

PROSPECT ENERGY CORP  
Form 10-Q  
November 09, 2006

---

**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, 2006**

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

**Commission File Number: 333-114552**

**PROSPECT ENERGY 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**  
**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 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 November 9, 2006 was 12,867,341.

**PROSPECT ENERGY CORPORATION**  
**FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2006**  
**TABLE OF CONTENTS**

		<b>Page</b>
<b>PART I.</b>	<b><u>FINANCIAL INFORMATION</u></b>	3
Item 1.	<u>FINANCIAL STATEMENTS</u>	3
	<u>Statements of Net Assets as of September 30, 2006 (unaudited) and June 30, 2006</u>	3
	<u>Statements of Operations (unaudited) - For the Three Months Ended</u>	
	<u>September 30, 2006 and September 30, 2005</u>	4
	<u>Statements of Changes in Net Assets For the Three Months Ended</u>	
	<u>September 30, 2006 (unaudited) and the Year Ended June 30, 2006</u>	5
	<u>Statements of Cash Flows (unaudited) - For the Three Months Ended</u>	
	<u>September 30, 2006 and September 30, 2005</u>	6
	<u>Schedule of Investments as of September 30, 2006 (unaudited)</u>	7
	<u>Schedule of Investments as of June 30, 2006</u>	12
	<u>Notes to Financial Statements</u>	16
	<u>Management's Discussion and Analysis of Financial</u>	
Item 2.	<u>Condition and Results of Operations</u>	25
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4.	<u>Controls and Procedures</u>	30
<b>PART II.</b>	<b><u>OTHER INFORMATION</u></b>	30
Item 1.	<u>Legal Proceedings</u>	30
Item 1A.	<u>Risk Factors</u>	31
	<u>Unregistered Sales in Equity Securities and Use of</u>	
Item 2.	<u>Proceeds</u>	31
Item 3.	<u>Defaults Upon Senior Securities</u>	31
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	31
Item 5.	<u>Other Information</u>	31
Item 6.	<u>Exhibits</u>	32
	<u>Signature</u>	33

**PART I: FINANCIAL INFORMATION**

In this Quarterly Report, the terms "we," "us," "our," "Company" and "Prospect Energy" refer to Prospect Energy 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 ENERGY CORPORATION**  
**STATEMENTS OF NET ASSETS**  
(in 000s, except shares and per share data)

	September 30, 2006 (Unaudited)	June 30, 2006 (1)
<b>Assets</b>		
Investments at fair value (cost of \$147,841 and \$123,593, respectively, Note 3):		
Control investments (cost of \$62,585 and \$39,759, respectively)	\$ 73,610	\$ 49,585
Affiliate investments (cost of \$28,382 and \$25,329, respectively)	28,383	25,329
Non-control/Non-affiliate investments (cost of \$56,874 and \$58,505, respectively)	54,964	59,055
Total investments at fair value	156,957	133,969
Investments in money market funds	33,453	1,608
Receivables for:		
Interest	1,959	1,639
Dividends	149	13
Loan principal	454	385
Securities sold	□	369
Due from Prospect Administration (Note 5)	21	5
Due from Prospect Capital Management (Note 5)	□	28
Prepaid expenses	266	77
Deferred financing costs	830	355
Deferred offering costs	□	32
<b>Total Assets</b>	<b>194,089</b>	<b>138,480</b>
<b>Liabilities</b>		
Credit facility payable	□	28,500
Due to Prospect Capital Management (Note 5)	1,141	745
Accrued expenses	1,616	843
Other current liabilities	158	122
<b>Total Liabilities</b>	<b>2,915</b>	<b>30,210</b>
<b>Net Assets</b>	<b>\$ 191,174</b>	<b>\$ 108,270</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; 12,867,341 and 7,069,873 issued and outstanding, respectively)	\$ 13	\$ 7
Paid-in capital in excess of par	181,059	97,266

Undistributed (distributions in excess of) net investment income	(1,266)	319
Accumulated realized gains on investments	2,252	301
Unrealized appreciation on investments	9,116	10,377
<b>Net Assets</b>	<b>\$ 191,174</b>	<b>\$ 108,270</b>
<b>Net Asset Value Per Share</b>	<b>\$ 14.86</b>	<b>\$ 15.31</b>

(1) Certain amounts have been reclassified to conform to the current period's presentation

See notes to financial statements.

3

**PROSPECT ENERGY CORPORATION**  
**STATEMENTS OF OPERATIONS**  
(in 000s, except shares and per share data)  
(Unaudited)

	Three Months Ended	
	September 30, 2006	September 30, 2005 (1)
<b>Investment Income</b>		
Interest income:		
Control investments	\$ 2,246	\$ 828
Affiliate investments (Net of foreign withholding tax of \$110)	981	□
Non-control/Non-affiliate investments	2,079	1,350
Cash equivalents		179
Total interest income	5,306	2,357
Dividend income:		
Control investments	850	556
Non-control/Non-affiliate investments		146
Money market funds	276	50
Total dividend income	1,126	752
<b>Total Investment Income</b>	<b>6,432</b>	<b>3,109</b>
<b>Operating Expenses</b>		
Investment advisory fees:		
Base management fee (Note 5)	616	510
Income incentive fee (Note 5)	818	
Total investment advisory fees	1,434	510
Interest expense and credit facility costs	662	
Chief Compliance Officer and Sub-administration fees	119	81
Legal fees	280	719
Valuation services	93	41
Sarbanes-Oxley compliance expenses	45	

Other professional fees	292	122
Insurance expense	75	98
Directors' fees	63	55
Other general and administrative expenses	95	68
<b>Total Operating Expenses</b>	<b>3,158</b>	<b>1,694</b>
<b>Net Investment Income</b>	<b>3,274</b>	<b>1,415</b>
Net realized gain (loss) on investments	1,951	(18)
Net change in unrealized appreciation (depreciation) on investments	(1,261)	76
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 3,964</b>	<b>\$ 1,473</b>
Net increase in net assets resulting from operations per share:	\$ 0.40	\$ 0.21
Weighted average shares of common stock outstanding:	9,856,132	7,055,100

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

See notes to financial statements.

4

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

	Three Months Ended	
	September 30, 2006	September 30, 2005 (1)
<b>Increase in Net Assets from Operations:</b>		
Net investment income	\$ 3,274	\$ 1,415
Net realized gain (loss) on investments	1,951	(18)
Net change in unrealized appreciation (depreciation) on investments	(1,261)	76
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>3,964</b>	<b>1,473</b>
<b>Dividends to Shareholders:</b>	<b>(4,859)</b>	<b>(1,411)</b>
<b>Capital Share Transactions:</b>		

Net proceeds from shares sold	83,120	
Less offering costs of public share offerings	(594)	
Reinvestment of dividends	1,273	
<b>Net Increase in Net Assets Resulting from Capital Share Transactions</b>	<b>83,799</b>	
<b>Total Increase in Net Assets:</b>	<b>82,904</b>	<b>62</b>
Net assets at beginning of period	108,270	102,967
<b>Net Assets at End of Period</b>	<b>\$ 191,174</b>	<b>\$ 103,029</b>
<b>Capital Share Activity:</b>		
Shares sold	5,716,650	
Shares issued through reinvestment of dividends	80,818	
Net increase in capital share activity	5,797,468	
Shares outstanding at beginning of period	7,069,873	7,055,100
<b>Shares Outstanding at End of Period</b>	<b>12,867,341</b>	<b>7,055,100</b>

See notes to financial statements.

5

**PROSPECT ENERGY CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
 (in 000s, except share data)  
 (Unaudited)

	Three Months Ended	
	September 30, 2006	September 30, 2005 (1)
<b>Cash Flows from Operating Activities:</b>		
Net increase in net assets resulting from operations	\$ 3,964	\$ 1,473
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net change in unrealized appreciation (depreciation) on investments	1,261	(76)
Net realized gain (loss) on investments	(1,951)	
Accretion of original issue discount on investments	(404)	(131)
<b>Change in operating assets and liabilities:</b>		
Purchases of investments	(24,573)	(898,039)
Sales of investments	2,679	899,911
Net investments in money market funds	(31,845)	(1,461)
Increase in interest receivable	(320)	(296)
Increase in dividends receivable	(136)	
Increase in loan principal receivable	(69)	
Decrease in receivable for securities sold	369	

Edgar Filing: PROSPECT ENERGY CORP - Form 10-Q

Decrease in due from Gas Solutions Holdings, Inc.		194
Increase in due from Prospect Administration	(16)	(14)
Decrease (increase) in due from Prospect Capital Management	28	(3)
Increase in prepaid expenses	(189)	(248)
Increase in deferred financing costs	(475)	
Decrease in deferred offering costs	32	
Increase in due to Prospect Capital Management	396	(61)
Increase in accrued expenses	773	196
Increase (decrease) in other current liabilities	36	(34)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(50,440)</b>	<b>1,411</b>
<b>Cash Flows from Financing Activities:</b>		
Borrowings under credit facility	(28,500)	
Net proceeds from issuance of common stock	83,120	
Offering costs from issuance of common stock	(594)	
Dividends declared and paid	(3,586)	(1,411)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>50,440</b>	<b>(1,411)</b>
<b>Net Increase in Cash</b>		
Cash, beginning of period		9,587
<b>Cash, End of Period</b>	<b>\$</b>	<b>\$ 9,587</b>
<b>Cash Paid For Interest</b>	<b>\$ 368</b>	<b>\$</b>
<b>Non-Cash Financing Activity:</b>		
Shares issued in connection with dividend reinvestment plan	\$ 1,273	\$

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

See notes to financial statements.

**SCHEDULE OF INVESTMENTS**  
**September 30, 2006**  
(in 000s except share amounts)  
(unaudited)

Portfolio Investments (1)	Locale/ Industry	Par Value/ Shares	Cost	Fair Value (2)	% of Net Assets
<b>Control Investments (25.00% or greater of voting control)</b>					
Gas Solutions Holdings, Inc. (3)	Texas/Gas Gathering and Processing				
Common shares		100	\$ 4,875	\$ 17,600	9.2%
Subordinated secured note, 18.00% due 12/22/2011		\$ 18,400	18,400	18,400	9.6%
<b>Total</b>			<b>23,275</b>	<b>36,000</b>	<b>18.8%</b>
NRG Manufacturing, Inc. (3)	Texas/ Manufacturing				
Common shares		1,000	1,652	1,652	0.9%
Senior secured note, 16.50% (4) due 8/31/2013		\$ 9,362	9,362	9,362	4.9%
<b>Total</b>			<b>11,014</b>	<b>11,014</b>	<b>5.8%</b>
Whymore Coal Company, Inc. (5)	Kentucky/ Mining and Coal Production				
Equity ownership		Various			0.0%
Senior secured note, 16.078% (6) due 12/31/2010		\$ 8,067	8,074	6,374	3.3%
<b>Total</b>					