

PROSPECT CAPITAL CORP
Form 10-Q
February 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended December 31, 2011

- o 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

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(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 (§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, 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 February 9, 2012 was 109,776,303.

PROSPECT CAPITAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2011
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PART I: FINANCIAL INFORMATION**Item 1. Financial Statements**

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
December 31, 2011 and June 30, 2011
(in thousands, except share and per share data)

	December 31, 2011 (Unaudited)	June 30, 2011 (Audited)
Assets (Note 4)		
Investments at fair value:		
Control investments (net cost of \$273,496 and \$262,301, respectively)	\$ 386,552	\$ 310,072
Affiliate investments (net cost of \$59,488 and \$56,833, respectively)	67,872	72,337
Non-control/Non-affiliate investments (net cost of \$1,315,227 and \$1,116,600, respectively)	1,262,179	1,080,601
Total investments at fair value (net cost of \$1,648,211 and \$1,435,734, respectively, Note 3)	1,716,603	1,463,010
Investments in money market funds	60,705	59,903
Cash	1,861	1,492
Receivables for:		
Interest, net	9,739	9,269
Other	517	267
Prepaid expenses	387	101
Deferred financing costs	12,410	15,275
Total Assets	1,802,222	1,549,317
Liabilities		
Credit facility payable (Note 4)	252,000	84,200
Senior convertible notes (Note 5)	322,500	322,500
Dividends payable	11,123	10,895
Due to Broker	17,339	
Due to Prospect Administration (Note 9)	628	212
Due to Prospect Capital Management (Note 9)	17,459	7,706
Accrued expenses	5,966	5,876
Other liabilities	2,723	3,571
Total Liabilities	629,738	434,960
Net Assets	\$ 1,172,484	\$ 1,114,357
Components of Net Assets		
Common stock, par value \$0.001 per share (200,000,000 common shares authorized; 109,691,051 and 107,606,690 issued and outstanding, respectively) (Note 6)	\$ 110	\$ 108
Paid-in capital in excess of par (Note 6)	1,217,027	1,196,741
Distributions in excess of net investment income	(23,806)	(21,638)

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Accumulated net realized losses on investments	(89,239)	(88,130)
Net unrealized appreciation on investments	68,392	27,276
Net Assets	\$ 1,172,484	\$ 1,114,357
Net Asset Value Per Share	\$ 10.69	\$ 10.36

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

For The Three and Six Months Ended December 31, 2011 and 2010

(in thousands, except share and per share data)

(Unaudited)

	For The Three Months Ended		For The Six Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Investment Income				
Interest Income: (Note 3)				
Control investments	\$ 6,415	\$ 5,428	\$ 12,580	\$ 10,617
Affiliate investments	2,399	3,524	4,801	6,474
Non-control/Non-affiliate investments	36,714	18,410	70,034	39,192
Total interest income	45,528	27,362	87,415	56,283
Dividend income:				
Control investments	17,645	2,300	24,345	4,050
Non-control/Non-affiliate investments	1,992	1,068	2,841	1,508
Money market funds	-	3	1	7
Total dividend income	19,637	3,371	27,187	5,565
Other income: (Note 7)				
Control investments	612	14	618	1,785
Affiliate investments	13	7	74	154
Non-control/Non-affiliate investments	1,473	2,546	7,311	4,725
Total other income	2,098	2,567	8,003	6,664
Total Investment Income	67,263	33,300	122,605	68,512
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 9)	8,825	4,903	17,036	9,179
Income incentive fee (Note 9)	9,127	4,769	16,096	10,018
Total investment advisory fees	17,952	9,672	33,132	19,197
Interest and credit facility expenses	9,759	2,261	18,719	4,522
Legal fees	510	170	942	480
Valuation services	306	231	608	448
Audit, compliance and tax related fees	525	265	865	481
Allocation of overhead from Prospect Administration (Note 9)	1,117	840	2,233	1,640
Insurance expense	20	72	99	143
Directors' fees	63	64	127	128
Other general and administrative expenses	503	645	1,495	1,398
Total Operating Expenses	30,755	14,220	58,220	28,437
Net Investment Income	36,508	19,080	64,385	40,075
Net realized gain (loss) on investments (Note 3)	13,498	4,489	(1,109)	5,016
Net change in unrealized appreciation on investments (Note 3)	14,486	8,371	41,116	12,429
Net Increase in Net Assets Resulting from Operations	\$ 64,492	\$ 31,940	\$ 104,392	\$ 57,520
Net increase in net assets resulting from operations per share: (Note 8 and Note 12)	\$ 0.59	\$ 0.38	\$ 0.96	\$ 0.73

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Dividends declared per share	\$	0.31	\$	0.30	\$	0.61	\$	0.60
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See notes to consolidated financial statements.

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

For The Six Months Ended December 31, 2011 and 2010

(in thousands, except share data)

(Unaudited)

	For The Six Months Ended December 31,	
	2011	2010
Increase in Net Assets from Operations:		
Net investment income	\$ 64,385	\$ 40,075
Net realized (loss) gain on investments	(1,109)	5,016
Net change in unrealized appreciation on investments	41,116	12,429
Net Increase in Net Assets Resulting from Operations	104,392	57,520
Dividends to Shareholders	(66,553)	(48,752)
Capital Share Transactions:		
Proceeds from capital shares sold, net of underwriting costs	15,060	178,317
Less: Offering costs of public share offerings	(165)	(599)
Reinvestment of dividends	5,393	5,280
Net Increase in Net Assets Resulting from Capital Share Transactions	20,288	182,998
Total Increase in Net Assets	58,127	191,766
Net assets at beginning of period	1,114,357	711,424
Net Assets at End of Period	\$ 1,172,484	\$ 903,190
Capital Share Activity:		
Shares sold	1,500,000	18,494,476
Shares issued through reinvestment of dividends	584,361	534,044
Net increase in capital share activity	2,084,361	19,028,520
Shares outstanding at beginning of period	107,606,690	69,086,862
Shares Outstanding at End of Period	109,691,051	88,115,382

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Six Months Ended December 31, 2011 and 2010

(in thousands, except share data)

(Unaudited)

For The Six Months Ended December 31,

	2011	2010
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 104,392	\$ 57,520
Net realized loss (gain) on investments	1,109	(5,016)
Net change in unrealized appreciation on investments	(41,116)	(12,429)
Accretion of purchase discount on investments	(2,575)	(5,960)
Amortization of deferred financing costs	4,494	2,134
Change in operating assets and liabilities		
Payments for purchases of investments	(373,943)	(275,867)
Payment-in-kind interest	(3,329)	(6,017)
Proceeds from sale of investments and collection of investment principal	166,261	135,553
Net increase of investments in money market funds	(802)	(63,323)
Increase in interest receivable	(470)	(3,064)
Increase in dividends receivable		(1)
(Increase) decrease in other receivables	(250)	69
(Increase) decrease in prepaid expenses	(286)	121
Increase in due to broker	17,339	
Increase in due to Prospect Administration	416	23
Increase (decrease) in due to Prospect Capital Management	9,753	781
Increase (decrease) in accrued expenses	90	(1,418)
(Decrease) increase in other liabilities	(848)	557
Net Cash Used In Operating Activities	(119,765)	(176,337)
Cash Flows from Financing Activities:		
Borrowings under Senior Convertible Notes (Note 5)		150,000
Borrowings under credit facility	442,300	180,500
Principal payments under credit facility	(274,500)	(280,800)
Financing costs paid and deferred	(1,629)	(6,660)
Proceeds from issuance of common stock, net of underwriting costs	15,060	178,317
Offering costs from issuance of common stock	(165)	(599)
Dividends paid	(60,932)	(41,483)
Net Cash Provided By Financing Activities	120,134	179,275
Total Increase in Cash	369	2,938
Cash balance at beginning of period	1,492	1,081

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Cash Balance at End of Period	\$	1,861	\$	4,019
Cash Paid For Interest	\$	12,777	\$	1,314
Non-Cash Financing Activity:				
Amount of shares issued in connection with dividend reinvestment plan	\$	5,393	\$	5,280

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011 and June 30, 2011
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2011 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
AIRMALL USA, Inc (27)	Pennsylvania / Property Management	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3), (4)	\$ 29,650	\$ 29,650	\$ 29,650	2.5%
		Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)	12,500	12,500	12,500	1.1%
		Convertible Preferred Stock (9,919.684 shares)		9,920	9,920	0.9%
		Common Stock (100 shares)			1,075	0.1%
				52,070	53,145	4.6%
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 4/01/2013)(3), (4)	20,387	20,387	20,387	1.7%
		Subordinated Secured Note Tranche B (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 4/01/2013)(3), (4)	15,035	15,035	15,035	1.3%
		Convertible Preferred Stock Series A (6,142.6 shares)		6,057	4,966	0.4%
		Unrestricted Common Stock (6 shares)			40	0.0%
				41,479	40,428	3.4%
AWCNC, LLC(19)	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 (7,999,999 units)				0.0%
						0.0%
Borga, Inc.	California / Manufacturing	Revolving Line of Credit \$1,000 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4), (25)	1,000	945	1,000	0.1%
		Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)	1,612	1,501	168	0.0%
		Senior Secured Term Loan C (12.00% plus 4.00% PIK plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)	9,166	707		0.0%
		Common Stock (100 shares)(21)				0.0%
		Warrants (33,750 warrants)(21)				0.0%
				3,153	1,168	0.1%
C&J Cladding LLC	Texas / Metal Services and	Membership Interest (400 units)(22)		580	5,191	0.4%

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Minerals			580	5,191	0.4%	
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	Senior Secured Note (18.00%, due 12/11/2016) (3)	25,000	25,000	25,000	2.1%
		Junior Secured Note (18.00%, due 12/12/2016) (3)	12,000	12,000	12,000	1.0%
		Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.3%
		Subordinated Secured Note to Freedom Marine Holdings, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, due 12/31/2011)	13,086	12,504	3,431	0.3%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/01/2009, past due)	1,035	1,035		0.0%
		Junior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/01/2009, past due)	414	414		0.0%
		Common Stock (100 shares)(3)		8,793	109,536	9.3%
				63,246	153,467	13.0%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
December 31, 2011 and June 30, 2011
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2011 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
Integrated Contract Services, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, due 3/21/2012 12/31/2013) (10)	\$ 2,581	\$ 2,580	\$ 1,106	0.1%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)(10)	1,170	1,170		0.0%
		Senior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due)	960	660		0.0%
		Junior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/09/2007, past due)	13,110	13,110		0.0%
		Preferred Stock Series A (10 shares)				0.0%
		Common Stock (49 shares)		679		0.0%
			18,199	1,106	0.1%	
Manx Energy, Inc. (Manx)(12)	Kansas / Oil & Gas Production	Appalachian Energy Holdings, LLC (AEH) Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, due 1/19/2013)	2,341	2,000		0.0%
		Coalbed, LLC Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 1/19/2013)(6)	7,022	5,991		0.0%
		Manx Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, due 1/19/2013)	3,550	3,550	436	0.0%
		Manx Preferred Stock (6,635 shares)		6,307		0.0%
		Manx Common Stock (17,082 shares)		1,171		0.0%
			19,019	436	0.0%	
NMMB Holdings, Inc. (24)	New York / Media	Revolving Line of Credit \$3,000 Commitment (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 5/6/2012) (4), (25)				0.0%
		Senior Term Loan (14.00%, due 5/6/2016)	21,700	21,700	21,700	1.9%
		Senior Subordinated Term Loan (15.00%, due 5/6/2016)	2,800	2,800	2,800	0.2%
		Series A Preferred Stock (4,400 shares)		4,400	1,784	0.2%
			28,900	26,284	2.3%	
NRG Manufacturing, Inc.	Texas / Manufacturing	Senior Secured Note (15.00%, due 12/27/2016)	37,218	37,218	37,218	3.2%
		Common Stock (408 shares)		1,180	50,257	4.3%
			38,398	87,475	7.5%	
Nupla Corporation	California / Home & Office Furnishings, Housewares & Durable	Revolving Line of Credit \$2,000 Commitment (7.25% (PRIME + 4.00%), plus 2.00% default interest, due 9/04/2012)(4), (25)	1,093	1,046	1,093	0.1%

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Senior Secured Term Loan A (8.00% (PRIME + 4.75%) plus 2.00% default interest, due 9/04/2012)(4)	4,273	637	3,857	0.3%
Senior Subordinated Debt (15.00% PIK, in non-accrual status effective 4/01/2009, due 3/04/2013)	4,212		96	0.0%
Preferred Stock Class A (2,850 shares)				0.0%
Preferred Stock Class B (1,330 shares)				0.0%
Common Stock (2,360,743 shares)				0.0%
		1,683	5,046	0.4%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
December 31, 2011 and June 30, 2011
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2011 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (25.00% or greater of voting control)						
R-V Industries, Inc.	Pennsylvania / Manufacturing	Warrants (200,000 warrants, expiring 6/30/2017)		\$ 1,682	\$ 3,437	0.3%
		Common Stock (545,107 shares)		5,087	9,369	0.8%
				6,769	12,806	1.1%
Total Control Investments				273,496	386,552	32.9%
Affiliate Investments (5.00% to 24.99% voting control)						
BNN Holdings Corp., (f/k/a Biotronic NeuroNetwork)	Michigan / Healthcare	Senior Secured Note (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 2/21/2013)(3), (4)	\$ 26,227	26,227	26,227	2.2%
		Preferred Stock Series A (9,925.455 shares)(13)		2,300	310	0.0%
		Preferred Stock Series B (1,753.64 shares)(13)		579	78	0.0%
				29,106	26,615	2.2%
Boxercraft Incorporated	Georgia / Textiles & Leather	Senior Secured Term Loan A (9.50% (LIBOR + 6.50% with 3.00% LIBOR floor), due 9/16/2013)(3), (4)	2,194	2,003	2,225	0.2%
		Senior Secured Term Loan B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 9/16/2013)(3), (4)	4,725	4,140	4,796	0.4%
		Senior Secured Term Loan C (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 9/16/2013)(3), (4)	2,289	2,289	2,323	0.2%
		Subordinated Secured Term Loan (12.00% plus 3.00% PIK, due 3/16/2014)(3)	7,846	6,751	7,964	0.7%
		Preferred Stock (1,000,000 shares) Common Stock (10,000 shares)			1,305	0.1%
			15,183	18,613	1.6%	
Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest			37	0.0%
					37	0.0%
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Revolving Line of Credit \$3,000 Commitment (3.87% (LIBOR + 3.50%), due 12/14/2013) (4), (25), (26)				0.0%
		Senior Secured Term Loan A (3.87% (LIBOR + 3.50%), due 12/14/2013)(3), (4)	1,675	1,132	1,645	0.2%
		Senior Secured Term Loan B (4.37%, (LIBOR + 4.00%) due 12/14/2013)(3), (4)	7,275	5,877	7,062	0.6%

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Senior Subordinated Debt Series A (12.00% plus 3.00% PIK, due 6/14/2014)(3)	7,666	6,580	7,666	0.7%
Senior Subordinated Debt Series B (10.00% plus 5.00% PIK, due 6/14/2014)(3)	1,464	1,151	1,464	0.1%
Common Stock (20,974 shares)		459	4,770	0.4%
		15,199	22,607	2.0%
Total Affiliate Investments		59,488	67,872	5.8%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
December 31, 2011 and June 30, 2011
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	December 31, 2011 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 233	0.0%
				141	233	0.0%
Aircraft Fasteners International, LLC	California / Machinery	Revolving Line of Credit \$500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 11/01/2012)(4), (25), (26)				0.0%
		Senior Secured Term Loan (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 11/01/2012)(3), (4)	2,976	2,976	2,976	0.3%
		Junior Secured Term Loan (12.00% plus 6.00% PIK, due 5/01/2013)(3)	4,465	4,465	4,465	0.4%
		Convertible Preferred Stock (32,500 units)		396	428	0.0%
				7,837	7,869	0.7%
American Gilsonite Company	Utah / Specialty Minerals	Senior Subordinated Note (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/10/2016)(3), (4)	30,232	30,232	30,232	2.6%
		Senior Subordinated Note (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/10/2016)(4)				