

## Section 1: 10-Q (10-Q)

# 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 September 30, 2019

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

(State or other jurisdiction of incorporation or organization)

10 East 40th Street, 42nd Floor

New York, New York

(Address of principal executive offices)

43-2048643

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

10016

(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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbols</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	PSEC	NASDAQ Global Select Market
6.25% Notes due 2024, par value \$25	PBB	New York Stock Exchange
6.25% Notes due 2028, par value \$25	PBY	New York Stock Exchange
6.875% Notes due 2029, par value \$25	PBC	New York Stock Exchange

As of November 5, 2019, there were 367,426,948 shares of the registrant's common stock, \$0.001 par value per share, outstanding.

## Table of Contents

	<b>Page</b>
<a href="#"><u>Forward-Looking Statements</u></a>	<a href="#"><u>3</u></a>
<b>PART I FINANCIAL INFORMATION</b>	
<b>Item 1. <a href="#"><u>Financial Statements</u></a></b>	
<a href="#"><u>Consolidated Statements of Assets and Liabilities as of September 30, 2019 (unaudited) and June 30, 2019</u></a>	<a href="#"><u>4</u></a>
<a href="#"><u>Consolidated Statements of Operations for the three months ended September 30, 2019 and September 30, 2018 (unaudited)</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Consolidated Statements of Changes in Net Assets for the three months ended September 30, 2019 and September 30, 2018 (unaudited)</u></a>	<a href="#"><u>6</u></a>
<a href="#"><u>Consolidated Statements of Cash Flows for the three months ended September 30, 2019 and September 30, 2018 (unaudited)</u></a>	<a href="#"><u>7</u></a>
<a href="#"><u>Consolidated Schedules of Investments as of September 30, 2019 (unaudited) and June 30, 2019</u></a>	<a href="#"><u>8</u></a>
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	<a href="#"><u>49</u></a>
<b>Item 2. <a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a></b>	<a href="#"><u>103</u></a>
<b>Item 3. <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a></b>	<a href="#"><u>136</u></a>
<b>Item 4. <a href="#"><u>Controls and Procedures</u></a></b>	<a href="#"><u>138</u></a>
<b>PART II OTHER INFORMATION</b>	
<b>Item 1. <a href="#"><u>Legal Proceedings</u></a></b>	<a href="#"><u>139</u></a>
<b>Item 1A. <a href="#"><u>Risk Factors</u></a></b>	<a href="#"><u>139</u></a>
<b>Item 2. <a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a></b>	<a href="#"><u>139</u></a>
<b>Item 3. <a href="#"><u>Defaults Upon Senior Securities</u></a></b>	<a href="#"><u>139</u></a>
<b>Item 4. <a href="#"><u>Mine Safety Disclosures</u></a></b>	<a href="#"><u>139</u></a>
<b>Item 5. <a href="#"><u>Other Information</u></a></b>	<a href="#"><u>139</u></a>
<b>Item 6. <a href="#"><u>Exhibits</u></a></b>	<a href="#"><u>140</u></a>
<a href="#"><u>Signatures</u></a>	

## 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 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, 2019, and those described from time to time in our future reports filed with the Securities and Exchange Commission.*

**PART I**

**Item 1. Financial Statements**

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

	<b>September 30, 2019</b>	<b>June 30, 2019</b>
	(Unaudited)	(Audited)
<b>Assets</b>		
Investments at fair value:		
Control investments (amortized cost of \$2,346,633 and \$2,385,806, respectively)	\$ 2,397,730	\$ 2,475,924
Affiliate investments (amortized cost of \$156,177 and \$177,616, respectively)	73,263	76,682
Non-control/non-affiliate investments (amortized cost of \$3,274,957 and \$3,368,880, respectively)	2,979,567	3,100,947
Total investments at fair value (amortized cost of \$5,777,767 and \$5,932,302, respectively)	5,450,560	5,653,553
Cash	106,174	107,098
Receivables for:		
Interest, net	12,526	26,504
Other	200	3,326
Deferred financing costs on Revolving Credit Facility (Note 4)	10,745	8,529
Due from broker	4,121	—
Prepaid expenses	772	1,053
<b>Total Assets</b>	<b>5,585,098</b>	<b>5,800,063</b>
<b>Liabilities</b>		
Revolving Credit Facility (Notes 4 and 8)	108,000	167,000
Public Notes (less unamortized discount and debt issuance costs of \$13,373 and \$13,826, respectively) (Notes 6 and 8)	781,001	780,548
Convertible Notes (less unamortized debt issuance costs of \$12,618 and \$13,867, respectively) (Notes 5 and 8)	694,701	739,997
Prospect Capital InterNotes® (less unamortized debt issuance costs of \$12,561 and \$12,349, respectively) (Notes 7 and 8)	644,814	695,350
Due to Prospect Capital Management (Note 13)	46,228	46,525
Interest payable	22,364	34,104
Dividends payable	22,042	22,028
Accrued expenses	4,688	5,414
Due to Prospect Administration (Note 13)	511	1,885
Other liabilities	976	937
<b>Total Liabilities</b>	<b>2,325,325</b>	<b>2,493,788</b>
Commitments and Contingencies (Note 3)		
<b>Net Assets</b>	<b>\$ 3,259,773</b>	<b>\$ 3,306,275</b>
<b>Components of Net Assets</b>		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 367,363,872 and 367,131,025 issued and outstanding, respectively) (Note 9)	\$ 367	\$ 367
Paid-in capital in excess of par (Note 9)	4,041,338	4,039,872
Total distributable earnings (loss)	(781,932)	(733,964)
<b>Net Assets</b>	<b>\$ 3,259,773</b>	<b>\$ 3,306,275</b>
<b>Net Asset Value Per Share (Note 16)</b>	<b>\$ 8.87</b>	<b>\$ 9.01</b>

See notes to consolidated financial statements.

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

	<b>Three Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Investment Income</b>		
Interest income:		
Control investments	\$ 50,866	\$ 56,454
Affiliate investments	239	227
Non-control/non-affiliate investments	61,950	68,609
Structured credit securities	32,901	34,152
Total interest income	145,956	159,442
Dividend income:		
Control investments	3,800	14,665
Non-control/non-affiliate investments	454	262
Total dividend income	4,254	14,927
Other income:		
Control investments	11,383	2,791
Non-control/non-affiliate investments	290	3,262
Total other income (Note 10)	11,673	6,053
<b>Total Investment Income</b>	161,883	180,422
<b>Operating Expenses</b>		
Base management fee (Note 13)	28,463	29,957
Income incentive fee (Note 13)	17,765	21,290
Interest and credit facility expenses	38,898	37,908
Allocation of overhead from Prospect Administration (Note 13)	3,494	3,365
Audit, compliance and tax related fees	375	393
Directors' fees	113	79
Other general and administrative expenses	1,715	2,271
<b>Total Operating Expenses</b>	90,823	95,263
<b>Net Investment Income</b>	71,060	85,159
<b>Net Realized and Net Change in Unrealized (Losses) Gains from Investments</b>		
Net realized (losses) gains		
Control investments	—	1
Non-control/non-affiliate investments	(2,198)	1,040
Net realized (losses) gains	(2,198)	1,041
Net change in unrealized (losses) gains		
Control investments	(39,021)	51,918
Affiliate investments	18,020	(13,755)
Non-control/non-affiliate investments	(27,458)	(37,114)
Net change in unrealized (losses) gains	(48,459)	1,049
<b>Net Realized and Net Change in Unrealized (Losses) Gains from Investments</b>	(50,657)	2,090
Net realized losses on extinguishment of debt	(2,338)	(3,454)
<b>Net Increase in Net Assets Resulting from Operations</b>	\$ 18,065	\$ 83,795
Net increase in net assets resulting from operations per share	\$ 0.05	\$ 0.23
Dividends declared per share	\$ (0.18)	\$ (0.18)

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
(in thousands, except share data)  
(Unaudited)

Three Months Ended September 30, 2018 (Unaudited)	Common Stock			Distributable earnings (loss) <sup>(1)</sup>	Total Net Assets
	Shares	Par	Paid-in capital in excess of par		
<b>Balance as of June 30, 2018</b>	364,409,938	\$364	\$ 4,021,541	\$ (614,858)	\$ 3,407,047
Net Increase in Net Assets resulting from Operations:					
Net investment income				85,159	85,159
Net realized losses				(2,413)	(2,413)
Net change in unrealized gain				1,049	1,049
Distributions to Shareholders					
Distributions from earnings				(65,694)	(65,694)
Shares issued through reinvestment of dividends	815,201	1	5,795		5,796
Tax reclassifications of net assets (Note 12)			(31)	31	—
Total increase (decrease) for the three months ended September 30, 2018	815,201	1	5,764	18,132	23,897
<b>Balance as of September 30, 2018</b>	<u>365,225,139</u>	<u>\$365</u>	<u>\$ 4,027,305</u>	<u>\$ (596,726)</u>	<u>\$ 3,430,944</u>

Three Months Ended September 30, 2019 (Unaudited)	Common Stock			Distributable earnings (loss)	Total Net Assets
	Shares	Par	Paid-in capital in excess of par		
<b>Balance as of June 30, 2019</b>	367,131,025	\$367	\$ 4,039,872	\$ (733,964)	\$ 3,306,275
Net Increase in Net Assets resulting from Operations:					
Net investment income				71,060	71,060
Net realized losses				(4,536)	(4,536)
Net change in unrealized losses				(48,459)	(48,459)
Distributions to Shareholders					
Distributions from earnings				(66,111)	(66,111)
Shares issued through reinvestment of dividends	232,847	—	1,544		1,544
Tax reclassifications of net assets (Note 12)			(78)	78	—
Total increase (decrease) for the three months ended September 30, 2019	232,847	—	1,466	(47,968)	(46,502)
<b>Balance as of September 30, 2019</b>	<u>367,363,872</u>	<u>\$367</u>	<u>\$ 4,041,338</u>	<u>\$ (781,932)</u>	<u>\$ 3,259,773</u>

(1) See Note 2. Significant Accounting Policies and Recent Accounting Updates.

See notes to consolidated financial statements.

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

	<b>Three Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating Activities</b>		
Net increase in net assets resulting from operations	\$ 18,065	\$ 83,795
Net realized losses on extinguishment of debt	2,338	3,454
Net realized losses (gains) on investments	2,198	(1,041)
Net change in net unrealized losses (gains) on investments	48,459	(1,049)
Amortization of discounts (accretion of premiums), net	1,704	(7,839)
Accretion of discount on Public Notes (Note 6)	254	131
Amortization of deferred financing costs	2,241	2,716
Payment-in-kind interest	(14,498)	(9,325)
Structuring fees	(612)	(2,854)
Change in operating assets and liabilities:		
Payments for purchases of investments	(79,430)	(242,463)
Proceeds from sale of investments and collection of investment principal	245,173	55,166
Decrease in due to broker	—	(6,159)
(Decrease) increase in due to Prospect Capital Management	(297)	2,282
Decrease (increase) in interest receivable, net	13,978	(3,733)
Decrease in interest payable	(11,740)	(6,376)
Decrease in accrued expenses	(726)	(891)
Increase in due from broker	(4,121)	(99,805)
Increase in other liabilities	39	629
Decrease in other receivables	3,126	508
Increase in due from affiliate	—	(5,800)
Decrease in prepaid expenses	281	36
(Decrease) Increase in due to Prospect Administration	(1,374)	184
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>225,058</b>	<b>(238,434)</b>
<b>Financing Activities</b>		
Borrowings under Revolving Credit Facility (Note 4)	211,000	436,000
Principal payments under Revolving Credit Facility (Note 4)	(270,000)	(69,000)
Issuances of Public Notes, net of original issue discount (Note 6)	—	125,644
Redemptions of Public Notes (Note 6)	—	(153,536)
Redemptions of Convertible Notes, net (Note 5)	(47,016)	—
Issuances of Prospect Capital InterNotes® (Note 7)	95,135	39,757
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(145,459)	(31,794)
Financing costs paid and deferred	(5,088)	(12,494)
Dividends paid	(64,554)	(59,849)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(225,982)</b>	<b>274,728</b>
<b>Net (Decrease) Increase in Cash</b>	<b>(924)</b>	<b>36,294</b>
Cash at beginning of period	107,098	83,758
<b>Cash at End of Period</b>	<b>\$ 106,174</b>	<b>\$ 120,052</b>
<b>Supplemental Disclosures</b>		
Cash paid for interest	\$ 48,143	\$ 41,437
<b>Non-Cash Financing Activities</b>		
Value of shares issued through reinvestment of dividends	\$ 1,544	\$ 5,796
Cost basis of investments written off as worthless	\$ 2,420	\$ —

See notes to consolidated financial statements.

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

Portfolio Company	Industry	Investments(1)(44)	Acquisition Date(51)	September 30, 2019 (Unaudited)			% of Net Assets
				Principal Value	Amortized Cost	Fair Value(2)	
<b>Control Investments (greater than 25.00% voting control)(49)</b>							
CP Energy Services Inc. (20)	Energy Equipment & Services	Senior Secured Term Loan (13.11% (LIBOR + 11.00% with 1.00% LIBOR floor), due 12/29/2022)(11)	10/1/2017	\$ 35,048	\$ 35,048	\$ 35,048	1.1%
		Senior Secured Term Loan A to Spartan Energy Services, Inc. (10.04% (LIBOR + 8.00% with 1.00% LIBOR floor), due 12/31/2022)(13)	10/20/2014	13,156	13,156	13,156	0.4%
		Senior Secured Term Loan B to Spartan Energy Services, Inc. (16.04% PIK (LIBOR + 14.00% with 1.00% LIBOR floor), due 12/31/2022)(13)(46)	10/20/2014	22,440	22,440	22,440	0.7%
		Series B Convertible Preferred Stock (16.00%, 790 shares)(16)	10/30/2015		63,225	56,293	1.7%
		Common Stock (102,924 shares)(16)	8/2/2013		81,203	2,816	0.1%
				<b>215,072</b>	<b>129,753</b>	<b>4.0%</b>	
Credit Central Loan Company, LLC(21)	Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2024)(14)(46)	12/28/2012	56,862	53,616	56,862	1.8%
		Class A Units (14,867,312 units)(14)(16)	12/28/2012		19,331	21,219	0.7%
		Net Revenues Interest (25% of Net Revenues)(14)(16)	1/28/2015		—	—	—%
				<b>72,947</b>	<b>78,081</b>	<b>2.5%</b>	
Echelon Transportation, LLC	Aerospace & Defense	Senior Secured Term Loan (11.99% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(13)(46)	3/31/2014	39,917	39,917	39,917	1.2%
		Senior Secured Term Loan (11.24% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 1.00% PIK, due 12/7/2024)(13)(46)	12/9/2016	19,198	19,198	19,198	0.6%
		Membership Interest (100%)(16)	3/31/2014		22,738	31,279	1.0%
				<b>81,853</b>	<b>90,394</b>	<b>2.8%</b>	
First Tower Finance Company LLC(23)	Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 10.50% PIK, due 6/24/2024)(14)(46)	6/24/2014	278,043	278,043	278,043	8.5%
		Class A Units (95,709,910 units)(14)(16)	6/14/2012		81,146	218,976	6.7%
				<b>359,189</b>	<b>497,019</b>	<b>15.2%</b>	
Freedom Marine							