

GLADSTONE CAPITAL CORP

Form 10-Q

August 09, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTER ENDED JUNE 30, 2010**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**COMMISSION FILE NUMBER: 814-00237**  
**GLADSTONE CAPITAL CORPORATION**  
(Exact name of registrant as specified in its charter)

**MARYLAND** **54-2040781**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**1521 WESTBRANCH DRIVE, SUITE 200  
MCLEAN, VIRGINIA 22102**  
(Address of principal executive office)  
**(703) 287-5800**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No  .  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  .

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company    
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares of the issuer's common stock, \$0.001 par value, outstanding as of August 9, 2010 was 21,039,242.

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**  
**(UNAUDITED)**

	June 30, 2010	September 30, 2009
<b>ASSETS</b>		
Non-Control/Non-Affiliate investments (Cost of \$257,333 and \$312,043, respectively)	\$ 238,882	\$ 286,997
Control investments (Cost of \$52,533 and \$52,350, respectively)	31,084	33,972
Total investments at fair value (Cost of \$309,866 and \$364,393, respectively)	269,966	320,969
Cash	6,468	5,276
Interest receivable investments in debt securities	2,566	3,048
Interest receivable employees (Refer to Note 4)	95	85
Due from Custodian	1,787	3,059
Due from Adviser (Refer to Note 4)		69
Deferred financing fees	1,489	1,230
Prepaid assets	588	341
Receivable from portfolio companies, less allowance for uncollectible receivables of \$138 and \$0 at June 30, 2010 and September 30, 2009, respectively	320	1,528
Other assets	307	305
<b>TOTAL ASSETS</b>	<b>\$ 283,586</b>	<b>\$ 335,910</b>
<b>LIABILITIES</b>		
Accounts payable	\$	\$ 67
Interest payable	385	378
Fee due to Administrator (Refer to Note 4)	186	216
Fees due to Adviser (Refer to Note 4)	2,331	834
Borrowings under line of credit at fair value (Cost of \$28,900 and \$83,000, respectively)	30,656	83,350
Accrued expenses and deferred liabilities	1,344	1,800
Funds held in escrow	255	189
<b>TOTAL LIABILITIES</b>	<b>35,157</b>	<b>86,834</b>
<b>NET ASSETS</b>	<b>\$ 248,429</b>	<b>\$ 249,076</b>
<b>ANALYSIS OF NET ASSETS</b>		
Common stock, \$0.001 par value, 50,000,000 shares authorized and 21,039,242 and 21,087,574 shares issued and outstanding at June 30, 2010 and September 30, 2009, respectively	\$ 21	\$ 21
Capital in excess of par value	327,755	328,203

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Notes receivable – employees (Refer to Note 4)	(8,503)	(9,019)
Net unrealized depreciation on investments	(39,899)	(43,425)
Net unrealized appreciation on borrowings under line of credit	(1,756)	(350)
Accumulated Net Realized Losses	(29,189)	(26,354)
TOTAL NET ASSETS	\$ 248,429	\$ 249,076
NET ASSETS PER SHARE	\$ 11.81	\$ 11.81

*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED  
FINANCIAL  
STATEMENTS.*

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**  
**(UNAUDITED)**

	Three Months Ended June		Nine Months Ended June	
	30,		30,	
	2010	2009	2010	2009
<b>INVESTMENT INCOME</b>				
Interest income Non-Control/Non-Affiliate investments	\$ 7,342	\$ 9,889	\$ 24,772	\$ 31,869
Interest income Control investments	375	591	1,852	1,103
Interest income Cash			1	11
Interest income Notes receivable from employees (Refer to Note 4)	108	118	330	352
Prepayment fees and other income	144		632	
<b>Total investment income</b>	<b>7,969</b>	<b>10,598</b>	<b>27,587</b>	<b>33,335</b>
<b>EXPENSES</b>				
Loan servicing fee (Refer to Note 4)	819	1,410	2,600	4,559
Base management fee (Refer to Note 4)	658	457	2,118	1,374
Incentive fee (Refer to Note 4)	153	1,060	1,601	3,326
Administration fee (Refer to Note 4)	186	218	540	656
Interest expense	891	1,811	3,562	6,288
Amortization of deferred financing fees	240	808	1,182	2,253
Professional fees	501	266	1,632	784
Compensation expense (Refer to Note 4)			245	
Other expenses	178	246	897	890
<b>Expenses before credits from Adviser</b>	<b>3,626</b>	<b>6,276</b>	<b>14,377</b>	<b>20,130</b>
Credits to fees from Adviser (Refer to Note 4)	(86)	(1,113)	(120)	(3,667)
<b>Total expenses net of credits to fees</b>	<b>3,540</b>	<b>5,163</b>	<b>14,257</b>	<b>16,463</b>
<b>NET INVESTMENT INCOME</b>	<b>4,429</b>	<b>5,435</b>	<b>13,330</b>	<b>16,872</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON:</b>				
Net realized loss on investments	(2,865)	(10,594)	(2,893)	(14,325)
Realized loss on settlement of derivative				(304)
Unrealized appreciation on derivative				304
Net unrealized (depreciation) appreciation on investments	(1,556)	4,371	3,525	(2,158)
Net unrealized appreciation on borrowings under line of credit	(1,756)		(1,405)	
<b>Net loss on investments, derivative and borrowings under line of credit</b>	<b>(6,177)</b>	<b>(6,223)</b>	<b>(773)</b>	<b>(16,483)</b>

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NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$	(1,748)	\$	(788)	\$	12,557	\$	389
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NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:								
Basic and Diluted	\$	(0.08)	\$	(0.04)	\$	0.60	\$	0.02

WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:								
Basic and Diluted		21,039,242		21,087,574		21,067,465		21,087,574

*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.*

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**(DOLLAR AMOUNTS IN THOUSANDS)**  
**(UNAUDITED)**

	Nine Months Ended June 30,	
	2010	2009
<i>Operations:</i>		
Net investment income	\$ 13,330	\$ 16,872
Net realized loss on investments	(2,893)	(14,325)
Realized loss on settlement of derivative		(304)
Unrealized appreciation on derivative		304
Net unrealized appreciation (depreciation) on investments	3,525	(2,158)
Net unrealized appreciation on borrowings under line of credit	(1,405)	
Net increase in net assets from operations	12,557	389
<i>Capital transactions:</i>		
Shelf offering costs	(28)	(3)
Distributions to stockholders	(13,271)	(22,142)
Repayment of principal on employee notes		4
Conversion of former employee stock option loans from recourse to non-recourse	(420)	
Reclassification of principal on employee note	515	
Net decrease in net assets from capital transactions	(13,204)	(22,141)
Total decrease in net assets	(647)	(21,752)
Net assets at beginning of year	249,076	271,748
Net assets at end of period	\$ 248,429	\$ 249,996

*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED  
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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(DOLLAR AMOUNTS IN THOUSANDS)**  
**(UNAUDITED)**

	Nine Months Ended June 30,	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net increase in net assets resulting from operations	\$	12,557	\$ 389
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:			
Purchase of investments		(9,565)	(24,711)
Principal repayments on investments		56,900	43,419
Proceeds from sale of investments		3,119	41,962
Repayment of paid in kind interest		51	
Increase in investment balance due to paid in kind interest		(64)	(48)
Net amortization of premiums and discounts		479	(205)
Loan impairment / contra-investment		715	
Net realized loss on investments		2,893	14,325
Amortization of deferred financing fees		1,182	2,253
Realized loss on settlement of derivative			304
Unrealized appreciation on derivative			(304)
Change in net unrealized (depreciation) appreciation on investments		(3,525)	2,158
Change in net unrealized appreciation on borrowings under line of credit		1,405	
Change in compensation expense from non-recourse notes		245	
Decrease (increase) in interest receivable		472	(107)
Increase in funds due from custodian		1,272	2,913
(Increase) decrease in prepaid assets		(246)	90
Decrease in due from affiliate		69	
Decrease in receivables from portfolio companies		1,208	
Decrease (increase) in other assets		4	(501)
Decrease in accounts payable		(67)	(2)
Increase (decrease) in interest payable		7	(218)
Decrease in accrued expenses and deferred liabilities		(612)	(226)
Increase in fees due to affiliate (Refer to Note 4)		1,497	260
Decrease in administration fee due to Gladstone Administration (Refer to Note 4)		(30)	(29)
Increase (decrease) in funds held in escrow		66	(69)
Net cash provided by operating activities		70,032	81,653
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Shelf offering costs		(28)	(3)
Borrowings from the line of credit		8,400	46,800
Repayments on the line of credit		(62,500)	(106,130)
Distributions paid		(13,271)	(22,142)
Receipt of principal on notes receivable employees (Refer to Note 4)			4
Deferred financing fees		(1,441)	(2,109)

Net cash used in financing activities	(68,840)	(83,580)
<b>NET INCREASE (DECREASE) IN CASH</b>	1,192	(1,927)
<b>CASH, BEGINNING OF PERIOD</b>	5,276	6,493
<b>CASH, END OF PERIOD</b>	\$ 6,468	\$ 4,566

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	Nine Months Ended June 30,	
	2010	2009
<b>NON-CASH FINANCING ACTIVITIES</b>		
Portfolio company payoff proceeds held in escrow (included in other assets and other liabilities)	\$ 155	\$
Reclassification of principal on employee note (Refer to Note 4)	\$ 515	\$
Conversion of former employee stock option loans from recourse to non-recourse (Refer to Note 6)	\$ 420	\$

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**GLADSTONE CAPITAL CORPORATION  
CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS  
AS OF JUNE 30, 2010  
(DOLLAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)**

<b>Industry</b>	<b>Investment (2)</b>
<b>NON-AFFILIATE INVESTMENTS</b>	
Service-cable airtime (infomercials)	Senior Term Debt (14.5%, Due 12/2009) (5) (11)
Service-publisher of consumer oriented magazines	Senior Term Debt (10.5%, Due 9/2012) (5)
	Senior Term Debt (13.0%, Due 12/2010) (5)
Manufacturing-preservatives for animal feed	Line of Credit, \$3,000 available (4.6%, Due 1/2011) (13)
	Senior Term Debt (8.5%, Due 1/2012) (13)
	Senior Term Debt (10.5%, Due 1/2012) (3) (13)
Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013) (5)
Service-publisher of Chinese language directories	Line of Credit, \$700 available (7.3%, Due 9/2010) (5)
	Senior Term Debt (7.3%, Due 9/2010) (5)
Service-recycling	Senior Subordinated Term Debt (10.3%, Due 11/2012) (5)
Distributor-specialty chemicals	Senior Term Debt (8.0%, Due 11/2010) (14)
	Senior Term Debt (9.0%, Due 11/2010) (3) (14)
Private equity fund	Class A Membership Units (8)
Manufacturing-landscape equipment	Common Stock Warrants (7) (8)
Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (11.5%, Due 12/2012) (5)

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	Senior Subordinated Term Debt (14.0%, Due 12/2012) (3) (5)
Manufacturing-steel wool products and metal fibers	Senior Term Debt (13.0%, Due 6/2012) (3) (5)
Service-radio station operator	Senior Term Debt (8.5%, Due 3/2013) (5) Common Stock Warrants (7) (8)
Service-slitter and distributor of plastic films	Senior Term Debt (12.3%, Due 10/2012) (5)
Service-golf training	Line of Credit, \$1,500 available (9.0%, Due 5/2011) (5) Senior Term Debt (8.5%, Due 5/2012) (5) Senior Term Debt (10.5%, Due 5/2012) (3) (5)
Service-AM/FM radio broadcaster	Line of Credit, \$200 available (non-accrual, Due 7/2010) (5) (10) Senior Term Debt (non-accrual, Due 7/2010) (5) (10)
Service-operator of radio stations	Senior Term Debt (12.0%, Due 6/2013) (5)
Service-distributor of personal care products and supplements	Line of Credit, \$1,350 available (5.0%, Due 12/2012) (5) Senior Term Debt (5) (5.0%, Due 12/2012) (5) Senior Term Debt (5.0%, Due 12/2012) (3) (5) Preferred Equity (7) (8) Common Stock (7) (8)
Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (13.0%, Due 9/2012) (5)

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**AS OF JUNE 30, 2010**  
**(DOLLAR AMOUNTS IN THOUSANDS)**  
**(UNAUDITED)**

Company (1)	Industry	Investment (2)	Cost	Fair Value
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012) (5)	\$ 130	\$ 11
Pinacle Treatment Centers, Inc.	Service-Addiction treatment centers	Line of Credit, \$500 available (12.0%, Due 10/2010)	150	14
		Senior Term Debt (10.5%, Due 12/2011) (5)	2,150	2,13
		Senior Term Debt (10.5%, Due 12/2011) (3) (5)	7,500	7,38
Decision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the aluminum industry	Equipment Note (13.0%, Due 10/2010) (5)	1,000	97
		Senior Term Debt (13.0%, Due 10/2010) (5)	4,125	4,03
		Senior Term Debt (13.0%, Due 10/2010) (3) (5)	4,053	3,96
PROFITSystems Acquisition Co.	Service-design and develop ERP software	Line of Credit, \$350 available (4.6%, Due 7/2011)		
		Senior Term Debt (8.5%, Due 7/2011) (5)	1,150	1,07
		Senior Term Debt (10.5%, Due 7/2011) (3) (5)	2,900	2,68
CS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (9.5%, Due 1/2011) (3) (5)	2,062	2,03
		Senior Term Debt (11.5%, Due 1/2011) (4) (5)	3,060	3,02
Reliable Pharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, \$5,000 available (9.0%, Due 10/2010) (5)	700	69
		Mortgage Note (9.5%, Due 10/2014) (5)	7,275	7,25
		Senior Term Debt (9.0%, Due 10/2012) (5)	1,193	1,18
		Senior Term Debt (11.0%, Due 10/2012) (3) (5)	11,723	11,54
		Senior Subordinated Term Debt (12.0%, Due 10/2013) (5)	6,000	5,83
		Common Stock Warrants (7) (8)	209	
Founders & Associates	Manufacturing-equipment provider for frequency control devices	Senior Term Debt (9.8%, Due 5/2013) (5)	8,947	8,91
CI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (non-accrual, Due 10/2012) (5)	351	13
		Senior Term Debt (non-accrual, Due 10/2012) (5)	2,931	37
Unburst Media Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 6/2011) (5)	6,396	5,94

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Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Line of credit, \$2,000 available (10.5%, Due 2/2011) (5)	999	93
		Senior Term Debt (10.5%, Due 5/2012) (5)	16,948	15,84
		Senior Term Debt (13.3%, Due 5/2012) (3) (5)	10,700	9,84
Mibaut Acquisition Co.	Service-design and distribute wall covering	Line of Credit, \$1,000 available (9.0%, Due 1/2011) (5)	1,000	96
		Senior Term Debt (8.5%, Due 1/2011) (5)	1,338	1,28
		Senior Term Debt (12.0%, Due 1/2011) (3) (5)	3,000	2,84
Mapack, Inc.	Manufacturing-polyethylene film	Senior Real Estate Term Debt (10.0%, Due 3/2011) (5)	675	67
		Senior Term Debt (13.0%, Due 3/2011) (3) (5)	4,005	3,98
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (9.5%, Due 1/2011) (5) (15)	15,000	14,73
		Senior Subordinated Term Debt (10.8%, Due 1/2011) (5) (15)	10,000	9,72
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.4%, Due 5/2012) (5)		
			1,250	1,24
		Senior Term Debt (5.8%, Due 5/2013) (5)	1,686	1,65
		Senior Subordinated Term Debt (14.0%, Due 6/2013) (5)	9,875	9,55
<i>Subtotal non-syndicated loans</i>			247,840	230,70

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**AS OF JUNE 30, 2010**  
**(DOLLAR AMOUNTS IN THOUSANDS)**  
**(UNAUDITED)**

Company (1)	Industry	Investment (2)	Cost	Fair Value
<i>Syndicated Loans:</i>				
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (7.9%, Due 1/2012) (6)	\$ 7,163	\$ 6,284
WP Evenflo Group Holdings Inc.	Manufacturing-infant and juvenile products	Senior Term Debt (8.0%, Due 2/2013) (6) Senior Preferred Equity (7) (8) Junior Preferred Equity (7) (8) Common Stock (7) (8)	1,886 333 111	1,660 235
<i>Subtotal Syndicated loans</i>			9,493	8,179
<b>Total Non-Control/Non- Affiliate Investments</b>			<b>\$ 257,333</b>	<b>\$ 238,882</b>
<b>CONTROL INVESTMENTS</b>				
BERTL, Inc.	Service-web-based evaluator of digital imaging products	Line of Credit, \$1,397 available (non-accrual, Due 10/2010) (7) (10) (12) Common Stock (7) (8)	\$ 1,071 423	\$
Clinton Holdings, LLC	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (12.0%, Due 1/2013) (5) Common Stock Warrants (7) (8)	17,140 109	13,369
Defiance Integrated Technologies, Inc.	Manufacturing-trucking parts	Senior Term Debt (11.0%, Due 4/2013) (3) (5) Common Stock (7) (8) Guaranty (\$250)	8,324 1	8,325
Lindmark Acquisition, LLC	Service-advertising	Senior Subordinated Term Debt (non-accrual, Due 10/2012) (5) (9) (10) Senior Subordinated Term Debt (non-accrual, Due 12/2010) (5)	10,000 2,000	6,000 1,200



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		(9) (10) Senior Subordinated Term Debt (non-accrual, Due Upon Demand) (5)(9)(10)	1,644	986
		Common Stock (7) (8)	1	
LYP Holdings Corp.	Service-yellow pages publishing	Line of credit, \$1,850 available (non-accrual, Due 12/2010) (7) (10)	1,698	1,033
		Senior Term Debt (non-accrual, Due 2/2012) (7) (10)	325	
		Line of Credit, \$3,000 available (non-accrual, Due 6/2011) (7) (10)	1,170	
		Senior Term Debt (non-accrual, Due 6/2011) (7) (10)	2,688	
		Senior Term Debt (non-accrual, Due 6/2011) (3) (7) (10)	2,750	
		Common Stock Warrants (7) (8)		
U.S. Healthcare Communications, Inc.	Service-magazine publisher/ operator	Line of credit, \$400 available (non-accrual, Due 12/2010) (7) (10)	269	171
		Line of credit, \$450 available (non-accrual, Due 12/2010) (7) (10)	450	
		Common Stock (7) (8)	2,470	
<b>Total Control Investments</b>			<b>\$ 52,533</b>	<b>\$ 31,084</b>
<b>Total Investments</b>			<b>\$ 309,866</b>	<b>\$ 269,966</b>

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**GLADSTONE CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**AS OF JUNE 30, 2010**  
**(DOLLAR AMOUNTS IN THOUSANDS)**  
**(UNAUDITED)**

- (1) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.
- (2) Percentage represents interest rates in effect at June 30, 2010 and due date represents the contractual maturity date.
- (3) Last Out Tranche of senior debt, meaning if the portfolio company is liquidated, the holder of the Last Out Tranche is paid after the senior debt.
- (4) Last Out Tranche of senior debt, meaning if the portfolio company is liquidated, the holder of the Last Out Tranche is paid after the senior debt, however, the debt is also

junior to another  
Last Out  
Tranche.

- (5) Fair value was based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
- (6) Security valued based on the indicative bid price on or near June 30, 2010, offered by the respective syndication agent's trading desk or secondary desk.
- (7) Fair value was based on the total enterprise value of the portfolio company using a liquidity waterfall approach. The Company also considered discounted cash flow methodologies.
- (8) Security is non-income producing.
- (9) Lindmark's loan agreement was amended in March 2009 such that any unpaid current interest accrues at a success fee rate.

The success fee is to be paid upon certain conditions being met and is not recorded until paid. Please refer to Note 2,

Summary of Significant Accounting Policies Interest Income Recognition. For the three and nine months ended June 30, 2010, the Company recorded \$0 of interest income.

- (10) BERTL, KMBQ, Lindmark, LYP Holdings, SCI Cable and U.S. Healthcare are currently past due on interest payments and are on non-accrual.
- (11) Access TV's loan matured in December 2009. The Company is actively working to recover amounts due under this loan, however, there is no assurance that there will be any recovery of amounts past due.
- (12) BERTL's interest includes paid in kind interest.

Please refer to  
Note 2,  
Summary of  
Significant  
Accounting  
Policies.

(13) Anitox's fair value was based on the expected full repayment subsequent to June 30, 2010. In addition, Anitox's Last Out Tranche of senior term debt includes a success fee with a fair value of \$3.

(14) Doe & Ingalls fair value was based on the expected full repayment subsequent to June 30, 2010.

(15) Subsequent to June 30, 2010, Westlake's senior subordinated term loans were amended with revised interest rates of 12.3% and 13.5%, respectively, and the maturity date was extended to January 2014.

*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED  
FINANCIAL  
STATEMENTS.*

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**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**AS OF SEPTEMBER 30, 2009**  
**(DOLLAR AMOUNTS IN THOUSANDS)**

Company (1)	Industry	Investment (2)	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS</b>				
<i>Non-syndicated</i>				
<i>Loans:</i>				
Access Television Network, Inc.	Service-cable airtime (infomercials)	Senior Term Debt (14.5%, Due 12/2009) (5) (9)	\$ 963	\$ 868
ACE Expeditors, Inc	Service-over-the-ground logistics	Senior Term Debt (13.5%, Due 9/2014) (5) (13)	5,106	4,864
		Common Stock Warrants (8)	200	564
ActivStyle Acquisition Co.	Service-medical products distribution	Senior Term Debt (13.0%, Due 4/2014) (3) (5)	4,000	3,940
Allison Publications, LLC	Service-publisher of consumer oriented magazines	Senior Term Debt (10.0%, Due 9/2012) (5)	9,709	8,746
		Senior Term Debt (13.0%, Due 12/2010) (5)	260	246
Anitox Acquisition Company	Manufacturing-preservatives for animal feed	Line of Credit, \$3,000 available (4.5%, Due 1/2010) (5)	1,700	1,681
		Senior Term Debt (8.5%, Due 1/2012) (5)	2,877	2,823
		Senior Term Debt (10.5%, Due 1/2012) (3) (5)	3,688	3,582
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013) (5)	7,300	5,840
		Senior Term Debt (12.0%, Due 7/2009) (3) (5) (12)	950	475
CCS, LLC	Service-cable TV franchise owner	Senior Term Debt (non-accrual, Due 8/2008) (5) (10) (12)	631	126
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, \$700 available (7.3%, Due 9/2010) (5)	450	427
		Senior Term Debt (7.3%, Due 9/2010) (5)	518	488
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (10.3%, Due 11/2012) (5)	6,233	5,890
Doe & Ingalls		Senior Term Debt (6.8%, Due 11/2010) (5)	2,300	2,266

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Management LLC	Distributor-specialty chemicals	Senior Term Debt (7.8%, Due 11/2010) (3) (5)	4,365	4,267
Finn Corporation	Manufacturing-landscape equipment	Common Stock Warrants (8)	37	1,223
GFRC Holdings LLC	Manufacturing-glass-fiber reinforced concrete	Line of Credit, \$2,000 available (4.5%, Due 12/2010)		
		Senior Term Debt (9.0%, Due 12/2012) (5)	6,599	6,450
		Senior Subordinated Term Debt (11.5%, Due 12/2012) (3) (5)	6,665	6,432
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (13.0%, Due 6/2010) (3) (5)	4,410	3,528
Heartland Communications Group	Service-radio station operator	Senior Term Debt (10.0%, Due 5/2011) (5)	4,567	2,726
Interfilm Holdings, Inc.	Service-slitter and distributor of plastic films	Senior Term Debt (12.3%, Due 10/2012) (5)	4,950	4,715
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, \$1,500 available (9.0%, Due 5/2010) (5)	700	690
		Senior Term Debt (8.5%, Due 5/2012) (5)	2,120	2,036
		Senior Term Debt (10.5%, Due 5/2012) (3) (5)	2,500	2,366
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, \$200 available (11.0%, Due 3/2010) (5)	153	69
		Senior Term Debt (11.0%, Due 3/2010) (5)	1,785	801
Legend Communications of Wyoming LLC	Service-operator of radio stations	Line of Credit, \$500 available (12.0%, Due 6/2011) (5)	497	450
		Senior Term Debt (12.0%, Due 6/2013) (5)	9,373	8,482
Newhall Holdings, Inc.	Service-distributor of personal care products and supplements	Line of Credit, \$3,000 available (11.3%, Due 5/2010) (5)	1,000	945
		Senior Term Debt (5) (11.3%, Due 5/2012) (5)	3,870	3,657
		Senior Term Debt (14.3%, Due 5/2012) (3) (5)	4,410	4,112

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**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**SEPTEMBER 30, 2009**  
**(DOLLAR AMOUNTS IN THOUSANDS)**

<b>Company (1)</b>	<b>Industry</b>	<b>Investment (2)</b>	<b>Cost</b>	<b>Fair Value</b>
Northern Contours, Inc.	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (10.0%, Due 5/2010) (5)	\$ 6,562	\$ 5,414
Pinnacle Treatment Centers, Inc.	Service-Addiction treatment centers	Line of Credit, \$500 available (4.5%, Due 12/2009)		
		Senior Term Debt (10.5%, Due 12/2011) (5)	2,750	2,633
		Senior Term Debt (10.5%, Due 12/2011) (3) (5)	7,500	7,059
Precision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the aluminum industry	Equipment Note (8.5%, Due 10/2011) (5)	1,000	988
		Senior Term Debt (8.5%, Due 10/2010) (5)	4,250	4,192
		Senior Term Debt (11.5%, Due 10/2010) (3) (5)	4,074	4,023
PROFITSystems Acquisition Co.	Service-design and develop ERP software	Line of Credit, \$350 available (4.5%, Due 7/2010)		
		Senior Term Debt (8.5%, Due 7/2011) (5)	1,600	1,468
		Senior Term Debt (10.5%, Due 7/2011) (3) (5)	2,900	2,632
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (8.5%, Due 1/2011) (3) (5)	2,437	2,383
		Senior Term Debt (10.5%, Due 1/2011) (4) (5)	3,060	2,949
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, \$5,000 available (9.0%, Due 10/2010) (5)	800	788
		Mortgage Note (9.5%, Due 10/2014) (5)	7,335	7,261
		Senior Term Debt (9.0%, Due 10/2012) (5)	1,530	1,507
		Senior Term Debt (11.0%, Due 10/2012) (3) (5)	11,813	11,518
		Senior Subordinated Term Debt (12.0%, Due 10/2013) (5)	6,000	5,640
		Common Stock Warrants (8)	209	282
Saunders & Associates	Manufacturing-equipment provider for frequency control devices	Senior Term Debt (9.8%, Due 5/2013) (5)	10,780	10,618
SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (9.3%, Due 10/2008) (5) (12)	2,881	576
Sunburst Media Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 6/2011) (5)	6,411	5,817
		Senior Term Debt (11.0%, Due 5/2012) (5)	16,948	15,973



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Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Senior Term Debt (13.5%, Due 5/2012) (3) (5)	10,700	9,978
Thibaut Acquisition Co.	Service-design and disribute wall covering	Line of Credit, \$1,000 available (9.0%, Due 1/2011) (5)	1,000	933
		Senior Term Debt (8.5%, Due 1/2011) (5)	1,487	1,387
		Senior Term Debt (12.0%, Due 1/2011) (3) (5)	3,000	2,745
Tulsa Welding School	Service-private welding school	Line of credit, \$750 available (9.5%, Due 9/2011)		
		Senior Term Debt (9.5%, Due 9/2013) (5)	4,144	4,144
		Senior Term Debt (12.8%, Due 9/2013) (5)	7,960	7,950
VantaCore	Service-acquisition of aggregate quarries	Senior Subordinated Term Debt (12.0%, Due 8/2013) (5)	13,726	13,589
Viapack, Inc.	Manufacturing-polyethylene film	Senior Real Estate Term Debt (10.0%, Due 3/2011) (5)	775	743
		Senior Term Debt (13.0%, Due 3/2011) (3) (5)	4,061	3,893
Visual Edge Technology, Inc.	Service-office equipment distribution	Line of credit, \$3,000 available (10.8%, Due 9/2011) (5)	2,981	2,340
		Senior Subordinated Term Debt (15.5%, Due 8/2011) (5)	5,000	3,925
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (9.0%, Due 1/2011) (5)	15,000	14,269
		Senior Subordinated Term Debt (10.3%, Due 1/2011) (5)	10,000	9,400
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.3%, Due 5/2013) (5)	1,147	1,136
		Senior Term Debt (5.7%, Due 5/2013) (5)	1,690	1,642
		Senior Subordinated Term Debt (14.0%, Due 6/2013) (5)	9,925	9,478
<i>Subtotal Non-syndicated loans</i>			298,322	277,048

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**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**  
**SEPTEMBER 30, 2009**  
**(DOLLAR AMOUNTS IN THOUSANDS)**

<b>Company (1)</b>	<b>Industry</b>	<b>Investment (2)</b>	<b>Cost</b>	<b>Fair Value</b>
<i>Syndicated Loans:</i>				
GTM Holdings, Inc.	Manufacturing-socks	Senior Subordinated Term Debt (11.8%, Due 4/2014) (6)	\$ 500	\$ 220
Kinetek Acquisition Corp.	Manufacturing-custom engineered motors & controls	Senior Term Debt (3.6%, Due 11/2013) (7)	1,438	925
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (7.8%, Due 1/2012) (6)	7,174	5,713
Wesco Holdings, Inc.	Service-aerospace parts and distribution	Senior Subordinated Term Debt (6.0%, Due 3/2014) (7)	2,264	1,856
WP Evenflo Group Holdings Inc.	Manufacturing-infant and juvenile products	Senior Term Debt (8.0%, Due 2/2013) (6) Senior Preferred Equity (8) Junior Preferred Equity (8) Common Stock (8)	1,901 333 111	1,235
<i>Subtotal Syndicated loans</i>			13,721	9,949
<b>Total Non-Control/ Non-Affiliate Investments</b>			<b>\$ 312,043</b>	<b>\$ 286,997</b>

**CONTROL INVESTMENTS**

BERTL, Inc.	Service-web-based evaluator of digital imaging products	Line of Credit, \$842 available (non-accrual, Due 10/2009) (10)(13)(15) Common Stock (8) (15)	\$ 930 424	\$ 12,013
			15,500	12,013

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Clinton Holdings, LLC	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (12.0%, Due 1/2013) (5) (14) Escrow Fundin
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