners International, LLC)	California / Machinery	Class A Units (32,500 units)		396	498	—%
				396	498	—%
Airmall Inc.(27)	Pennsylvania / Property Management	Escrow Receivable		5,881	3,601	0.1%
				5,881	3,601	0.1%
ALG USA Holdings, LLC(16)	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)	12,000	11,799	12,000	0.3%
				11,799	12,000	0.3%
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		5	—	—%
				5	—	—%
American Broadband Holding Company and Cameron Holdings of NC, Inc.	North Carolina / Telecommunication Services	Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)	74,654	74,654	74,654	2.0%
				74,654	74,654	2.0%
American Gilsonite Company	Utah / Metal Services & Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)	38,500	38,500	38,500	1.1%
		Membership Interest (99.9999%)(15)		—	4,018	0.1%
				38,500	42,518	1.2%
Apidos CLO IX(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 17.90%)(11)	20,525	18,324	19,659	0.5%
				18,324	19,659	0.5%
Apidos CLO XI(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.79%)(11)	38,340	33,440	36,790	1.0%
				33,440	36,790	1.0%

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Apidos CLO XII(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 16.16%)(11)	44,063	40,964	42,344	1.2%
				40,964	42,344	1.2%
Apidos CLO XV(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.43%)(11)	36,515	36,403	36,496	1.0%
				36,403	36,496	1.0%
Arctic Glacier U.S.A., Inc.	Minnesota / Food Products	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(4)	150,000	150,000	150,000	4.1%
				150,000	150,000	4.1%
Ark-La-Tex Wireline Services, LLC	Louisiana / Oil and Gas Production	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	26,831	26,831	26,831	0.7%
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	26,831	26,831	26,831	0.7%
		Delayed Draw Term Loan – \$5,000 Commitment (due 4/8/2019)(25)	—	—	—	—%
				53,662	53,662	1.4%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2014 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Armor Holding II LLC(16)	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(4)	\$7,000	\$6,878	\$6,878	0.2%
				6,878	6,878	0.2%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit – \$4,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2015)(4)(25)(26)	2,350	2,350	2,350	0.1%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)	38,858	38,858	34,128	0.9%
				41,208	36,478	1.0%
Babson CLO Ltd. 2011-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 5.76%)(11)	35,000	34,541	31,433	0.9%
				34,541	31,433	0.9%
Babson CLO Ltd. 2012-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 13.60%)(11)	29,075	22,950	25,167	0.7%
				22,950	25,167	0.7%
Babson CLO Ltd. 2012-II(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 11.71%)(11)	27,850	26,329	27,113	0.7%
				26,329	27,113	0.7%
Blue Coat Systems, Inc.(16)	Massachusetts / Software & Computer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3)(4)	11,000	10,905	11,000	0.3%
				10,905	11,000	0.3%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)(3)(4)	256,275	256,275	256,275	7.0%
				256,275	256,275	7.0%
			26,000	22,677	25,139	0.7%

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Brookside Mill CLO Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 19.56%)(11)			
			22,677	25,139	0.7%
Caleel + Hayden, LLC(14)(31)	Colorado / Personal & Nondurable Consumer Products	Membership Interest	—	183	—%