

PROSPECT CAPITAL CORP

Form 10-Q

February 09, 2010

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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, 2009

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)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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. (Check one):

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 Exchange Act). Yes No

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of February 9, 2010 was 63,586,731.

PROSPECT CAPITAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2009
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Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

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CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES****December 31, 2009 and June 30, 2009****(in thousands, except share and per share data)**

	December 31, 2009 (Unaudited)	June 30, 2009 (Audited)
Assets (Note 10)		
Investments at fair value (cost of \$633,636 and \$531,424, respectively, Note 3)		
Control investments (cost of \$165,867 and \$187,105, respectively)	\$ 191,898	\$ 206,332
Affiliate investments (cost of \$68,052 and \$33,544, respectively)	66,479	32,254
Non-control/Non-affiliate investments (cost of \$399,717 and \$310,775, respectively)	389,758	308,582
Total investments at fair value	648,135	547,168
Investments in money market funds	23,418	98,735
Cash	3,844	9,942
Receivables for:		
Interest, net	5,723	3,562
Dividends	2	28
Other	359	571
Prepaid expenses	175	68
Due from Prospect Administration (Note 8)	998	
Deferred financing costs, net	5,891	6,951
Other assets	535	
Total Assets	\$ 689,080	\$ 667,025
Liabilities		
Credit facility payable (Note 10)	10,000	124,800
Dividend payable	25,894	
Due to Prospect Administration (Note 8)		842
Due to Prospect Capital Management (Note 8)	7,412	5,871
Accrued expenses	8,039	2,381
Other liabilities	258	535
Total Liabilities	51,603	134,429
Net Assets	\$ 637,477	\$ 532,596

Components of Net Assets

Common stock, par value \$0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 63,349,746 and 42,943,084 issued and outstanding, respectively)	\$	63	\$	43
Paid-in capital in excess of par		741,520		545,707
Under/(over) distributed net investment income		(14,326)		24,152
Accumulated realized losses on investments		(104,279)		(53,050)
Unrealized appreciation on investments		14,499		15,744
Net Assets	\$	637,477	\$	532,596
Net Asset Value Per Share	\$	10.06	\$	12.40

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For The Three and Six Months Ended December 31, 2009 and 2008
(in thousands, except share and per share data)
(Unaudited)

	For The Three Months		For The Six Months Ended	
	Ended		December 31,	
	December 31,		December 31,	
	2009	2008	2009	2008
Investment Income				
Interest Income				
Control investments (Net of foreign withholding tax of (\$52), \$62, (\$19), and \$109, respectively)	\$ 5,052	\$ 5,075	\$ 9,643	\$ 11,797
Affiliate investments (Net of foreign withholding tax of \$0, \$0, \$0, and \$0, respectively)	1,539	1,075	2,388	1,635
Non-control/non-affiliate investments	11,948	11,091	21,343	21,365
Total interest income	18,539	17,241	33,374	34,797
Dividend income				
Control investments	4,160	4,584	10,360	9,168
Money market funds	10	81	28	220
Total dividend income	4,170	4,665	10,388	9,388
Other income: (Note 5)				
Control/affiliate investments	75	87	75	831
Gain on Patriot acquisition (Note 2)	5,714		5,714	
Non-control/non-affiliate investments	385	220	849	12,996
Total other income	6,174	307	6,638	13,827
Total Investment Income	28,883	22,213	50,400	58,012
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 8)	3,176	2,940	6,385	5,763
Income incentive fee (Note 8)	4,231	2,990	7,311	8,865
Total investment advisory fees	7,407	5,930	13,696	14,628
Interest and credit facility expenses	1,995	1,965	3,369	3,483

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Sub-administration fees (Including former Chief Financial Officer and Chief Compliance Officer)		217		467
Legal fees	390	184	390	483
Valuation services	153	110	273	422
Audit, compliance and tax related fees	239	306	501	629
Allocation of overhead from Prospect Administration (Note 8)	840	588	1,680	1,176
Insurance expense	63	63	126	124
Directors fees	64	62	128	143
Other general and administrative expenses	807	295	994	462
Tax expense		533		533
Total Operating Expenses	11,958	10,253	21,157	22,550
Net Investment Income	16,925	11,960	29,243	35,462
Net realized (loss) gain on investments	(51,229)	16	(51,229)	1,661
Net change in unrealized appreciation/depreciation on investments	17,451	(5,452)	(1,245)	(16,601)
Net (Decrease) Increase in Net Assets Resulting from Operations	\$ (16,853)	\$ 6,524	\$ (23,231)	\$ 20,522
Net (decrease) increase in net assets resulting from operations per share: (Note 7)	\$ (0.29)	\$ 0.22	\$ (0.43)	\$ 0.69
Dividends/distributions declared per share:	\$ 0.41	\$ 0.40	\$ 0.82	\$ 0.80

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, 2009 and 2008
(in thousands, except share data)
(Unaudited)

	For The Six Months Ended	
	December	
	31,	December 31,
	2009	2008
(Decrease) Increase in Net Assets from Operations:		
Net investment income	\$ 29,243	\$ 35,462
Net realized (loss) gain on investments	(51,229)	1,661
Net change in unrealized depreciation on investments	(1,245)	(16,601)
Net (Decrease) Increase in Net Assets Resulting from Operations	(23,231)	20,522
Dividends/Distributions to Shareholders:	(67,721)	(23,848)
Capital Share Transactions:		
Net proceeds from capital shares sold	98,833	
Less: Offering costs of public share offerings	(1,158)	
Fair value of equity issued in conjunction with Patriot acquisition	92,800	
Reinvestment of dividends/distributions	5,358	1,506
Net Increase in Net Assets Resulting from Capital Share Transactions	195,833	1,506
Total Increase in Net Assets:	104,881	(1,820)
Net assets at beginning of period	532,596	429,623
Net Assets at End of Period	\$ 637,477	\$ 427,803
Capital Share Activity:		
Shares sold	11,431,797	
Shares issued for Patriot acquisition	8,444,068	
Shares issued through reinvestment of dividends/distributions	530,797	117,549
Net increase in capital share activity	20,406,662	117,549
Shares outstanding at beginning of period	42,943,084	29,520,379
Shares Outstanding at End of Period	63,349,746	29,637,928

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, 2009 and 2008
(in thousands, except share data)
(Unaudited)

	For The Six Months Ended December 31,	
	2009	2008
Cash Flows from Operating Activities:		
Net (decrease) increase in net assets resulting from operations	\$ (23,231)	\$ 20,522
Net realized loss (gain) on investments	51,229	(1,661)
Net change in unrealized depreciation on investments	1,245	16,601
Accretion of original issue discount on investments	(6,670)	(2,128)
Amortization of deferred financing costs	2,106	360
Gain on settlement of net profits interest		(12,576)
Gain on Patriot acquisition	(5,714)	
Change in operating assets and liabilities:		
Payments for purchases of investments	(7,321)	(70,513)
Payment-in-kind interest	(2,059)	(931)
Proceeds from sale of investments and collection of investment principal	69,735	13,077
Purchases of cash equivalents	(199,997)	(19,999)
Sales of cash equivalents	199,997	19,999
Net decrease investments in money market funds	75,317	10,394
Decrease (increase) in interest receivable	163	(336)
Decrease in dividends receivable	26	4,229
Decrease in loan principal receivable		71
Increase in receivable for managerial assistance		(25)
Increase in receivable for potential deal expenses		(86)
Decrease (increase) in other receivables	212	(17)
Increase in prepaid expenses	(72)	(505)
Decrease in due from Prospect Administration	502	
Increase in other assets	(535)	
Decrease in due to Prospect Administration	(842)	(12)
Increase (decrease) in due to Prospect Capital Management	1,541	(317)
(Decrease) increase in accrued expenses	(227)	997
Decrease in other liabilities	(277)	(270)
Net Cash Provided By (Used In) Operating Activities:	155,128	(23,126)
Cash Flows from Investing Activities:		
Acquisition of Patriot, net of cash acquired (Note 2)	(106,586)	
Net Cash Used In Investing Activities:	(106,586)	
Cash Flows from Financing Activities:		

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Borrowings under credit facility	60,000	54,500
Payments under credit facility	(174,800)	(7,000)
Financing costs paid and deferred	(1,046)	(270)
Net proceeds from issuance of common stock	98,833	
Offering costs from issuance of common stock	(1,158)	
Dividends/distributions paid	(36,469)	(22,221)
Net Cash Provided By Financing Activities:	54,640	25,009
Total (Decrease) Increase in Cash	(6,098)	1,883
Cash balance at beginning of period	9,942	555
Cash Balance at End of Period	\$ 3,844	\$ 2,438
Cash Paid For Interest	\$ 496	\$ 2,862
Non-Cash Financing Activity:		
Amount of shares issued in connection with Patriot acquisition	\$ 92,800	\$
Amount of shares issued in connection with dividend reinvestment plan	\$ 5,358	\$ 2,901

See notes to consolidated financial statements.

Table of Contents**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2009 and June 30, 2009****(in thousands, except share data)**

Portfolio Company	Locale / Industry	Investments ⁽¹⁾	December 31, 2009			% of Net Assets
			Principal Value	Cost	Fair Value ⁽²⁾	
LEVEL 3 INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note Tranche A (10.50%, due 4/01/2013) ^{(3), (4)}	\$ 21,266	\$ 21,266	\$ 21,266	3.3%
		Subordinated Secured Note Tranche B (11.50% plus 6.00% PIK, due 4/01/2013) ^{(3), (4)}	12,038	12,038	4,536	0.7%
		Subordinated Secured Note Tranche B (15.00%, due 10/30/2010)	500	500		0.0%
		Convertible Preferred Stock Series A (6,143 shares)		6,057		0.0%
		Unrestricted Common Stock (6 shares)				0.0%
				39,861	25,802	4.0%
AWCNC, LLC ⁽²⁰⁾	North Carolina / Machinery	Members Units Class A (1,800,000 units)				0.0%
		Members Units Class B-1 (1 unit)				0.0%
		Members Units Class B-2				0.0%

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		(7,999,999 units)							0.0%
C&J Cladding LLC	Texas / Metal Services and Minerals	Warrants (400 warrants, expiring 3/30/2014)		580	3,095				0.5%
				580	3,095				0.5%
Change Clean Energy Holdings, Inc. (CCEHI ⁵)	Maine / Biomass Power	Common Stock (1,000 shares)		2,825	1,976				0.3%
				2,825	1,976				0.3%
Coalbed, Inc. / Coalbed, LLC ⁽⁶⁾	Tennessee / Oil & Gas Production	Senior Secured Note (14.50%, in non-accrual status effective 10/21/2009, due 6/30/2010) Common Stock (1,000 shares)	10,441	10,441	3,686				0.6%
									0.0%
				10,441	3,686				0.6%
Fischbein, LLC	North Carolina / Machinery	Senior Subordinated Debt (12.00% plus 6.50% PIK, due 5/01/2013) Membership Interest Class A (2,800,000 units)	3,707	3,508	3,515				0.5%
					1,877	1,876			0.3%
					5,385	5,391			0.8%
Freedom Marine Services	Louisiana /	Subordinated Secured Note (16.00% PIK, due 12/31/2011) ⁽³⁾	7,960	7,899	6,181				1.0%

LLC	Shipping Vessels	Net Profits Interest (22.50% payable on Equity distributions) ⁽³⁾ , (7)					0.0%
				7,899	6,181	1.0%	
Gas Solutions Holdings, Inc. ⁽⁸⁾	Texas / Gas	Senior Secured Note (18.00%, due 12/22/2018) ⁽³⁾	25,000	25,000	25,000	3.9%	
	Gathering and Processing	Junior Secured Note (18.00%, due 12/23/2018) ⁽³⁾	5,000	5,000	5,000	0.8%	
		Common Stock (100 shares) ⁽³⁾		5,003	55,187	8.7%	
				35,003	85,187	13.4%	
Integrated Contract Services, Inc. ⁽⁹⁾	North Carolina / Contracting	Senior Demand Note (15.00%, due 12/31/2009) ⁽¹⁰⁾	1,170	1,170	1,170	0.2%	
		Senior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due)	800	800	928	0.1%	
		Junior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due)	14,003	14,003	3,177	0.5%	
		Preferred Stock Series A (10 shares)					0.0%
				679			0.0%

Common Stock
(49 shares)

16,652 5,275 0.8%

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

December 31, 2009 and June 30, 2009

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments ⁽¹⁾	December 31, 2009			% of Net Assets
			Principal Value	Cost	Fair Value ⁽²⁾	
LEVEL 3 INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
Iron Horse Coiled Tubing, Inc.	Alberta, Canada / Production Services	Bridge Loan (15.00% plus 3.00% PIK, in non-accrual status effective 5/01/2009, due 12/31/2009)	\$ 11,418	\$ 11,199	\$ 10,440	1.6%
		Senior Secured Note (15.00%, in non-accrual status effective 5/01/2009, due 12/31/2009)	9,250	9,250	1,878	0.3%
		Common Stock (1,781 shares)		268		0.0%
				20,717	12,318	1.9%
NRG Manufacturing, Inc.	Texas / Manufacturing	Senior Secured Note (16.50%, due 8/31/2011) ⁽³⁾ , ⁽⁴⁾	13,080	13,080	13,080	2.1%
		Common Stock (800 shares)		2,317	13,610	2.1%
				15,397	26,690	4.2%
Nupla Corporation	California / Home & Office Furnishings,	Revolving Line of Credit (0.50% - 7.25% plus 2.00% default interest, due 9/04/2012) ⁽⁴⁾	1,093	933	929	0.2%
		Housewares & Durable	Senior Secured Term Loan A (8.00% plus 2.00% default interest, due 9/04/2012) ⁽⁴⁾	5,139	1,503	1,503
		Senior Subordinated Debt (10.00% plus 5.00% PIK, in non-accrual status effective 4/01/2009, due 3/04/2013)	3,204			0.0%
		Preferred Stock Class A (475 shares)				0.0%

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		Preferred Stock Class B (1,045 shares)							0.0%
		Common Stock (1,140,584 shares)							
						2,436	2,432		0.4%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Warrants (200,000 warrants, expiring 6/30/2017)				1,682	3,211		0.5%
		Common Stock (545,107 shares)				5,086	8,751		1.4%
						6,768	11,962		1.9%
Sidump r Trailer Company, Inc.	Nebraska / Automobile	Revolving Line of Credit (0.50% - 7.25%, in non-accrual status effective 11/01/2008, due 1/10/2011) ⁽⁴⁾	950			404	404		0.0%
		Senior Secured Term Loan A (7.25%, in non-accrual status effective 11/01/2008, due 1/10/2011) ⁽⁴⁾	2,048			464	464		0.1%
		Senior Secured Term Loan B (8.75%, in-non-accrual status effective 11/01/2008, due 1/10/2011) ⁽⁴⁾	2,321						0.0%
		Senior Secured Term Loan C (16.50% PIK, in non-accrual status effective 9/27/2008, due 7/10/2011)	2,841						0.0%
		Senior Secured Term Loan D (7.25%, in non-accrual status effective 11/01/2008, due 7/10/2011) ⁽⁴⁾	1,700						0.0%
		Preferred Stock (49,635 shares)							0.0%
		Common Stock (64,050 shares)							0.0%
						868	868		0.1%
Yatesville Coal Holdings, Inc. ⁽¹¹⁾	Kentucky / Mining, Steel, Iron and Non-Precious Metals and Coal Production	Senior Secured Note (15.77%, in non-accrual status effective 1/01/2009, due 12/31/2010) ⁽⁴⁾	10,000			1,035	1,035		0.2%

Junior Secured Note (15.77%, in non-accrual status effective 1/01/2009, due 12/31/2010) ⁽⁴⁾	41,836		0.0%
Common Stock (1,000 shares)			0.0%
		1,035	1,035
			0.2%
Total Control Investments	165,867	191,898	30.1%

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

December 31, 2009 and June 30, 2009

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments ⁽¹⁾	December 31, 2009			% of Net Assets	
			Principal Value	Cost	Fair Value ⁽²⁾		
LEVEL 3 INVESTMENTS:							
Affiliate Investments (5.00% to 24.99% voting control)							
Appalachian Energy Holdings LLC ⁽¹²⁾	West Virginia / Construction Services	Senior Secured Debt Tranche A (14.00% plus 3.00% PIK plus 3.00% default interest, in non-accrual status effective 11/01/2008, due 1/31/2011)	\$ 2,066	\$ 1,897	\$ 1,165	0.2%	
		Senior Secured Debt Tranche B (14.00% plus 3.00% PIK plus 3.00% default interest, in non-accrual status effective 11/01/2008, past due)	2,120	1,960		0.0%	
		Preferred Stock Series A (200 units)		82		0.0%	
		Preferred Stock Series B (241 units)		241		0.0%	
		Preferred Stock Series C (500 units)		500		0.0%	
		Warrants (6,065 warrants, expiring 2/13/2016)		176		0.0%	
		Warrants (6,025 warrants, expiring 6/17/2018)		172		0.0%	
		Warrants (25,000 warrants, expiring 11/30/2018)				0.0%	
					5,028	1,165	0.2%
		Biotronic NeuroNetwork ⁽¹⁷⁾	Michigan / Healthcare	Senior Secured Note (11.50% plus 1.00% PIK, due 2/21/2013) ^{(3), (4)}	26,227	26,227	27,014
Preferred Stock (9,925 shares) ⁽¹³⁾				2,300	3,497	0.6%	
				28,527	30,511	4.8%	
					0.0%		

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Boxercraft Incorporated	Georgia / Textiles & Leather	Revolving Line of Credit (0.50%, due 9/16/2013)				
		Senior Secured Term Loan A (9.50% 10.50%, due 9/16/2013) ⁽⁴⁾	4,049	3,412	3,140	0.5%
		Senior Secured Term Loan B (10.00% 11.00%, due 9/16/2013) ⁽⁴⁾	4,835	3,750	3,788	0.5%
		Senior Secured Term Loan C (12.00% plus 6.50% PIK, due 3/16/2014)	7,003	5,468	5,467	0.9%
		Preferred Stock (1,000,000 shares)				0.0%
		Common Stock (10,000 shares)				0.0%
			12,630	12,395	1.9%	
KTPS Holdings, LLC	Colorado / Textiles & Leather	Revolving Line of Credit (0.50%, due 1/31/2012)				0.0%
		Senior Secured Term Loan A (10.50% 11.25%, due 1/31/2012) ⁽⁴⁾	3,530	3,142	2,840	0.4%
		Senior Secured Term Loan B (12.00%, due 1/31/2012)	445	372	372	0.1%
		Senior Secured Term Loan C (12.00% plus 6.00% PIK, due 3/31/2012)	4,725	4,027	3,959	0.6%
		Membership Interest Class A (730 units)				0.0%
		Membership Interest Common (199,795 units)				0.0%
			7,541	7,171	1.1%	
Miller Petroleum, Inc.	Tennessee / Oil & Gas Production	Warrants, Common Stock (2,117,689 warrants, expiring 5/04/2010 to 12/31/2014) ⁽¹⁴⁾		150	937	0.2%
				150	937	0.2%
Smart, LLC ⁽¹⁵⁾	New York / Diversified / Conglomerate Service	Membership Interest Class B (1,218 units)				0.0%
		Membership Interest Class D (1 unit)				0.0%
						0.0%

See notes to consolidated financial statements.

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

December 31, 2009 and June 30, 2009

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments ⁽¹⁾	December 31, 2009			% of Net Assets
			Principal Value	Cost	Fair Value ⁽²⁾	
LEVEL 3 INVESTMENTS:						
Affiliate Investments (5.00% to 24.99% voting control)						
Sport Helmets Holdings, LLC ⁽¹⁵⁾	New York / Personal & Nondurable Consumer Products	Revolving Line of Credit (0.50%, due 12/14/2013) Senior Secured Term Loan A (4.26% 6.00%, due 12/14/2013) ⁽⁴⁾ Senior Secured Term Loan B (4.76% 6.50%, due 12/14/2013) ⁽⁴⁾ Senior Subordinated Debt Series A (12.00% plus 3.00% PIK, due 6/14/2014) Senior Subordinated Debt Series B (10.00% plus 5.00% PIK, due 6/14/2014) Common Stock (20,000 shares)	\$	\$	0.0%	
			\$ 3,975	2,302	2,329	0.3%
			7,425	4,963	5,072	0.8%
			7,215	5,655	5,646	0.9%
			1,324	898	895	0.1%
				358	358	0.1%
				14,176	14,300	2.2%
		Total Affiliate Investments		68,052	66,479	10.4%
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		141	295	0.0%
				141	295	0.0%
Aircraft Fasteners International, LLC	California / Machinery	Revolving Line of Credit (0.50%, due 11/01/2012) Senior Secured Term Loan (3.92% 5.40%, due 11/01/2012) ⁽⁴⁾	5,188	3,653	3,675	0.6%

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		Junior Secured Term Loan (12.00% plus 2.00% PIK, due 5/01/2013)	5,433	4,555	4,613	0.7%
		Convertible Preferred Stock (32,500 units)		396	396	0.1%
				8,604	8,684	1.4%
American Gilsonite Company	Utah / Specialty Minerals	Senior Subordinated Note (12.00% plus 3.00% PIK, due 3/14/2013) ⁽³⁾	14,783	14,783	15,078	2.4%
		Membership Interest Units in AGC/PEP, LLC (99.9999%) ⁽¹⁶⁾		1,031	2,728	0.4%
				15,814	17,806	2.8%
Arrowhead General Insurance Agency, Inc. ⁽¹⁷⁾	California / Insurance	Junior Secured Term Loan (10.25% plus 2.50% PIK, due 2/8/2013)	5,085	3,873	3,871	0.6%
				3,873	3,871	0.6%
Borga, Inc.	California / Mining, Steel, Iron and Non-Precious Metals and Coal Production	Revolving Line of Credit (0.50% - 5.00% plus 3.00% default interest, due 5/06/2010) ⁽⁴⁾	800	701	680	0.1%
		Senior Secured Term Loan B (8.50% plus 3.00% default interest, due 5/6/2010) ⁽⁴⁾	1,612	1,411	1,375	0.2%
		Senior Secured Term Loan C (12.00% plus 4.00% PIK plus 3.00% default interest, due 5/06/2010)	8,453	651	622	0.1%
		Warrants (33,750 warrants)				0.0%
				2,763	2,677	0.4%

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			Principal Value	Cost	Fair Value ⁽²⁾	
LEVEL 3 INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Caleel + Hayden, LLC ⁽¹⁵⁾	Colorado / Personal & Nondurable Consumer Products	Junior Secured Term Loan B (9.75% 10.00%, due 11/10/2011) ⁽⁴⁾	\$ 8,425	\$ 8,399	\$ 8,416	1.3%
		Senior Subordinated Debt (12.00% plus 4.50% PIK, due 11/10/2012)	6,250	5,779	5,778	0.9%
		Common Stock (7,500 shares)		351	351	0.1%
		Options in Mineral Fusion Natural Brands, LLC (11,662 options)				0.0%
				14,529	14,545	2.3%
Castro Cheese Company, Inc.	Texas / Food Products	Junior Secured Note (11.00% plus 2.00% PIK, due 2/28/2013) ⁽³⁾	7,615	7,505	7,655	1.2%
				7,505	7,655	1.2%
Copernicus Group	North Carolina / Healthcare	Revolving Line of Credit (0.50% 10.50%, due 10/08/2013) ⁽⁴⁾	150	3		0.0%
		Senior Secured Term Loan A (10.50% 11.50%, due 10/08/2013) ⁽⁴⁾	6,250	5,272	5,205	0.8%
		Senior Subordinated Debt (12.00% plus 6.00% PIK 10.00% plus 10.00% PIK, due 4/08/2014)	12,741	10,661	11,948	1.9%
		Preferred Stock Series A (1,000,000 shares)		67		0.0%

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		Preferred Stock Series C (212,121 shares)	212	140	0.0%	
			16,215	17,293	2.7%	
Custom Direct, Inc. (17)	Maryland / Printing & Publishing	Senior Secured Term Loan (3.06%, due 12/31/2013) ⁽⁴⁾	1,651	1,204	1,219	0.2%
		Junior Secured Term Loan (6.31%, due 12/31/2014) ⁽⁴⁾	2,000	1,243	1,278	0.2%
			2,447	2,497	0.4%	
Deb Shops, Inc. ⁽¹⁷⁾	Pennsylvania / Retail	Second Lien Debt (1.00% plus 13.00% PIK, in non-accrual status effective 2/24/2009, due 10/23/2014)	16,378	14,607	2,318	0.4%
			14,607	2,318	0.4%	
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15.00% payable on Equity distributions) ⁽⁷⁾			404	0.1%
				404	0.1%	
EXL Acquisition Corp.	South Carolina / Electronics	Revolving Line of Credit (0.50%, due 3/15/2012)				0.0%
		Senior Secured Term Loan A (3.93% 5.50%, due 3/15/2011) ⁽⁴⁾	1,790	1,494	1,473	0.2%
		Senior Secured Term Loan B (4.18% 5.75%, due 3/15/2012) ⁽⁴⁾	4,053	3,680	3,714	0.6%
		Senior Secured Term Loan C (4.68% 6.25%, due 3/15/2012) ⁽⁴⁾	2,500	2,294	2,316	0.4%
		Senior Secured Term Loan D (12.00% plus 3.00% PIK, due 3/15/2012)	5,967	6,039	6,085	0.9%
		Common Stock Class A (2,475 shares)		509	509	0.1%
		Common Stock Class B (25 shares)		306	306	0.1%
			14,322	14,403	2.3%	

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Fairchild Industrial Products, Co. ⁽²⁾	North Carolina / Electronics	Preferred Stock Class A (378 shares)		377	380	0.1%
		Common Stock Class B (28 shares)		211	211	0.0%
				588	591	0.1%
H&M Oil & Gas, LLC	Texas / Oil & Gas Production	Senior Secured Note (13.00%, due 6/30/2010)	49,661	49,661	46,081	7.2%
		Net Profits Interest (8.00% payable on Equity distributions) ⁽⁷⁾			1,047	0.2%
				49,661	47,128	7.4%

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Portfolio Company	Locale / Industry	Investments ⁽¹⁾	December 31, 2009			% of Net Assets
			Principal Value	Cost	Fair Value ⁽²⁾	
LEVEL 3 INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Hudson Products Holdings, Inc. ⁽¹⁷⁾	Texas / Mining, Steel, Iron and Non-Precious Metals and Coal Production	Senior Secured Term Loan (8.00%, due 8/24/2015) ⁽⁴⁾	\$ 7,406	\$ 6,729	\$ 6,993	1.1%
				6,729	6,993	1.1%
IEC Systems LP (IEC) /Advanced Rig Services LLC (ARS)	Texas / Oilfield Fabrication	IEC Senior Secured Note (12.00% plus 3.00% PIK, due 11/20/2012) ^{(3), (4)}	20,209	20,209	20,209	3.2%
		ARS Senior Secured Note (12.00% plus 3.00% PIK, due 11/20/2012) ^{(3), (4)}	12,128	12,128	12,128	1.9%
				32,337	32,337	5.1%
Impact Products, LLC	Ohio / Machinery	Junior Secured Term Loan (6.25% 8.25%, due 9/09/2012) ⁽⁴⁾	8,835	7,704	7,753	1.2%
		Senior Subordinated Debt (10.00% plus 5.00%, due 9/09/2012)	5,548	5,259	5,260	0.8%
				12,963	13,013	2.0%
Label Corp Holdings, Inc.	Nebraska / Printing & Publishing	Senior Secured Term Loan (8.50%, due 8/08/2014) ⁽⁴⁾	5,823	5,193	5,306	0.8%
				5,193	5,306	0.8%

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LHC Holdings Corp. ⁽¹⁷⁾	Florida / Healthcare	Revolving Line of Credit (0.50%, due 11/30/2012)				0.0%
		Senior Secured Term Loan A (4.31% - 5.75%, due 11/30/2012) ⁽⁴⁾	2,918	2,114	2,177	0.3%
		Senior Subordinated Debt (12.00% plus 2.50% PIK, due 5/31/2013)	4,565	4,157	4,156	0.7%
		Membership Interest (125 units)		216	216	0.0%
				6,487	6,549	1.0%
Mac & Massey Holdings, LLC	Georgia / Food Products	Senior Subordinated Debt (10.00% plus 5.75% PIK, due 2/10/2013)	8,426	6,960	6,940	1.1%
		Common Stock (250 shares)		169	170	0.0%
				7,129	7,110	1.1%
Maverick Healthcare, LLC	Arizona / Healthcare	Second Lien Debt (12.50% plus 3.50% PIK, due 4/30/2014) ⁽³⁾	12,894	12,894	12,894	2.0%
		Preferred Units (1,250,000 units)		1,252	1,693	0.3%
		Common Units (1,250,000 units)				0.0%
				14,146	14,587	2.3%
Northwestern Management Services, LLC	Florida / Healthcare	Revolving Line of Credit (0.50%, due 12/13/2012)				0.0%
		Senior Secured Term Loan A (4.24% - 5.75%, due 12/13/2012) ⁽⁴⁾	5,050	4,050	3,936	0.6%
		Senior Secured Term Loan B (4.74% - 6.25%, due 12/13/2012) ⁽⁴⁾	1,228	864	865	0.1%
		Junior Secured Term Loan (12.00% plus 3.00%, due 6/13/2013)	2,927	2,372	2,370	0.4%
		Common Stock (50 shares)		371	371	0.1%
				7,657	7,542	1.2%

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December 31, 2009 and June 30, 2009

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			December 31, 2009		
Company	Locale / Industry	Investments ⁽¹⁾	Principal Value	Cost	Fair Value ⁽²⁾
INVESTMENTS:					
Control/Non-affiliate Investments (less than 5.00% of voting control)					
General Inc.	New York / Metal Services and Minerals	Junior Secured Term Loan (5.29% 7.00%, due 12/21/2012 ⁽⁴⁾)	\$ 11,175	\$ 7,633	\$ 7,816
		Senior Subordinated Debt (13.00% plus 1.00%, due 7/21/2013)	12,168	1,279	1,269
				8,912	9,085
Pharmaceuticals,	Alabama / Pharmaceuticals	Second Lien Debt (7.78%, due 4/30/2015) ^{(3), (4)}	12,000	11,952	12,000
				11,952	12,000
Investment Corp.	South Carolina / Financial Services	Second Lien Debt (13.00% plus 2.00% PIK, due 6/29/2012) ⁽³⁾	25,685	25,685	24,511
				25,685	24,511
Investment Corporation	Missouri / Manufacturing	Revolving Line of Credit (0.50%, due 2/08/2013)			
		Senior Secured Term Loan A (3.00% 4.75%, due 2/08/2013 ⁽⁴⁾)	5,440	4,600	4,456
		Senior Secured Term Loan B (4.50% 6.25%, due 5/8/2013 ⁽⁴⁾)	8,294	7,035	7,263
		Senior Subordinated Debt (12.00% plus 3.00% due 8/08/2013)	7,282	6,929	6,939
				18,564	18,658
Foods, Inc.	Ohio / Food Products	Second Lien Debt (15.00%, due 10/31/2013) ⁽³⁾	18,000	18,000	18,180
		Membership Interest Units in Mistral Chip Holdings, LLC (2,000 units) ⁽¹⁸⁾		2,000	4,467
				20,000	22,647
			29,500	29,217	28,360

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Energy,	Ohio / Oil & Gas Production	Subordinated Secured Revolving Credit Facility (12.00%, due 12/01/2011) ^{(3), (4)} Overriding Royalty Interests ⁽¹⁹⁾			2,762
				29,217	31,122
Group ⁽¹⁷⁾	California / Healthcare	Subordinated Unsecured Note (12.00% plus 1.50% PIK, due 10/01/2016) ⁽³⁾	15,319	15,185	15,771
				15,185	15,771
	Pennsylvania / Technical Services	Second Lien Debt (13.08%, due 12/31/2013) ^{(3), (4)}	11,500	11,373	11,615
				11,373	11,615
er Corp. and er II Corp.	Utah / Oil & Gas Production	Senior Secured Note (13.00% plus 3.00% default interest, in non-accrual status effective 12/01/2008, due 7/31/2010) ⁽⁴⁾ Net Profits Interest (5.00% payable on Equity distributions) ⁽⁷⁾	15,000	15,000	10,627
				15,000	10,627
		Total Non-Control/Non-Affiliate Investments (Level 3 Investments)		399,598	389,640
			Total Level 3 Portfolio Investments	633,517	648,017

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Portfolio Company	Locale / Industry	Investments ⁽¹⁾	December 31, 2009		% of Net Assets	
			Principal Value	Cost		Fair Value ⁽²⁾
LEVEL 1 INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		\$ 56	\$ 48	0.0%
				56	48	0.0%
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)		63	70	0.0%
				63	70	0.0%
Total Non-Control/Non-Affiliate Investments (Level 1 Investments)				119	118	101.6%
Total Portfolio Investments				633,636	648,135	101.6%
LEVEL 2 INVESTMENTS:						
Money Market Funds						
Fidelity Institutional Money Market Funds	Government Portfolio (Class I)			16,070	16,070	2.5%
Fidelity Institutional Money Market Funds	Government Portfolio (Class I ³)			3,347	3,347	0.5%
Victory Government Money Market Funds				4,001	4,001	0.7%
Total Money Market Funds (Level 2 Investments)				23,418	23,418	3.7%
Total Investments				657,054	671,553	105.3%

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Portfolio Company	Locale / Industry	Investments ⁽¹⁾	Principal Value	June 30, 2009		% of Net Assets
				Cost	Fair Value ⁽²⁾	
LEVEL 3 INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note Tranche A (10.50%, due 4/01/2013) ^{(3), (4)}	\$ 21,487	\$ 21,487	\$ 21,487	4.0%
		Subordinated Secured Note Tranche B (11.50% plus 6.00% PIK, due 4/01/2013) ^{(3), (4)}	11,675	11,675	10,151	1.9%
		Convertible Preferred Stock Series A (6,143 shares)		6,057		0.0%
		Unrestricted Common Stock (6 shares)				0.0%
			39,219	31,638	5.9%	
C&J Cladding LLC	Texas / Metal Services and Minerals	Senior Secured Note (14.00%, due 3/30/2012) ^{(3), (4)}	3,150	2,722	3,308	0.6%
		Warrants (400 warrants, expiring 3/30/2014)		580	3,825	0.7%
				3,302	7,133	1.3%
Change Clean Energy Holdings, Inc. (CCEHI ⁽⁵⁾)	Maine / Biomass Power	Common Stock (1,000 shares)		2,530	2,530	0.5%
				2,530	2,530	0.5%
Gas Solutions Holdings, Inc. ⁽⁸⁾	Texas / Gas Gathering and Processing	Senior Secured Note (18.00%, due 12/22/2018) ⁽³⁾	25,000	25,000	25,000	4.7%
			5,000	5,000	5,000	0.9%

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		Junior Secured Note (18.00%, due 12/23/2018) ⁽³⁾ Common Stock (100 shares) ⁽³⁾		5,003	55,187	10.4%
				35,003	85,187	16.0%
Integrated Contract Services, Inc. ⁽⁹⁾	North Carolina / Contracting	Senior Demand Note (15.00%, due 6/30/2009) ⁽¹⁰⁾	1,170	1,170	1,170	0.2%
		Senior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due)	800	800	800	0.1%
		Junior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due)	14,003	14,003	3,030	0.6%
		Preferred Stock Series A (10 shares)				0.0%
		Common Stock (49 shares)		679		0.0%
				16,652	5,000	0.9%
Iron Horse Coiled Tubing, Inc.	Alberta, Canada / Production Services	Bridge Loan (15.00% plus 3.00% PIK, due 12/31/2009)	9,826	9,826	9,602	1.8%
		Senior Secured Note (15.00%, due 12/31/2009)	9,250	9,250	3,004	0.6%
		Common Stock (1,781 shares)		268		0.0%
				19,344	12,606	2.4%
NRG Manufacturing, Inc.	Texas / Manufacturing	Senior Secured Note (16.50%, due 8/31/2011) ⁽³⁾ , ⁽⁴⁾	13,080	13,080	13,080	2.5%
		Common Stock (800 shares)		2,317	19,294	3.6%
				15,397	32,374	6.1%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Warrants (200,000 warrants, expiring 6/30/2017)		1,682	4,500	0.8%
		Common Stock (545,107 shares)		5,086	12,267	2.3%

			6,768	16,767	3.1%	
Yatesville Coal Holdings, Inc. ⁽¹¹⁾	Kentucky / Mining, Steel, Iron and Non-Precious Metals and Coal Production	Senior Secured Note (15.72%, in non-accrual status effective 1/01/2009, due 12/31/2010) ⁽⁴⁾	10,000	10,000	10,000	1.9%
		Junior Secured Note (15.72%, in non-accrual status effective 1/01/2009, due 12/31/2010) ⁽⁴⁾	38,463	38,463	3,097	0.6%
		Common Stock (1,000 shares)		427		0.0%
				48,890	13,097	2.5%
		Total Control Investments	187,105	206,332		38.7%

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				Cost	Fair Value ⁽²⁾	
LEVEL 3 INVESTMENTS:						
Affiliate Investments (5.00% to 24.99% voting control)						
Appalachian Energy Holdings LLC ⁽¹²⁾	West Virginia / Construction Services	Senior Secured Debt Tranche A (14.00% plus 3.00% PIK plus 3.00% default interest, in non-accrual status effective 11/01/2008, due 1/31/2011)	\$ 1,997	\$ 1,891	\$ 2,052	0.4%
		Senior Secured Debt Tranche B (14.00% plus 3.00% PIK plus 3.00% default interest, in non-accrual status effective 11/01/2008, past due)	2,050	1,955	356	0.1%
		Preferred Stock Series A (200 units)		82		0.0%
		Preferred Stock Series B (241 units)		241		0.0%
		Preferred Stock Series C (500 units)		500		0.0%
		Warrants (6,065 warrants, expiring 2/13/2016)		176		0.0%
		Warrants (6,025 warrants, expiring 6/17/2018)		172		0.0%
		Warrants (25,000 warrants, expiring 11/30/2018)				0.0%