

PROSPECT CAPITAL CORP

Form 10-Q

February 04, 2015

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 December 31, 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

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 February 3, 2015

\$0.001 par value

358,401,659

PROSPECT CAPITAL CORPORATION

Table of Contents

	Page
	<u>1</u>
PART I FINANCIAL INFORMATION	
<u>Item 1. Financial Statements</u>	<u>2</u>
<u>Consolidated Statements of Assets and Liabilities as of December 31, 2014 (unaudited) and June 30, 2014</u>	<u>2</u>
<u>Consolidated Statements of Operations for the three and six months ended December 31, 2014 and December 31, 2013 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Changes in Net Assets for the six months ended December 31, 2014 and December 31, 2013 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the six months ended December 31, 2014 and December 31, 2013 (unaudited)</u>	<u>5</u>
<u>Consolidated Schedules of Investments as of December 31, 2014 (unaudited) and June 30, 2014</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>41</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>115</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>148</u>
<u>Item 4. Controls and Procedures</u>	<u>148</u>
PART II OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>148</u>
<u>Item 1A. Risk Factors</u>	<u>148</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>148</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>148</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>148</u>
<u>Item 5. Other Information</u>	<u>148</u>
<u>Item 6. Exhibits</u>	<u>149</u>
<u>Signatures</u>	<u>151</u>

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. We undertake 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 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.

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)

	December 31, 2014 (Unaudited)	June 30, 2014 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,714,686 and \$1,719,242, respectively)	\$ 1,723,749	\$ 1,640,454
Affiliate investments (amortized cost of \$45,788 and \$31,829, respectively)	46,106	32,121
Non-control/non-affiliate investments (amortized cost of \$4,740,729 and \$4,620,451, respectively)	4,753,868	4,581,164
Total investments at fair value (amortized cost of \$6,501,203 and \$6,371,522, respectively)	6,523,723	6,253,739
Cash and cash equivalents	106,481	134,225
Receivables for:		
Interest, net	19,694	21,997
Other	2,752	2,587
Prepaid expenses	929	2,828
Deferred financing costs	62,838	61,893
Total Assets	6,716,417	6,477,269
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	177,700	92,000
Convertible Notes (Notes 5 and 8)	1,247,500	1,247,500
Public Notes (Notes 6 and 8)	647,998	647,881
Prospect Capital InterNotes® (Notes 7 and 8)	785,317	785,670
Dividends payable	39,622	37,843
Due to Prospect Administration (Note 13)	4,018	2,208
Due to Prospect Capital Management (Note 13)	56,936	3
Accrued expenses	4,461	4,790
Interest payable	40,775	37,459
Other liabilities	3,013	3,733
Total Liabilities	3,007,340	2,859,087
Net Assets	\$3,709,077	\$3,618,182
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 358,250,121 and 342,626,637 issued and outstanding, respectively) (Note 9)	\$ 358	\$ 343
Paid-in capital in excess of par (Note 9)	3,965,966	3,814,634
(Distributions in excess of net investment income)/Undistributed net investment income	(8,891	) 42,086
Accumulated realized losses	(270,876	) (121,098)
Unrealized appreciation (depreciation) on investments	22,520	(117,783)
Net Assets	\$3,709,077	\$3,618,182
Net Asset Value Per Share (Note 16)	\$10.35	\$10.56

See notes to consolidated financial statements.

2

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Investment Income				
Interest income:				
Control investments	\$ 50,684	\$ 37,086	\$ 95,812	\$ 69,719
Affiliate investments	1,004	1,399	1,841	2,895
Non-control/non-affiliate investments	97,331	79,420	196,109	157,532
CLO fund securities	39,795	29,198	79,192	55,378
Total interest income	188,814	147,103	372,954	285,524
Dividend income:				
Control investments	2,651	8,877	3,410	15,952
Affiliate investments	(651	) —	778	—
Non-control/non-affiliate investments	—	9	22	12
Money market funds	11	6	26	17
Total dividend income	2,011	8,892	4,236	15,981
Other income:				
Control investments	3,069	17,928	8,732	27,149
Affiliate investments	—	5	226	7
Non-control/non-affiliate investments	4,989	4,162	14,756	10,463
Total other income (Note 10)	8,058	22,095	23,714	37,619
Total Investment Income	198,883	178,090	400,904	339,124
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 13)	34,034	25,075	67,199	48,120
Income incentive fee (Note 13)	22,831	23,054	46,447	43,638
Total investment advisory fees	56,865	48,129	113,646	91,758
Interest and credit facility expenses	42,244	29,256	85,158	56,663
Legal fees	395	(42	) 1,558	177
Valuation services	459	449	909	888
Audit, compliance and tax related fees	924	745	1,591	1,368
Allocation of overhead from Prospect Administration (Note 13)	3,014	3,986	5,430	7,972
Insurance expense	121	90	252	183
Directors' fees	94	75	188	150
Excise tax	1,775	1,000	1,775	2,000
Other general and administrative expenses	1,667	2,187	4,609	3,413
Total Operating Expenses	107,558	85,875	215,116	164,572
Net Investment Income	91,325	92,215	185,788	174,552
Net realized loss	(133,102	) (5,671	) (156,013	) (1,882
Net change in unrealized appreciation (depreciation) on investments	127,747	(1,182	) 140,303	(7,408
Net Increase in Net Assets Resulting from Operations	\$ 85,970	\$ 85,362	\$ 170,078	\$ 165,262
Net increase in net assets resulting from operations per share	\$ 0.24	\$ 0.30	\$ 0.49	\$ 0.61

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

(in thousands, except share data)

(Unaudited)

	Six Months Ended December 31,	
	2014	2013
Operations		
Net investment income	\$ 185,788	\$ 174,552
Net realized loss	(156,013	) (1,882
Net change in unrealized appreciation (depreciation) on investments	140,303	(7,408
Net Increase in Net Assets Resulting from Operations	170,078	165,262
Distributions to Shareholders		
Distribution from net investment income	(232,449	) (183,315
Distribution of return of capital	—	—
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(232,449	) (183,315
Common Stock Transactions		
Issuance of common stock, net of underwriting costs	146,085	563,578
Less: Offering costs from issuance of common stock	(488	) (1,019
Value of shares issued to acquire controlled investments	—	21,006
Value of shares issued through reinvestment of dividends	7,669	9,093
Net Increase in Net Assets Resulting from Common Stock Transactions	153,266	592,658
Total Increase in Net Assets	90,895	574,605
Net assets at beginning of period	3,618,182	2,656,494
Net Assets at End of Period	\$ 3,709,077	\$ 3,231,099
Common Stock Activity		
Shares sold	14,845,556	50,700,067
Shares issued to acquire controlled investments	—	1,918,342
Shares issued through reinvestment of dividends	777,928	804,062
Total shares issued due to common stock activity	15,623,484	53,422,471
Shares issued and outstanding at beginning of period	342,626,637	247,836,965
Shares Issued and Outstanding at End of Period	358,250,121	301,259,436

See notes to consolidated financial statements.

4

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

	Six Months Ended December 31,	
	2014	2013
Operating Activities		
Net increase in net assets resulting from operations	\$ 170,078	\$ 165,262
Net realized loss	156,013	1,882
Net change in unrealized (appreciation) depreciation on investments	(140,303	) 7,408
Amortization of discounts and premiums, net	37,332	23,133
Accretion of discount on Public Notes (Note 6)	117	88
Amortization of deferred financing costs	6,688	4,998
Payment-in-kind interest	(10,287	) (9,845
Structuring fees	(15,081	) (15,533
Change in operating assets and liabilities:		
Payments for purchases of investments	(1,384,542	) (1,118,612
Proceeds from sale of investments and collection of investment principal	1,086,884	419,405
Decrease in interest receivable, net	2,303	8,679
(Increase) decrease in other receivables	(165	) 2,330
Decrease in prepaid expenses	1,899	263
Increase in due to broker	—	1,238
Increase in due to Prospect Administration	1,810	375
Increase in due to Prospect Capital Management	56,933	42,784
(Decrease) increase in accrued expenses	(329	) 1,279
Increase in interest payable	3,316	2,369
(Decrease) increase in other liabilities	(720	) 4,006
Net Cash Used in Operating Activities	(28,054	) (458,491
Financing Activities		
Borrowings under Revolving Credit Facility (Note 4)	839,000	96,000
Principal payments under Revolving Credit Facility (Note 4)	(753,300	) (220,000
Issuance of Prospect Capital InterNotes® (Note 7)	21,789	238,780
Redemptions of Prospect Capital InterNotes® (Note 7)	(22,142	) (1,650
Financing costs paid and deferred	(7,633	) (6,139
Proceeds from issuance of common stock, net of underwriting costs	146,085	563,578
Offering costs from issuance of common stock	(488	) (1,019
Dividends paid	(223,001	) (168,291
Net Cash Provided by Financing Activities	310	501,259
Total (Decrease) Increase in Cash and Cash Equivalents	(27,744	) 42,768
Cash and cash equivalents at beginning of period	134,225	203,236
Cash and Cash Equivalents at End of Period	\$ 106,481	\$ 246,004
Supplemental Disclosures		
Cash paid for interest	\$ 75,037	\$ 47,226
Non-Cash Financing Activities		
Value of shares issued through reinvestment of dividends	\$ 7,669	\$ 9,093

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

5

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

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2014 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(47)						
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)	\$ 105,958	\$ 105,958	\$ 105,958	2.9%
		Common Stock (272,116 shares)		24,769	30,692	0.8%
				130,727	136,650	3.7%
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	9,774	0.3%
				60,876	61,644	1.7%
CCPI Inc.(33)	Ohio / Manufacturing	Senior Secured Term Loan A (10.00%, due 12/31/2017)(3)	16,988	16,988	16,988	0.5%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)	8,539	8,539	8,539	0.2%
		Common Stock (14,857 shares)		8,553	8,011	0.2%
CP Energy Services Inc.(38)	Oklahoma / Oil & Gas Production			34,080	33,538	0.9%
		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%
		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)(3)(4)	72,238	72,238	72,238	1.9%
		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	20,499	0.6%
Credit Central Loan Company, LLC(34)	Ohio / Consumer Finance			113,500	118,772	3.2%
		Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(22)	36,333	36,333	36,333	1.0%
		Class A Shares (7,500,000 shares)(22)		11,473	12,637	0.3%
				47,806	48,970	1.3%
		40,808	40,808	40,808	1.1%	

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Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(4)				
		Class A Shares (11,335,318 shares)	19,907	16,632	0.4%	
			60,715	57,440	1.5%	
First Tower Finance Company LLC(29)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 12.00% PIK, 251,246 due 6/24/2019)(22)	251,246	251,246	6.8%	
		Class A Shares (83,729,323 shares)(22)	65,957	82,038	2.2%	
			317,203	333,284	9.0%	
		Senior Secured Note to Vessel Company, LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.1%
Freedom Marine Solutions, LLC(8)	Louisiana / Energy	Senior Secured Note to Vessel Company II, LLC (13.00%, due 11/25/2018)	13,000	12,504	9,499	0.3%
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	16,000	16,000	11,889	0.3%
		Membership Interest (100%)		7,807	4,260	