PROSPECT CAPITAL CORP
Form 10-Q
February 09, 2009

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, 2008

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

Commission File Number: 333-114552

PROSPECT CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	**43-2048643**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10 East 40th Street **44th Floor** **New York, New York**	**10016**
(Address of principal executive offices)	**(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. x Yes o 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 o   Accelerated Filer x   Non-Accelerated Filer o

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

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of January 31, 2009 was 29,786,128.

PROSPECT CAPITAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2008
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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, 2008 and June 30, 2008
(in thousands, except share and per share data)

	December 31, 2008 (Unaudited)	June 30, 2008 (Audited)
Assets		
Investments at fair value (cost of $571,537 and $496,805, respectively, Note 3)		
Control investments (cost of $216,242 and $203,661, respectively)	$ 216,448	$ 205,827
Affiliate investments (cost of $33,496 and $5,609, respectively)	31,721	6,043

Non-control/Non-affiliate investments (cost of $321,799 and $287,535, respectively)	307,492	285,660
Total investments at fair value	555,661	497,530
Investments in money market funds	22,606	33,000
Cash	2,438	555
Receivables for:		
Interest	4,430	4,094
Dividends	19	4,248
Loan principal	—	71
Managerial assistance	405	380
Prepaid prospective deal expenses	86	—
Other	204	187
Prepaid expenses	778	273
Deferred financing costs	1,350	1,440
Total Assets	587,977	541,778
Liabilities		
Credit facility payable	138,667	91,167
Dividends payable	11,966	11,845
Due to Prospect Administration (Note 7)	683	695
Due to Prospect Capital Management (Note 7)	5,629	5,946
Accrued expenses	2,101	1,104
Other liabilities	1,128	1,398
Total Liabilities	160,174	112,155
Net Assets	$ 427,803	$ 429,623
Components of Net Assets		
Common stock, par value $0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 29,637,928 and 29,520,379 issued and outstanding, respectively)	$ 30	$ 30
Paid-in capital in excess of par	442,838	441,332
Undistributed net investment income	13,122	1,508
Accumulated realized losses on investments	(12,311)	(13,972)
Unrealized (depreciation) appreciation on investments	(15,876)	725
Net Assets	$ 427,803	$ 429,623
Net Asset Value Per Share	$ 14.43	$ 14.55

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For The Three and Six Months Ended December 31, 2008 and 2007
(in thousands, except share and per share data)
(Unaudited)

	For The Three Months Ended December 31,		For The Six Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Investment Income				

Interest Income				
Control investments (Net of foreign withholding tax of $62, $69, $109, and $158, respectively)	$ 5,075	$ 5,285	$ 11,797	$ 10,348
Affiliate investments (Net of foreign withholding tax of $0, $35, $0, and $70, respectively)	1,075	655	1,635	1,322
Non-control/Non-affiliate investments	11,091	8,876	21,365	15,978
Total interest income	17,241	14,816	34,797	27,648
Dividend income				
Control investments	4,584	2,200	9,168	3,650
Money market funds	81	266	220	434
Total dividend income	4,665	2,466	9,388	4,084
Other income: (Note 4)				
Control/Affiliate investments	87	▯	831	10
Non-control/Non-affiliate investments	220	1,281	12,996	2,212
Total other income	307	1,281	13,827	2,222
Total Investment Income	22,213	18,563	58,012	33,954
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 7)	2,940	2,112	5,763	3,978
Income incentive fee (Note 7)	2,990	2,665	8,865	4,631
Total investment advisory fees	5,930	4,777	14,628	8,609
Interest and credit facility expenses	1,965	1,618	3,483	2,856
Sub-administration fees (including former Chief Financial Officer and Chief Compliance Officer)	217	206	467	392
Legal fees	184	569	483	1,775
Valuation services	110	120	422	233
Audit, compliance and tax related fees	306	43	629	293
Allocation of overhead from Prospect Administration (Note 7)	588	260	1,176	520
Insurance expense	63	64	124	128
Directors▯ fees	62	55	143	110
Other general and administrative expenses	295	191	462	503
Tax expense	533	▯	533	10
Total Operating Expenses	10,253	7,903	22,550	15,429
Net Investment Income	11,960	10,660	35,462	18,525
Net realized gain (loss) on investments	16	(18,610)	1,661	(18,621)
Net change in unrealized appreciation/depreciation on investments	(5,452)	4,264	(16,601)	4,960
Net Increase (Decrease) in Net Assets Resulting from Operations	$ 6,524	$ (3,686)	$ 20,522	$ 4,864
Net increase (decrease) in net assets resulting from operations per share: (Note 6)	$ 0.22	$ (0.16)	$ 0.69	$ 0.23
Dividends declared per share:	$ 0.40	$ 0.39	$ 0.80	$ 0.78

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, 2008 and 2007
(in thousands, except share data)
(Unaudited)

	For The Six Months Ended December 31,	
	2008	**2007**
Increase in Net Assets from Operations:		
Net investment income	$ 35,462	$ 18,525
Net realized gain (loss) on investments	1,661	(18,621)
Net change in unrealized appreciation/depreciation on investments	(16,601)	4,960
Net Increase in Net Assets Resulting from Operations	20,522	4,864
Dividends to Shareholders:	(23,848)	(17,200)
Capital Share Transactions:		
Net proceeds from capital shares sold	—	57,436
Less: Offering costs of public share offerings	—	(567)
Reinvestment of dividends	1,506	1,243
Net Increase in Net Assets Resulting from Capital Share Transactions	1,506	58,112
Total (Decrease) Increase in Net Assets:	(1,820)	45,776
Net assets at beginning of period	429,623	300,048
Net Assets at End of Period	$ 427,803	$ 345,824
Capital Share Activity:		
Shares sold	—	3,700,000
Shares issued through reinvestment of dividends	117,549	72,073
Net increase in capital share activity	117,549	3,772,073
Shares outstanding at beginning of period	29,520,379	19,949,065
Shares Outstanding at End of Period	29,637,928	23,721,138

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Six Months Ended December 31, 2008 and 2007
(in thousands, except share data)
(Unaudited)

	For The Six Months Ended December 31,	
	2008	**2007**
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	$ 20,522	$ 4,864

Net realized (gain) loss on investments	(1,661)	18,621
Net change in unrealized appreciation/depreciation on investments	16,601	(4,960)
Accretion of original issue discount on investments	(2,128)	(1,442)
Amortization of deferred financing costs	360	367
Gain on settlement of net profits interest	(12,576)	—
Change in operating assets and liabilities:		
Payments for purchases of investments	(70,513)	(160,517)
Payment-In-Kind interest	(931)	(722)
Proceeds from sale of investments and collection of investment principal	13,077	37,172
Purchases of cash equivalents	(19,999)	(189,960)
Sales of cash equivalents	19,999	189,945
Net decrease investments in money market funds	10,394	17,026
Increase in interest receivable	(336)	(1,266)
Decrease in dividends receivable	4,229	193
Decrease (increase) in loan principal receivable	71	(115)
Increase in receivable for securities sold	—	(3,100)
Decrease in receivable for structuring fees	—	1,625
Increase in receivable for managerial assistance	(25)	—
Increase in receivable for potential deal expenses	(86)	—
Increase in other receivables	(17)	(11)
(Increase) decrease in prepaid expenses	(505)	173
Decrease in payables for securities purchased	—	(64,396)
Decrease in due to Prospect Administration	(12)	(128)
(Decrease) increase in due to Prospect Capital Management	(317)	132
Increase in accrued expenses	997	72
Decrease (increase) in other liabilities	(270)	859
Net Cash Used In Operating Activities:	(23,126)	(155,568)
Cash Flows from Financing Activities:		
Borrowings under credit facility	54,500	161,367
Payments under credit facility	(7,000)	(54,325)
Financing costs paid and deferred	(270)	(420)
Net proceeds from issuance of common stock	—	57,436
Offering costs from issuance of common stock	—	(567)
Dividends paid	(22,221)	(6,587)
Net Cash Provided By Financing Activities:	25,009	156,904
Total Increase in Cash	1,883	1,336
Cash balance at beginning of period	555	—
Cash Balance at End of Period	$ 2,438	$ 1,336
Cash Paid For Interest	$ 2,862	$ 1,992
Non-Cash Financing Activity:		
Amount of shares issued in connection with dividend reinvestment plan	$ 1,506	$ 1,243

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2008 and June 30, 2008
(in thousands, except share data)

		December 31, 2008 (unaudited)			
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Control Investments (25.00% or greater of voting control)					
Ajax Rolled Ring & Machine	South Carolina/ Manufacturing				
Unrestricted common shares (7 total unrestricted common shares issued and outstanding and 803.18 restricted common shares issued and outstanding)		6	$ —	$ —	0.0%
Series A convertible preferred shares (7,222.6 total preferred shares issued and outstanding)		6,142.6	6,113	6,113	1.4%
Senior secured note — Tranche A,10.50%, 4/01/2013 (4), (28)		$ 21,707	21,707	21,707	5.1%
Subordinated secured note — Tranche B, 11.50% plus 6.00% PIK, 4/01/2013 (4), (29)		$ 11,500	11,500	11,500	2.7%
			39,320	39,320	9.2%
C&J Cladding LLC (4)	Texas/Metal Services				
Warrant, common units, expiring 3/30/2014 (1,000 total company units outstanding)		400	580	5,152	1.2%
Senior secured note, 14.00%, 3/30/2012 (12)		$ 4,050	3,546	4,043	0.9%
			4,126	9,195	2.1%
Gas Solutions Holdings, Inc. (3)	Texas/Gas Gathering and Processing				
Common shares (100 total common shares outstanding)		100	5,032	52,158	12.2%
Senior secured note, 18.00%, 12/22/2018 (4)		$ 25,000	25,000	25,000	5.8%
			30,032	77,158	18.0%
Integrated Contract Services, Inc. (5)	North Carolina/ Contracting				
Common stock (100 total common shares outstanding)		49	702	—	0.0%
Series A preferred shares (10 total Series A preferred shares outstanding)		10	—	—	0.0%
Junior secured note, stated rate 7.00% plus 7.00% PIK, in non-accrual status effective 10/09/2007, matures 9/30/2010		$ 14,003	14,003	3,030	0.7%
Senior secured note, stated rate 7.00% plus 7.00% PIK, in non-accrual status effective 10/09/2007, matures 9/30/2010		$ 800	800	800	0.2%

Senior demand note, 15.00%, 6/30/2009 (6)	$ 1,170	1,170	1,170	0.3%
		16,675	5,000	1.2%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

		December 31, 2008 (unaudited)			
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Control Investments (25.00% or greater of voting control)					
Iron Horse Coiled Tubing, Inc.	Alberta, Canada/ Production Services				
Common shares (2,231 total class A common shares outstanding)		1,781	$ 268	$ —	0.0%
Senior secured note, 15.00%, 4/19/2009		$ 9,250	9,185	5,165	1.2%
Bridge Loan, 15.00% plus 3.00% PIK, 4/30/2009		$ 8,182	8,182	8,182	1.9%
			17,635	13,347	3.1%
NRG Manufacturing, Inc.	Texas/ Manufacturing				
Common shares (1,000 total common shares issued and outstanding)		800	2,316	10,609	2.5%
Senior secured note, 16.50%, 8/31/2011 (4), (8)		$ 13,080	13,080	13,080	3.1%
			15,396	23,689	5.6%
R-V Industries, Inc.	Pennsylvania/ Manufacturing				
Common shares (750,000 total common shares issued and outstanding)		545,107	5,068	8,772	2.1%
Warrants, common shares, expiring 6/30/2017 (200,000 total common shares outstanding)		200,000	1,682	3,219	0.8%
			6,750	11,991	2.9%
Worcester Energy Partners, Inc. (9)	Maine/Biomass Power				
Equity ownership		—	1,368	—	0.0%
Senior secured note, stated rate 12.50%, in					

non-accrual status effective 7/01/2008, matures 12/31/2012	$ 40,939	40,839	10,900	2.5%
		42,207	10,900	2.5%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

			December 31, 2008 (unaudited)		
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Control Investments (25.00% or greater of voting control)					
Yatesville Coal Holdings, Inc. (23)	Kentucky/ Mining and Coal Production				
Common stock (1,000 total common shares outstanding)		1,000	$ 433	$ —	0.0%
Junior secured note, 15.66%, 12/31/2010		$ 33,668	33,668	15,848	3.7%
Senior secured note, 15.66%, 12/31/2010		$ 10,000	10,000	10,000	2.3%
			44,101	25,848	6.0%
Total Control Investments			216,242	216,448	50.6%
Affiliate Investments (5.00% to 24.99% of voting control)					
Appalachian Energy Holdings LLC (10), (4)	West Virginia/ Construction Services				
Warrants - Class A common units, expiring 2/13/2016 (64,968 total fully-diluted class A common units outstanding)		6,065	176	—	0.0%
Warrants - Class A common units, expiring 6/17/2018 (64,968 total fully-diluted class A common units outstanding)		6,025	172	—	0.0%
Warrants — Class A common units, expiring 11/30/2018 (64,968 total fully-diluted class A common units outstanding)		3,125	—	—	0.0%
Series A preferred equity (1,075 total series A preferred equity units outstanding)		200	88	—	0.0%
Series B preferred equity (794 total series B preferred equity units outstanding)		241	241	53	0.0%

Series C preferred equity (62.5 total series C preferred equity units outstanding)	62.5	63	63	0.0%
Senior Secured Debt Tranche A, 14.00% plus 3.00% PIK plus 3.00% default interest, 1/31/2011	$ 2,371	2,371	2,195	0.5%
Senior Secured Debt Tranche B, 14.00% plus 3.00% PIK plus 3.00% default interest, 5/01/2009	$ 1,990	1,990	1,954	0.5%
		5,101	4,265	1.0%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

			December 31, 2008 (unauc		
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% N As**
Affiliate Investments (5.00% to 24.99% of voting control)					
Biotronic NeuroNetwork	Michigan/ Healthcare				
Preferred shares (85,000 total preferred shares outstanding) (26)		9,925.455	$ 2,300	$ 2,575	
Senior secured note, 11.50% plus 1.00% PIK, 2/21/2013 (4), (27)		$ 26,095	26,095	24,881	
			28,395	27,456	
Total Affiliate Investments			33,496	31,721	
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
American Gilsonite Company	Utah/Specialty Minerals				
Membership interest units in AGC\PEP, LLC (11)		99.9999%	1,031	2,313	
Subordinated secured note, 12.00% plus 3.00% PIK, 3/14/2013 (4)		$ 14,783	14,783	14,935	
			15,814	17,248	
Castro Cheese Company, Inc.(4)	Texas/Food Products				
Junior secured note, 11.00% plus 2.00% PIK, 2/28/2013		$ 7,463	7,326	7,124	

Conquest Cherokee, LLC (13), (4)	Tennessee/Oil and Gas Production				
Senior secured note, 13.00%, 5/05/2009 (14)		$	10,200	10,168	9,357
Deb Shops, Inc. (4)	Pennsylvania/ Retail				
Second lien debt, 10.16%, 10/23/2014 (25)		$	15,000	14,600	10,139
Diamondback Operating, LP (15), (4)	Oklahoma/ Oil and Gas Production				
Senior secured note, 12.00% plus 2.00% PIK, 8/27/2011		$	9,200	9,200	10,010

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

		December 31, 2008 (unau			
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**A**
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Freedom Marine Services LLC (15), (4)	Louisiana/ Shipping Vessels				
Subordinated secured note, 12.00% plus 4.00% PIK, 12/31/2011 (17)		$ 7,091	$ 7,004	$ 6,993	
H&M Oil & Gas, LLC (15), (4)	Texas/Oil and Gas Production				
Senior secured note, 13.00%, 6/30/2010 (16)		$ 50,500	50,500	48,823	1
IEC Systems LP ("IEC")/ Advanced Rig Services LLC ("ARS") (4)	Texas/ Oilfield Fabrication				
IEC senior secured note, 12.00% plus 3.00% PIK, 11/20/2012 (30)		$ 22,612	22,612	22,612	
ARS senior secured note, 12.00% plus 3.00% PIK, 11/20/2012 (30)		$ 13,543	13,543	13,543	
			36,155	36,155	
Maverick Healthcare, LLC (4)	Arizona/ Healthcare				
Common units (79,000,000 total class A common units outstanding)		1,250,000	1,252	1,353	

Preferred units (79,000,000 total preferred units outstanding)		1,250,000		
Second lien debt, 12.00% plus 1.50% PIK, 4/30/2014		$ 12,596	12,596	12,100
			13,848	13,453
Miller Petroleum, Inc.	Tennessee/ Oil and Gas Production			
Warrant, common shares, expiring 5/04/2010 to 12/31/2013 (15,616,856 total common shares outstanding) (32)		1,753,357	150	139
Peerless Manufacturing Co. (4)	Texas/ Manufacturing			
Subordinated secured note, 11.50% plus 3.50% PIK, 4/29/2013		$ 20,000	20,000	20,000

See notes to consolidated financial statements.

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

		December 31, 2008 (unaudited)			
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Qualitest Pharmaceuticals, Inc. (4)	Alabama/ Pharmaceuticals				
Second lien debt, 8.96%, 4/30/2015 (18)		$ 12,000	$ 11,946	$ 9,692	2.3%
Regional Management Corp. (4)	South Carolina/ Financial Services				
Subordinated secured note, 12.00% plus 2.00% PIK, 6/29/2012		$ 25,170	25,170	21,507	5.0%
Resco Products, Inc. (4)	Pennsylvania/ Manufacturing				
Second lien debt, 10.20%, 6/22/2014 (19)		$ 9,750	9,584	8,203	1.9%
Shearers Foods, Inc.	Ohio/ Food Products				
Membership interest units in Mistral Chip Holdings, LLC (45,300 total membership					

units outstanding) (24)		2,000	2,000	3,467	0.8%
Second lien debt, 14.00%,10/31/2013 (4)		$ 18,000	18,000	17,683	4.1%
			20,000	21,150	4.9%
Stryker Energy, LLC (20), (4)	Ohio/ Oil and Gas Production				
Subordinated secured revolving credit facility, 12.00%, 12/01/2011 (21)		$ 29,500	29,095	28,633	6.7%
TriZetto Group	California/ Healthcare				
Subordinated unsecured note, 12.00% plus 1.50% PIK, 10/01/2016 (4)		$ 15,036	14,890	13,930	3.3%
Unitek (4)	Pennsylvania/ Technical Services				
Second lien debt, 14.50%,12/31/2013 (22)		$ 11,500	11,349	11,349	2.7%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

			December 31, 2008 (unaudit		
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% N As**
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Wind River Resources Corp. and Wind River II Corp. (4) (15)	Utah/ Oil and Gas Production				
Senior secured note, 13.00%, 7/31/2010 (31)		$ 15,000	$ 15,000	$ 13,587	
Total Non-Control/Non-Affiliate Investments			321,799	307,492	7
Total Portfolio Investments			571,537	555,661	12
Money Market Funds					
Fidelity Institutional Money Market Funds - Government Portfolio (Class I)		17,982,598	17,982	17,982	
Fidelity Institutional Money Market Funds - Government Portfolio (Class I) (4)		4,623,710	4,624	4,624	
Total Money Market Funds			22,606	22,606	

Total Investments		$ 594,143	$ 578,267	13

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

		June 30, 2008 (audited)			
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Control Investments (25.00% or greater of voting control)					
Ajax Rolled Ring & Machine	South Carolina/ Manufacturing				
Common shares (7 total unrestricted common shares outstanding and 803.18 restricted common shares outstanding)		6	$	$	0.0
Preferred shares (7,222.6 total preferred shares issued and outstanding)		6,142.6	6,293	6,293	1.5
Senior secured note,10.50%, 4/01/2013 (4)		$ 21,890	21,890	21,890	5.1
Subordinated secured note,11.50% plus 6.00% PIK, 4/01/2013 (4)		$ 11,500	11,500	11,500	2.6
			39,683	39,683	9.2
C&J Cladding LLC (4)	Texas/ Metal Services				
Warrants, common units, expiring 3/30/2014 (600 total company units outstanding)		400	580	2,222	0.5
Senior secured note, 14.00%, 3/30/2012 (12)		$ 4,800	4,085	4,607	1.1
			4,665	6,829	1.6
Gas Solutions Holdings, Inc. (3)	Texas/ Gas Gathering and Processing				
Common shares (100 total common shares outstanding)		100	5,221	41,542	9.7
Subordinated secured note, 18.00%, 12/22/2009 (4)		$ 20,000	20,000	20,000	4.7
			25,221	61,542	14.4
Integrated Contract Services, Inc. (5)	North Carolina/ Contracting				

Common stock (100 total common shares outstanding)	49	491	—	0.0
Series A preferred shares (10 total Series A preferred shares outstanding)	10	—	—	0.0
Junior secured note, 14.00%, 9/30/2010	$ 14,003	14,003	3,030	0.7
Senior secured note, 14.00%, 9/30/2010	$ 800	800	800	0.2
Senior demand note, 15.00%, 6/30/2009 (6)	$ 1,170	1,170	1,170	0.3
		16,464	5,000	1.2

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

		June 30, 2008 (audited)			
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Control Investments (25.00% or greater of voting control)					
Iron Horse Coiled Tubing, Inc.	Alberta, Canada/ Production Services				
Common shares (1,093 total common shares outstanding)		643	$ 268	$ 49	0.0
Warrants for common shares (7)		1,138	—	—	0.0
Senior secured note, 15.00%, 4/19/2009		$ 9,250	9,094	9,073	2.1
Bridge Loan, 15.00% plus 3.00% PIK, 12/11/2008		$ 2,103	2,103	2,060	0.5
			11,465	11,182	2.6
NRG Manufacturing, Inc.	Texas/ Manufacturing				
Common shares (1,000 total common shares issued and outstanding)		800	2,317	8,656	2.0
Senior secured note, 16.50%, 8/31/2011 (4), (8)		$ 13,080	13,080	13,080	3.0
			15,397	21,736	5.0
R-V Industries, Inc.	Pennsylvania/ Manufacturing				
Common shares (800,000 total common shares issued and outstanding)		545,107	5,031	8,064	1.9
Warrants, common shares, expiring 6/30/2017		200,000	1,682	2,959	0.7
Senior secured note, 15.00%, 6/30/2017 (4)		$ 7,526	5,912	7,526	1.8
			12,625	18,549	4.4

Worcester Energy Partners, Inc. (9)	Maine/ Biomass Power				
Equity ownership		—	457	1	0.0
Senior secured note, 12.50%, 12/31/2012		$ 37,388	37,264	15,579	3.6
			37,721	15,580	3.6
Yatesville Coal Holdings, Inc. (23)	Kentucky/ Mining and Coal Production				
Common stock (1,000 total common shares outstanding)		1,000	284	—	0.0
Junior secured note, 12.50%, 12/31/2010		$ 30,136	30,136	15,726	3.7
Senior secured note, 12.50%, 12/31/2010		$ 10,000	10,000	10,000	2.3
			40,420	25,726	6.0
Total Control Investments			203,661	205,827	48.0

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

		June 30, 2008 (audited)			
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Affiliate Investments (5.00% to 24.99% of voting control)					
Appalachian Energy Holdings LLC (10), (4)	West Virginia/ Construction Services				
Warrants - Class A common units, expiring 2/13/2016 (49,753 total class A common units outstanding)		12,090	$ 348	$ 794	0.2%
Series A preferred equity (16,125 total series A preferred equity units outstanding)		3,000	72	162	0.0%
Series B preferred equity (794 total series B preferred equity units outstanding)		241	241	—	0.0%
Senior Secured Debt Tranche A, 14.00% plus 3.00% PIK, 1/31/2011		$ 3,003	3,003	3,003	0.7%
Senior Secured Debt Tranche B, 14.00% plus 3.00% PIK, 5/01/2009		$ 1,945	1,945	2,084	0.5%
			5,609	6,043	1.4%
Total Affiliate Investments			5,609	6,043	1.4%

Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
American Gilsonite Company	Utah/ Specialty Minerals				
Membership interest in AGC\PEP, LLC (11)		99.9999%	1,000	1,000	0.2%
Subordinated secured note, 12.00% plus 3.00%, 3/14/2013 (4)		$ 14,632	14,632	14,632	3.4%
			15,632	15,632	3.6%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

		June 30, 2008 (audited)			
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Conquest Cherokee, LLC (13), (4)	Tennessee/Oil and Gas Production				
Senior secured note, 13.00%, 5/05/2009 (14)		$ 10,200	$ 10,125	$ 9,923	2.3%
Deb Shops, Inc. (4)	Pennsylvania/ Retail				
Senior secured note, 10.69%, 10/23/2014 (25)		$ 15,000	14,577	13,428	3.1%
Deep Down, Inc. (4)	Texas/ Production Services				
Warrant, common shares, expiring 8/06/2012 (174,732,501 total common shares outstanding)		4,960,585	—	2,856	0.7%
Diamondback Operating, LP (15), (4)	Oklahoma/ Oil and Gas Production				
Senior secured note, 12.00% plus 2.00% PIK, 8/28/2011		$ 9,200	9,200	9,108	2.1%
Freedom Marine Services LLC (15), (4)	Louisiana/ Shipping Vessels				
Subordinated secured note, 12.00% plus 4.00% PIK, 12/31/2011 (17)		$ 6,948	6,850	6,805	1.6%
H&M Oil & Gas, LLC (15), (4)	Texas/ Oil and Gas Production				

Senior secured note, 13.00%, 6/30/2010 (16)		$ 50,500	50,500	50,500	11.8%
IEC Systems LP (“IEC”)/ Advanced Rig Services LLC (“ARS”) (4)	Texas/ Oilfield Fabrication				
IEC senior secured note, 12.00% plus 3.00% PIK, 11/20/2012		$ 19,028	19,028	19,028	4.4%
ARS senior secured note, 12.00% plus 3.00% PIK, 11/20/2012		$ 5,825	5,825	5,825	1.4%
			24,853	24,853	5.8%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

			June 30, 2008 (audited)		
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**	**% of Net Assets**
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)					
Maverick Healthcare, LLC (4)	Arizona/ Healthcare				
Common units (78,100,000 total common units outstanding)		1,250,000	$ 1,252	$ 1,252	0.3%
Preferred units (78,100,000 total preferred units outstanding)		1,250,000	—	—	0.0%
Senior secured note, 12.00% plus 1.50% PIK, 10/31/2014		$ 12,500	12,500	12,500	2.9%
			13,752	13,752	3.2%
Miller Petroleum, Inc.	Tennessee/ Oil and Gas Production				
Warrants, common shares, expiring 5/04/2010 to 3/31/2013 (14,566,856 total common shares outstanding)		1,571,191	150	111	0.0%
Peerless Manufacturing Co. (4)	Texas/ Manufacturing				
Subordinated secured note, 11.50% plus 3.50% PIK, 4/30/2013		$ 20,000	20,000	20,000	4.7%
Qualitest Pharmaceuticals, Inc. (4)	Alabama/ Pharmaceuticals				
Second lien debt, 12.45% (18), 4/30/2015		$ 12,000	11,944	11,523	2.7%

Regional Management Corp. (4)	South Carolina/ Financial Services					
Subordinated secured note, 12.00% plus 2.00% PIK, 6/29/2012		$	25,000	25,000	23,699	5.5%
Resco Products, Inc. (4)	Pennsylvania/ Manufacturing					
Second lien debt, 11.06% (19), 6/24/2014		$	9,750	9,574	9,574	2.2%
Shearer's Foods, Inc.	Ohio/ Food Products					
Mistral Chip Holdings, LLC membership units (45,300 total membership units outstanding) (24)			2,000	2,000	2,000	0.5%
Second lien debt, 14.00%, 10/31/2013 (4)		$	18,000	18,000	17,351	4.0%
				20,000	19,351	4.5%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

			June 30, 2008 (audit	
Portfolio Investments (1)	**Locale/ Industry**	**Par Value/ Shares Ownership %**	**Cost**	**Fair Value (2)**
Non-Control/Non-Affiliate Investments (less than 5.00% of voting control)				
Stryker Energy, LLC (20), (4)	Ohio/ Oil and Gas Production			
Subordinated revolving credit facility, 12.00%, 11/30/2011 (21)		$ 29,500	$ 29,041	$ 28,518
Unitek (4)	Pennsylvania/ Technical Services			
Second lien debt, 12.75% (22), 12/27/2012		$ 11,500	11,337	11,337
Wind River Resources Corp. and Wind River II Corp. (4)	Utah/Oil and Gas Production			
Senior secured note, 13.00%, 7/31/2009		$ 15,000	15,000	14,690
Total Non-Control/Non-Affiliate Investments			287,535	285,660
Total Portfolio Investments			496,805	497,530
Money Market Funds				
Fidelity Institutional Money Market Funds				

- Government Portfolio (Class I)	25,954,531	25,954	25,954
First American Funds, Inc.- Prime Obligations Fund (Class A) (4)	7,045,610	7,046	7,046
Total Money Market Funds		33,000	33,000
Total Investments		$529,805	$530,530

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS — (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

Endnote Explanations for the Consolidated Schedule of Investments as of December 31, 2008 and June 30, 2008

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(1) The securities in which Prospect Capital Corporation (“we”, “us” or “our”) have invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended, or the “Securities Act.” These securities may be resold only in transactions that are exempt from registration under the Securities Act.

(2) Fair value is determined by or under the direction of our Board of Directors (see Note 2).

(3) Gas Solutions Holdings, Inc. is a wholly-owned investment of us.

(4) Security, or portion thereof, is held as collateral for the credit facility with Rabobank Nederland (see Note 11). The market values of these investments at December 31, 2008 and June 30, 2008 were $415,825 and $369,418, respectively; they represent 97.2% and 86.0% of net assets, respectively.

(5) Entity was formed as a result of the debt restructuring of ESA Environmental Specialist, Inc. The two loans maturing on 9/30/2010 have been placed on a non-accrual status.

(6) Loan is with The Healing Staff (f/k/a Lisamarie Fallon, Inc) and affiliate of Integrated Contract Services, Inc.

(7) The number of these warrants which are exercisable is contingent upon the length of time that passes before the bridge loan is repaid, 224 shares on August 11, 2008, 340 additional shares on October 11, 2008 and 574 additional shares on December 11, 2008.

(8) Interest rate is the greater of 16.5% or 12-Month LIBOR plus 11.0%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(9) There are several entities involved in the Worcester Energy Partners, Inc. (“WEPI”) investment. We own 100 shares of common stock in Worcester Energy Holdings, Inc. (“WEHI”), representing 100%. WEHI, in turn, owns 51 membership certificates in Biochips LLC, which represents 51% ownership. We own 282 shares of common stock in Worcester Energy Co., Inc. (“WECO”), which represents 51% ownership. We own 1,665 shares of common stock in Worcester Energy Partners, Inc., which represents 51% ownership. We also own 1,000 of Series A convertible preferred shares in WEPI. WECO, WEPI and Biochips LLC are joint borrowers on the term note issued to Prospect Capital. WEPI owns the equipment and operates the biomass generation facility. Biochips LLC currently has no material operations. WEPI owns 100 shares of common stock in Precision Logging and Landclearing, Inc. (“Precision”), which represents 100% ownership.

Precision conducts all logging, processing and delivery operations to supply fuel to the biomass generation facility. As of December 31, 2008, our Board of Directors assessed a fair value of $0 for all of these equity positions. Effective July 1, 2008, this loan has been placed on non-accrual status.

(10) There are several entities involved in the Appalachian Energy Holdings LLC (AEH) investment. We own warrants the exercise of which will permit us to purchase 15,215 units of Class A common units of AEH at a nominal cost and in near-immediate fashion. We own 200 units of Series A preferred equity, 241 units of Series B preferred equity, and 62.5 units of Series C preferred equity of AEH. The senior secured notes are with C&S Operating LLC and East Cumberland L.L.C., both operating companies owned by AEH.

(11) We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,038 out of a total of 65,232 shares of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.

(12) Interest rate is the greater of 14.0% or 12-Month LIBOR plus 7.5%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

Endnote Explanations for the Consolidated Schedule of Investments as of December 31, 2008 and June 30, 2008 (continued)

(13) In addition to the stated returns, we also hold overriding royalty interests on which we receive payment based upon operations of the borrower and net profit interests which will be realized upon sale of the borrower or a sale of the interests.

(14) Interest rate is the greater of 13.0% or 12-Month LIBOR plus 7.5% not to exceed 14.50%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(15) In addition to the stated returns, we also hold net profit interests which will be realized upon sale of the borrower or a sale of the interests.

(16) Interest rate is the greater of 13.0% or 12-Month LIBOR plus 7.5%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(17) Interest rate is the greater of 12.0% or 3-Month LIBOR plus 6.11%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(18) Interest rate is 3-Month LIBOR plus 7.5%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(19) Interest rate is 3-Month LIBOR plus 8.0%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(20) In addition to the stated returns, we also hold overriding royalty interests on which we receive payment based upon operations of the borrower.

(21) Interest rate is the greater of 12.0% or 12-Month LIBOR plus 7.0%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(22) As of December 31, 2008 and June 30, 2008, interest rate is the greater of 14.50% and 12.75%, respectively, or 3-Month LIBOR plus 7.25%; rate reflected is as of the reporting date December 31, 2008 or June 30, 2008, as applicable.

(23) On June 30, 2008, we consolidated our holdings in four coal companies into Yatesville Coal Holdings, Inc. (Yatesville), and consolidated the operations under one management team. In the transaction, the debt that we held of C&A Construction, Inc. (C&A) (which is part of the Whymore Coal Entities described below), Genesis Coal Corp. (Genesis), North Fork Collieries LLC (North Fork) and Unity Virginia Holdings LLC (Unity) were exchanged for newly issued debt from Yatesville, and our ownership interests in C&A, E&L Construction, Inc. (E&L), Whymore Coal Company Inc. (Whymore), Genesis and North Fork were exchanged for 100% of the equity of Yatesville. This reorganization allows for a better utilization of the assets in the consolidated group.

At December 31, 2008 and at June 30, 2008, Yatesville owned 100% of the membership interest of North Fork. In addition, Yatesville held a $5,984 and $5,721, respectively, note receivable from North Fork as of those two respective dates.

At December 31, 2008 and at June 30, 2008, Yatesville owned 81% and 75%, respectively, of the common stock of Genesis and held a note receivable of $19,802 and $17,692, respectively, as of those two respective dates.

Yatesville held a note receivable of $4,078 and $3,902, respectively, from Unity at December 31, 2008 and at June 30, 2008.

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
December 31, 2008 and June 30, 2008
(in thousands, except share data)

Endnote Explanations for the Consolidated Schedule of Investments as of December 31, 2008 and June 30, 2008 (continued)

There are several entities involved in Yatesvilles investment in the Whymore Coal Entities at December 31, 2008 and at June 30, 2008. As of those two respective dates, Yatesville owned 10,000 shares of common stock or 100% of the equity and held a $13,805 and $12,822, respectively, senior secured debt receivable from C&A, which owns the equipment. Yatesville owned 10,000 shares of common stock or 100% of the equity of E&L, which leases the equipment from C&A, employs the workers, is listed as the operator with the Commonwealth of Kentucky, mines the coal, receives revenues and pays all operating expenses. Yatesville owns 4,900 shares of common stock or 49% of the equity of Whymore, which applies for and holds permits on behalf of E&L. Yatesville also owned 4,285 Series A convertible preferred shares in each of C&A, E&L and Whymore. Additionally, Yatesville retains an option to purchase the remaining 51% of Whymore. Whymore and E&L are guarantors under the C&A credit agreement with Yatesville.

(24) Mistral Chip Holdings, LLC owns 45,300 shares out of 50,500 total shares outstanding of Chip Holdings, Inc., the parent company of Shearers Foods, Inc.

(25) Interest rate is 3-Month LIBOR plus 8.0%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(26) On a fully diluted basis represents, 11.677% of voting common shares.

(27)

Interest rate is the greater of 11.5% or 6-month LIBOR plus 7.0%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(28) Interest rate is the greater of 10.5% or 3-month LIBOR plus 7.5%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(29) Interest rate is the greater of 11.5% or 3-month LIBOR plus 8.5%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(30) Interest rate is the greater of 12.0% or 12-month LIBOR plus 6.0%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(31) Interest rate is the greater of 13.0% or 12-month LIBOR plus 7.5% not to exceed 14.0%; rate reflected is as of the reporting date - December 31, 2008 or June 30, 2008, as applicable.

(32) Total common shares outstanding of 15,616,856 as of October 31, 2008 from Miller Petroleum, Inc.’s Quarterly Report on Form 10-Q filed on December 12, 2008.

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008
(Unaudited)
(in thousands, except share and per share data)

Note 1. Organization

References herein to “we”, “us” or “our” refer to Prospect Capital Corporation and its subsidiary unless the context specifically requires otherwise.

We were formerly known as Prospect Energy Corporation, a Maryland corporation. We were organized on April 13, 2004 and were funded in an initial public offering (“IPO”), completed on July 27, 2004. We are a closed-end investment company that has filed an election to be treated as a Business Development Company (“BDC”), under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have qualified and have elected to be treated as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code. We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, project financings, recapitalizations, and other purposes.

On May 15, 2007, we formed a wholly-owned subsidiary, Prospect Capital Funding, LLC, a Delaware limited liability company, for the purpose of holding certain of our loan investments in the portfolio which are used as collateral for our credit facility.

Note 2. Significant Accounting Policies

The following are significant accounting policies consistently applied by us:

Basis of Presentation

These interim financial statements, which are not audited, have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 6 or 10 of Regulation S-X, as appropriate.

Use of Estimates

The preparation of GAAP financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets, creditworthiness of our portfolio companies and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X and the American Institute of Certified Public Accountants’ Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our financial statements include our accounts and the accounts of Prospect Capital Funding, LLC, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

Investment Classification

We are a non-diversified company within the meaning of the 1940 Act. We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Co>

THE CATO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 31, 2010 AND AUGUST 1, 2009

NOTE 8 – FAIR VALUE MEASUREMENTS:

The following tables set forth information regarding the Company’s financial assets that are measured at fair value (in thousands) as of July 31, 2010 and January 30, 2010.

($ in thousands)		**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**
Description	**July 31, 2010**	**Level 1**	**Level 2**	**Level 3**

State/Municipal Bonds	$ 101,837	$ 101,837		
Corporate Bonds	30,672	30,672		
Auction Rate Securities (ARS)	3,450			3,450
Variable Rate Demand Notes (VRDN)	35,057	35,057		
Privately Managed Funds	1,962			1,962
Corporate Equities	431	431		
Total	$ 173,409	$ 167,997	$ -	$ 5,412

($ in thousands) **Description**	**January 30, 2010**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
State/Municipal Bonds	$ 76,056	$ 76,056		
Corporate Bonds	8,989	8,989		
Auction Rate Securities (ARS)	3,450			3,450
Variable Rate Demand Notes (VRDN)	65,382	65,382		
Privately Managed Funds	1,940			1,940
Corporate Equities	407	407		
Total	$ 156,224	$ 150,834	$ -	$ 5,390

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 31, 2010 AND AUGUST 1, 2009

NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED):

The Company's investment portfolio was primarily invested in tax exempt variable rate demand notes ("VRDN"), corporate bonds, and governmental debt securities held in managed funds with underlying ratings of A or better at both July 31, 2010 and January 30, 2010. The underlying securities have contractual maturities which generally range from 61 days to 30 years. These securities are classified as available-for-sale and are recorded as short term investments on the accompanying Condensed Consolidated Balance Sheets at estimated fair value, with unrealized gains and losses reported net of taxes in accumulated other comprehensive income.

Additionally, at July 31, 2010, the Company had $2.0 million of privately managed funds, $0.4 million of corporate equities and a single auction rate security ("ARS") of $3.5 million which continues to fail its auction. All of these assets are recorded within Other assets in the Condensed Consolidated Balance Sheets. At January 30, 2010, the Company had $1.9 million of privately managed funds, $0.4 million of corporate equities, and a single ARS of $3.5 million, all of which are recorded within Other assets in the Condensed Consolidated Balance Sheets.

The Company's failed ARS was measured at fair value using Level 3 inputs. Because there is no active market for this particular ARS, its fair value was determined through the use of a discounted cash flow analysis. The terms used in the analysis were based on management's estimate of the timing of future liquidity, which assumes that the security will be called or refinanced by the issuer or settled with a broker dealer prior to maturity. The discount rates used in the discounted cash flow analysis were based on market rates for similar liquid tax exempt securities with comparable ratings and maturities. Due to the uncertainty surrounding the timing of future liquidity, the Company also considered a liquidity/risk value reduction. In estimating the fair value of this ARS, the Company also considered the financial condition and near-term prospects of the issuer, the probability that the Company will be unable to collect all amounts due according to the contractual terms of the security and whether the security has been downgraded by a rating agency. The Company's valuation is sensitive to market conditions and management's judgment and can change significantly based on the assumptions used.

The Company's privately managed funds consist of two types of funds. The privately managed funds cannot be redeemed at net asset value at a specific date without advance notice. As a result, the Company has classified the investments as Level 3.

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 31, 2010 AND AUGUST 1, 2009

NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED):

The following table summarizes the change in the fair value of the Company's financial assets measured using Level 3 inputs during the first six months of fiscal 2010:

Roll Forward ($ in thousands)	**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**		
	Available-For-Sale Debt Securities ARS	**Other Investments Private Equity**	**Total**
Beginning Balance at January 30, 2010	$ 3,450	$ 1,940	$ 5,390
Total gains or (losses)			
Included in earnings (or changes in net assets)		22	22
Included in other comprehensive income			
Ending Balance at July 31, 2010	$ 3,450	$ 1,962	$ 5,412

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 31, 2010 AND AUGUST 1, 2009

NOTE 9 – RECENT ACCOUNTING PRONOUNCEMENTS:

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 amends ASC 820 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements. This ASU was effective for the Company on January 31, 2010, and did not have a material impact on the Company's financial position or results of operations.

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THE CATO CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING INFORMATION:

The following information should be read along with the Unaudited Condensed Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this Form 10-Q that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (4) statements relating to our operations or activities for fiscal 2010 and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodelings and closures; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as "expects," "anticipates," "approximates," "believes," "estimates," "hopes," "intends," "may," "plans," "should" and variations words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are based on information available to us as of the filing date of this report, but subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: general economic conditions including, but not limited to, the continuation or worsening of (i) the current adverse or recessionary conditions affecting the U.S. and global economies and consumer spending and (ii) the adverse conditions in the U.S. and global credit markets; uncertainties regarding the impact of any governmental responses to the foregoing adverse economic and credit market conditions; competitive factors and pricing pressures; our ability to predict fashion trends; consumer apparel buying patterns; adverse weather conditions; inventory risks due to shifts in market demand; and other factors discussed under "Risk Factors" in Part I, Item 1A of our annual report on Form 10-K for the fiscal year ended January 30, 2010 ("fiscal 2009"), as amended or supplemented, and in other reports we file with or furnish to the SEC from time to time. We do not undertake, and expressly decline, any obligation to update any such forward-looking information contained in this report, whether as a result of new information, future events, or otherwise.

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THE CATO CORPORATION
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

CRITICAL ACCOUNTING POLICIES:

The Company’s accounting policies are more fully described in Note 1 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2010. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of the Company’s financial statements include the allowance for doubtful accounts, workers’ compensation, general and auto insurance liabilities, group health insurance, inventory markdowns, litigation, calculation of asset impairment, store closings, inventory shrinkage and uncertain tax positions.

The Company’s critical accounting policies and estimates are discussed with the Audit Committee on a quarterly basis.

RESULTS OF OPERATIONS:

The following table sets forth, for the periods indicated, certain items in the Company's unaudited Condensed Consolidated Statements of Income as a percentage of total retail sales:

	Three Months Ended		**Six Months Ended**	
	July 31, 2010	August 1, 2009	**July 31, 2010**	August 1, 2009
Total retail sales	**100.0%**	100.0%	**100.0%**	100.0%
Other income	**1.2**	1.3	**1.2**	1.3
Total revenues	**101.2**	101.3	**101.2**	101.3
Cost of goods sold	**61.7**	63.7	**59.0**	61.6

Selling, general and administrative	**26.9**	25.1	**26.6**	26.1
Depreciation	**2.3**	2.4	**2.1**	2.4
Interest and other income	**(0.4)**	(0.4)	**(0.4)**	(0.4)
Income before income taxes	**10.8**	10.5	**13.8**	11.6
Net income	**6.9**	7.4	**8.8**	7.7

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THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

RESULTS OF OPERATIONS – (CONTINUED):

Comparison of Second Quarter and First Six Months of 2010 with 2009.

Total retail sales for the second quarter were $231.9 million compared to last year's second quarter sales of $225.4 million, a 2.9% increase. Same-store sales increased 2.0% in the second quarter of fiscal 2010 due to sell throughs of regular price merchandise. For the six months ended July 31, 2010, total retail sales were $491.6 million compared to last years first six months sales of $463.4 million, and same-store sales increased 5.0% for the comparable six month period. Total revenues, comprised of retail sales and other income (principally, finance charges and late fees on customer accounts receivable and layaway fees), were $234.7 million and $497.4 million for the second quarter and six months ended July 31, 2010, respectively, compared to $228.3 million and $469.3 million for the second quarter and six months ended August 1, 2009, respectively. The Company operated 1,275 stores at July 31, 2010 compared to 1,285 stores at the end of last year's second quarter, respectively. For the first six months of 2010 the Company opened 13 new stores, relocated three stores and closed nine stores. The Company currently expects to open approximately 41 stores, relocate six stores and close approximately 35 stores in fiscal 2010.

Credit revenue of $2.1 million represented 0.9% of total revenues in the second quarter of fiscal 2010, compared to the second quarter of fiscal 2009 credit revenue of $2.3 million or 1.0% of total revenues. Credit revenue decreased for the comparable period due to lower finance charge income due to decreased sales under the Company's proprietary credit card. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally bad debt expense, payroll, postage and other administrative expenses and totaled $1.3 million in the second quarter of 2010, compared to last year's second quarter expenses of $1.5 million. The decrease was primarily due to lower bad debt expense as well as reduced administrative expenses compared to the second quarter of 2009.

Other income in total, as included in total revenues, was $2.9 million and $5.8 million for the second quarter and first six months of fiscal 2010, compared to $2.9 million and $5.9 million for the prior year's comparable second quarter and first six months. The slight overall year-to-date decrease resulted primarily from lower finance charges and late fees partially offset by an increase in layaway charges.

Cost of goods sold was $143.0 million, or 61.7% of retail sales and $289.9 million or 59.0% of retail sales for the second quarter and first six months of fiscal 2010, compared to $143.5 million, or 63.7% of retail sales and $285.4 million or 61.6% of retail sales for the prior year's comparable three and six month periods, respectively. The overall decrease in cost of goods sold as a percent of retail sales for the second quarter and first six months of 2010 resulted primarily from leveraging higher sales and lower markdowns. The decrease in markdowns was primarily attributable to inventory management and higher sell-throughs of regular priced merchandise. Cost of goods sold includes merchandise costs, net of discounts and allowances, buying costs, distribution costs, occupancy costs, freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Total gross margin dollars (retail sales less cost of goods sold) increased by 8.4% to $88.8 million for the second quarter of fiscal 2010 and increased by 13.3% to $201.7 million for the first six months of fiscal 2010 compared to $81.9 million and $178.1 million for the prior year's comparable three and six month periods, respectively. Gross margin as presented may not be comparable to those of other entities.

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THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

RESULTS OF OPERATIONS – (CONTINUED):

Selling, general and administrative expenses ("SG&A") primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts. SG&A expenses were $62.3 million, or 26.9% of retail sales and $130.8 million, or 26.6% of retail sales for the second quarter and first six months of fiscal 2010, respectively, compared to $56.5 million, or 25.1% of retail sales and $121.1 million, or 26.1% of retail sales for the prior year's comparable three and six month periods, respectively. SG&A expenses as a percentage of retail sales increased 180 basis points for the second quarter of fiscal 2010 as compared to the prior year primarily as a result of higher accrued incentive compensation and workers' compensation costs. For the first six months of fiscal 2010, SG&A expenses increased 50 basis points as compared to the prior year. The overall dollar increase for the first six months of fiscal 2010 was primarily attributable to increased incentive based compensation, payroll and workers' compensation expenses partially offset by a reduction in legal expense.

Depreciation expense was $5.3 million, or 2.3% of retail sales and $10.5 million, or 2.1% of retail sales for the second quarter and first six months of fiscal 2010, respectively, compared to $5.5 million, or 2.4% of retail sales and $11.0 million, or 2.4% of retail sales for the prior year's comparable three and six month periods, respectively. The decrease in depreciation expense was due to lower store development in the past two years and decreased information technology investments.

Interest and other income was $1.0 million, or 0.4% of retail sales and $1.8 million, or 0.4% of retail sales for the second quarter and first six months of fiscal 2010, respectively, compared to $0.9 million, or 0.4% of retail sales and $1.9 million, or 0.4% of retail sales for the prior year's comparable three and six month periods, respectively. The slight decrease for the first six months of fiscal 2010 was primarily due to lower interest income due to reduced yields.

Income tax expense was $9.1 million or 3.9% of retail sales and $24.9 million, or 5.1% for the second quarter and first six months of fiscal 2010, respectively, compared to $7.0 million, or 3.1% of retail sales and $18.2 million, or 3.9% of retail sales for the prior year's comparable three and six month periods, respectively. The second quarter increase resulted from higher pre-tax income and a higher effective tax rate. The effective income tax rate for the second quarter of fiscal 2010 was 36.2% compared to 29.7% for the second quarter of 2009. The prior year quarter was impacted by the reduction of the provision for unrecognized tax benefits resulting from the closing of certain state income tax audits. The effective income tax rate for the first six months of fiscal 2010 was 36.6% compared to 33.9% for the six months of fiscal 2009.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK:

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during the first six months of fiscal 2010 was $59.9 million as compared to $54.0 million in the first six months of fiscal 2009. These amounts enable the Company to fund its regular operating needs, capital expenditure program, cash dividend payments and share repurchases. In addition, the Company maintains a $35.0 million unsecured revolving credit facility for short-term financing of seasonal cash needs. There were no outstanding borrowings on this facility at July 31, 2010, and borrowing capacity under the facility was $33.3 million, net of standby letter of credit obligations.

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THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK (CONTINUED):

Cash provided by operating activities for the first six months of fiscal 2010 was primarily generated by earnings adjusted for depreciation and changes in working capital. The increase of $5.9 million for the first six months of fiscal 2010 as compared to the first six months of fiscal 2009 was primarily due to an increase in net income, a change in inventories, and accrued income taxes partially offset by a decrease in imports payable and payment of incentive based compensation.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations, will be adequate to fund the Company's operating requirements, dividends, share repurchases and expected capital expenditures for the balance of fiscal 2010 and for the foreseeable future.

At July 31, 2010, the Company had working capital of $232.3 million compared to $192.1 million at August 1, 2009. Additionally, the Company had $2.4 million invested in privately managed investment funds and other miscellaneous equities at July 31, 2010, which are included in Other assets on the Condensed Consolidated Balance Sheets.

At July 31, 2010, the Company had an unsecured revolving credit agreement, which provides for borrowings of up to $33.3 million, net of standby letter of credit obligations. In August 2010, the Company extended the revolving credit agreement until August 2013. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of July 31, 2010. There were no borrowings outstanding under the credit facility during the second quarter ended July 31, 2010 or the fiscal year ended January 30, 2010.

At July 31, 2010 and August 1, 2009, the Company had approximately $10.3 million and $8.3 million, respectively, of outstanding irrevocable letters of credit relating to purchase commitments. In addition, the Company has a standby letter of credit in the amount of approximately $1.7 million at July 31, 2010 for payments to the current general liability and workers' compensation insurance processor.

Expenditures for property and equipment totaled $8.9 million in the first six months of fiscal 2010, compared to $6.2 million in last year's first six months. The expenditures for the first six months of 2010 were primarily for the development of 13 new stores and additional investments in new technology. For the full fiscal 2010 year, the Company expects to invest approximately $20.8 million for capital expenditures. This includes expenditures to open 41 new stores and relocate six stores.

Net cash used in investing activities totaled $26.5 million in the first six months of fiscal 2010 compared to $58.1 million used in the comparable period of 2009. The decrease was due primarily to the increase in sales of short-term investments over purchases of such investments.

On August 26, 2010, the Board of Directors maintained the quarterly dividend at $.185 per share or an annualized rate of $.74 per share.

In September 2009, the Company retired all of its shares of treasury stock. The excess of the price over par value of common stock of approximately $155.6 million was charged to retained earnings upon the retirement of the treasury stock.

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THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK (CONTINUED):

As of July 31, 2010, the Company had 442,942 shares remaining available for repurchase under its share repurchase program. There is no specified expiration date for the Company's repurchase program. For the three months ended July 31, 2010, the Company repurchased 108,654 shares at a cost of $2,571,629.

The Company does not use derivative financial instruments.

The Company's investment portfolio was primarily invested in tax exempt variable rate demand notes ("VRDN"), corporate bonds, and governmental debt securities held in managed funds with underlying ratings of A or better at both July 31, 2010 and January 30, 2010. The underlying securities have contractual maturities which generally range from 61 days to 30 years. These securities are classified as available-for-sale and are recorded as short term investments on the accompanying Condensed Consolidated Balance Sheets at estimated fair value, with unrealized gains and losses reported net of taxes in accumulated other comprehensive income.

Additionally, at July 31, 2010, the Company had $2.0 million of privately managed funds, $0.4 million of corporate equities and a single auction rate security ("ARS") of $3.5 million which continues to fail its auction. All of these assets are recorded within Other assets in the Condensed Consolidated Balance Sheets.

Information regarding new accounting pronouncements is provided in Note 9 to the Company's Condensed Consolidated Financial Statements.

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THE CATO CORPORATION
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

The Company is subject to market rate risk from exposure to changes in interest rates based on its financing, investing and cash management activities, but the Company does not believe such exposure is material.

ITEM 4. CONTROLS AND PROCEDURES:

We carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of July 31, 2010. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of July 31, 2010, our disclosure controls and procedures, as defined in Rule 13a-15(e), under the Securities Exchange Act of 1934 (the “Exchange Act”), were effective to provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

No change in the Company’s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) has occurred during the Company’s fiscal quarter ended July 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II OTHER INFORMATION

THE CATO CORPORATION

ITEM 1. LEGAL PROCEEDINGS

Not Applicable

ITEM 1A. RISK FACTORS

In addition to the other information in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended January 30, 2010. These risks could materially affect our business, financial condition or future results; however, they are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the Company's purchases of its common stock for the three months ended July 31, 2010:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number Of Shares Purchased		Average Price Paid per Share (2)		Total Dollar Value of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that may Yet be Purchased Under The Plans or Programs (1)
May 2010	108,654	$	23.67	$	2,571,629	
June 2010	-		-		-	
July 2010	-		-		-	
Total	108,654	$	23.67	$	2,571,629	442,942

(1) On August 30, 2007, the Company's Board of Directors authorized an increase in the share repurchase program to two million shares. An additional increase of 500,000 shares was authorized on February 26, 2009. As of January 30, 2010, the Company's share repurchase program had 695,942 shares remaining in open authorizations. At the second quarter ending July 31, 2010, the Company had 442,942 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program.

(2) Prices include trading costs.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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PART II OTHER INFORMATION

THE CATO CORPORATION

ITEM 4. REMOVED AND RESERVED

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibit No.	Item
3.1	Registrant's Restated Certificate of Incorporation dated March 6, 1987, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed February 7, 2000 (SEC File No. 333-96283).
3.2	Registrant's By Laws incorporated by reference to Exhibit 99.2 to Form 8-K of the Registrant Filed December 10, 2007.
4.1	Rights Agreement dated December 18, 2003, incorporated by reference to Exhibit 4.1 to Form 8-A12G of the Registrant filed December 22, 2003 and as amended in Form 8-A12B/A filed January 6, 2004.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1	Section 1350 Certification of Principal Executive Officer.
32.2	Section 1350 Certification of Principal Financial Officer.

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PART II OTHER INFORMATION

THE CATO CORPORATION

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CATO CORPORATION

September 8, 2010 Date	/s/ John P. D. Cato John P. D. Cato Chairman, President and Chief Executive Officer
September 8, 2010 Date	/s/ John R. Howe John R. Howe Executive Vice President Chief Financial Officer