

GLADSTONE CAPITAL CORP

Form 10-Q

January 31, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED DECEMBER 31, 2011

.. **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)

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MARYLAND
(State or other jurisdiction of

54-2040781
(I.R.S. Employer

incorporation or organization)

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 12 b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer 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 per share, outstanding as of January 27, 2012 was 21,000,160.

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	December 31, 2011	September 30, 2011
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of \$273,177 and \$288,266, respectively)	\$ 248,832	\$ 257,302
Control investments (Cost of \$97,293 and \$94,549, respectively)	44,014	45,645
Total investments at fair value (Cost of \$370,470 and \$382,815, respectively)	292,846	302,947
Cash	5,772	6,732
Restricted cash	1,225	
Interest receivable investments in debt securities	2,921	3,066
Interest receivable employees ^(S)	13	
Due from custodian	1,669	2,547
Deferred financing fees	2,261	650
Prepaid assets	825	996
Other assets	584	686
TOTAL ASSETS	\$ 308,116	\$ 317,624
LIABILITIES		
Borrowings at fair value (Cost of \$56,900 and \$99,400, respectively)	\$ 57,213	\$ 100,012
Mandatorily redeemable preferred stock, \$0.001 per share par value, \$25 per share liquidation preference; 4,000,000 and no shares authorized; 1,539,882 and no shares issued and outstanding at December 31, 2011 and September 30, 2011, respectively	38,497	
Accounts payable and accrued expenses	524	513
Interest payable	205	289
Fees due to Adviser ^(A)	1,414	1,760
Fee due to Administrator ^(A)	195	194
Other liabilities	2,052	1,135
TOTAL LIABILITIES	\$ 100,100	\$ 103,903
NET ASSETS	\$ 208,016	\$ 213,721
ANALYSIS OF NET ASSETS		
Common stock, \$0.001 par value per share, 46,000,000 and 50,000,000 shares authorized; 21,019,242 and 21,039,242 shares issued and outstanding at December 31, 2011 and September 30, 2011, respectively	\$ 21	\$ 21
Capital in excess of par value	326,756	326,913
Notes receivable employees ^(S)	(3,699)	(3,858)
Cumulative net unrealized depreciation on investments	(77,624)	(79,867)
Cumulative net unrealized appreciation on borrowings	(313)	(612)
Under distributed net investment income	108	108
Accumulated net realized losses	(37,233)	(28,984)

TOTAL NET ASSETS	\$ 208,016	\$ 213,721
NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD	\$ 9.90	\$ 10.16

^(A) Refer to Note 4 *Related Party Transactions* for additional information.

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

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

	Three Months Ended December 31,	
	2011	2010
INVESTMENT INCOME		
Interest income		
Non-Control/Non-Affiliate investments	\$ 7,889	\$ 6,926
Control investments	1,358	797
Cash	6	
Notes receivable from employees ^(A)	67	122
Total interest income	9,320	7,845
Other income		
Non-Control/Non-Affiliate investments		161
Total other income		161
Total investment income	9,320	8,006
EXPENSES		
Loan servicing fee ^(A)	959	842
Base management fee ^(A)	597	505
Incentive fee ^(A)	1,035	1,159
Administration fee ^(A)	195	186
Interest expense on borrowings	1,139	(120)
Dividend expense on mandatorily redeemable preferred stock	434	
Amortization of deferred financing fees	457	297
Professional fees	292	332
Other expenses	244	220
Expenses before credits from Adviser	5,352	3,421
Credits to fees from Adviser ^(A)	(450)	(52)
Total expenses net of credits to fees	4,902	3,369
NET INVESTMENT INCOME	4,418	4,637
REALIZED AND UNREALIZED (LOSS) GAIN:		
Net realized loss on investments	(8,249)	
Net unrealized appreciation (depreciation) on investments	2,243	(2,944)
Net unrealized depreciation on borrowings	299	439
Net loss on investments and borrowings	(5,707)	(2,505)
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ (1,289)	\$ 2,132

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NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER
COMMON SHARE:

Basic and Diluted	\$	(0.06)	\$	0.10
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WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:

Basic and Diluted		21,038,590		21,039,242
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^(A) Refer to Note 4 *Related Party Transactions* for additional information.

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)

	Three Months Ended December 31,	
	2011	2010
<i>Operations:</i>		
Net investment income	\$ 4,418	\$ 4,637
Net realized loss on investments	(8,249)	
Net unrealized appreciation (depreciation) on investments	2,243	(2,944)
Net unrealized depreciation on borrowings	299	439
Net (decrease) increase in net assets resulting from operations	(1,289)	2,132
<i>Distributions:</i>		
Distributions to common stockholders	(4,418)	(4,418)
<i>Capital transactions:</i>		
Stock redemption for repayment of principal on employee note	(155)	
Repayment of principal on employee notes	158	
Net increase in net assets from capital transactions	3	
Total decrease in net assets	(5,704)	(2,286)
Net assets at beginning of period	213,720	249,246
Net assets at end of period	\$ 208,016	\$ 246,960

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

Table of Contents**GLADSTONE CAPITAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)****(UNAUDITED)**

	Three Months Ended December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets resulting from operations	\$ (1,289)	\$ 2,132
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(11,251)	(11,794)
Principal repayments on investments	10,780	13,208
Proceeds from sale of investments	4,489	37
Increase in investment balance due to paid-in-kind interest		(4)
Net change in premiums, discounts and amortization	(74)	213
Net realized loss on investments	8,400	
Net unrealized (appreciation) depreciation on investments	(2,243)	2,944
Net unrealized depreciation on borrowings	(299)	(439)
Increase in restricted cash	(1,225)	
Amortization of deferred financing fees	457	297
Decrease (increase) in interest receivable	132	(82)
Decrease (increase) in due from custodian	877	(10,509)
Decrease (increase) in prepaid assets	171	(15)
Decrease in other assets	102	108
Increase (decrease) in accounts payable and accrued expenses	11	(373)
Decrease in interest payable	(84)	(578)
(Decrease) increase in fees due to Adviser ^(A)	(346)	1,143
Increase (decrease) in fee due to Administrator ^(A)	1	(81)
Increase (decrease) in other liabilities	917	(207)
Net cash provided by (used in) operating activities	9,526	(4,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	11,000	10,000
Repayments on borrowings	(53,500)	(2,200)
Proceeds from issuance of mandatorily redeemable preferred stock	38,497	
Deferred financing fees	(2,068)	(682)
Distributions paid to common stockholders	(4,418)	(4,418)
Receipt of principal on employee notes	3	
Net cash (used in) provided by financing activities	(10,486)	2,700
NET DECREASE IN CASH	(960)	(1,300)
CASH, BEGINNING OF PERIOD	6,732	7,734
CASH, END OF PERIOD	\$ 5,772	\$ 6,434

NON-CASH ACTIVITIES^(B)	\$	155	\$
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^(A) Refer to Note 4 *Related Party Transactions* for additional information.

^(B) Redemption of 20,000 shares of common stock as consideration to reduce the principal balance of an employee loan by \$155. Refer to Note 7 *Common Stock* for additional information.

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

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GLADSTONE CAPITAL CORPORATION
CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2011
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS					
Non-syndicated Loans:					
Access Television Network, Inc.	Service-cable airtime (infomercials)	Senior Term Debt (14.0%, Due 2/2011) ^{(D) (H)}	\$ 903	\$ 903	\$ 9
Allison Publications, LLC	Service-publisher of consumer oriented Magazines	Senior Term Debt (10.5%, Due 9/2012) ^(D)	8,314	8,325	7,763
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013) ^(D)	7,465	7,465	5,226
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, \$0 available (7.3%, Due 11/2012) ^(D) Senior Term Debt (7.3%, Due 11/2012) ^(D)	450 108	450 108	315 76
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (13.5%, Due 12/2016) ^(D)	14,265	14,265	14,354
FedCap Partners, LLC	Private equity fund	Class A Membership Units (80 units) ^(G) Uncalled Capital Commitment (\$800)		1,200	1,153
GFRC Holdings, LLC	Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (11.5%, Due 12/2012) ^(D) Senior Subordinated Term Debt (14.0%, Due 12/2012) ^(D)	5,424 6,598	5,424 6,598	3,525 4,289
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (13.0%, Due 6/2012) ^{(C) (I)}	2,435	2,435	2,435
Heartland Communications Group	Service-radio station operator	Line of Credit, \$43 available (5.0%, Due 3/2013) ^(D) Line of Credit, \$100 available (10.0%, Due 3/2013) ^(D) Senior Term Debt (5.0%, Due 3/2013) ^(D) Common Stock Warrants (8.8% ownership) ^{(F) (G)}	57 4,342	57 4,320 66	22 1,672
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, \$0 available (11.0%, Due 5/2012) ^{(D) (J)} Senior Term Debt (10.5%, Due 5/2012) ^{(D) (J)} Senior Term Debt (12.5%, Due 5/2012) ^{(C)(D) (J)}	1,500 859 2,500	1,500 858 2,500	1,088 622 1,813
Legend Communications of Wyoming, LLC	Service-operator of radio stations	Senior Term Debt (16.0%, Due 6/2013) ^(D) Senior Term Debt (18.0%, Due 7/2011) ^(D)	9,474 220	9,474 220	4,737 110
North American Aircraft Services, LLC	Service - repairs and maintains aircraft fuel tanks and fuel systems	Line of Credit, \$750 available (6.5%, Due 8/2012) ^(D) Senior Term Debt (7.5%, Due 8/2016) ^(D) Senior Subordinated Term Debt (11.8%, Due 8/2016) ^(D) Senior Subordinated Term Debt (12.5%, Due 8/2016) ^(D) Common Stock Warrants (5.8% ownership) ^{(F) (G)}	1,250 5,017 4,750 2,820	1,250 5,017 4,750 2,820 350	1,225 4,917 4,655 2,764 420
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012) ^(D)	65	57	53
Ohana Media Group	Service AM/FM radio broadcast	Senior Term Debt (10.0%, Due 10/2016) ^(D)	1,590	1,590	1,439
Precision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the Aluminum industry	Equipment Note (13.0%, Due 3/2013) ^(D) Senior Term Debt (13.0%, Due 3/2013) ^(D)	1,000 4,125	1,000 4,125	887 3,661

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		Senior Term Debt (13.0%, Due 3/2013) (C) (D)	4,053	4,053	3,597
PROFIT Systems Acquisition Co.	Service-design and develop ERP Software	Line of Credit, \$350 available (11.3%, Due 7/2012) (D) Senior Term Debt (10.5%, Due 7/2014) (C) (D)	3,000	3,000	2,865
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (9.5%, Due 1/2013) (D) Senior Term Debt (11.5%, Due 1/2013) (C) (D)	1,312 3,060	1,312 3,060	1,221 2,846
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, \$2,500 available (9.0%, Due 1/2013) (D) Mortgage Note (9.5%, Due 12/2014) (D) Senior Term Debt (12.0%, Due 12/2014) (C)(D) Senior Subordinated Term Debt (12.5%, Due 12/2014) (D) Common Stock Warrants (764 shares) (F) (G)	1,500 7,145 11,543 6,000	1,500 7,145 11,543 6,000	1,472 7,011 10,922 5,678
				209	587
Saunders & Associates	Manufacturing-equipment provider for frequency control devices	Line of Credit, \$2,500 available (11.3%, Due 5/2013) (D) Senior Term Debt (11.3%, Due 5/2013) (D)	8,947	8,947	8,868
Sunburst Media - Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 1/2012) (D)	6,000	6,000	3,300
Thibaut Acquisition Co.	Service-design and distribute wall covering	Line of Credit, \$475 available (9.0%, Due 1/2014) (D) Senior Term Debt (8.5%, Due 1/2014) (D) Senior Term Debt (12.0%, Due 1/2014) (C) (D)	525 419 3,000	525 419 3,000	513 409 2,918
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (12.3%, Due 1/2014) (D) Senior Subordinated Term Debt (13.5%, Due 1/2014) (D)	12,000 8,000	12,000 8,000	11,685 7,730

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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
Westland Technologies, Inc.	Service-diversified conglomerate	Line of Credit, \$1,000 available (6.5%, Due 4/2012) (D)	\$	\$	\$
		Senior Term Debt (7.5%, Due 4/2016) (D)	2,000	2,000	2,000
		Senior Term Debt (12.5%, Due 4/2016) (D)	4,000	4,000	4,000
		Common Stock Warrants (77,287 shares) (F) (G)		350	302
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.3%, Due 5/2012) (D)	1,250	1,250	1,239
		Senior Term Debt (5.8%, Due 5/2013) (D)	1,669	1,669	1,650
		Senior Subordinated Term Debt (14.0%, Due 6/2013) (D)	9,775	9,775	9,616
Subtotal Non-syndicated loans				\$ 182,884	\$ 159,659
Syndicated Loans:					
Airvana Network Solutions, Inc.	Service-telecommunications	Senior Term Debt (10.0%, Due 3/2015) (E)	\$ 4,381	\$ 4,267	\$ 4,381
Allied Security Holdings, LLC	Service-contract security officer providers	Senior Subordinated Term Debt (8.5%, Due 2/2018) (E)	1,000	991	970
Allied Specialty Vehicles, Inc.	Manufacturing-specialty vehicles	Senior Term Debt (9.5%, Due 2/2016) (E)	9,925	9,751	9,726
Ameriquel Group, LLC	Manufacturing-production and distribution of food products	Senior Term Debt (9.0%, Due 3/2016) (E)	7,462	7,332	7,313
Applied Systems, Inc.	Software for property & casualty insurance industry	Senior Subordinated Term Debt (9.3%, Due 6/2017) (E)	1,000	991	965
Ascend Learning, LLC	Service-technology-based learning solutions	Senior Subordinated Term Debt (11.5%, Due 12/2017) (E)	1,000	973	998
Attachmate Corporate	Service-develops, implements and supports software	Senior Subordinated Term Debt (9.5%, Due 2/2017) (E)	4,000	3,963	3,800
Autoparts Holdings Limited	Supplier to the light and heavy-duty vehicle after market for replacement parts	Senior Term Debt (10.5%, Due 1/2018) (E)	1,000	995	960
Covad Communications Group, Inc.	Service-telecommunications	Senior Term Debt (12.0%, Due 11/2015) (E)	1,800	1,770	1,755
Ernest Health, Inc.	Service-post-acute care services	Senior Term Debt (10.3%, Due 5/2017) (E)	2,000	1,972	1,930
Global Brass and Copper, Inc.	Manufacturing - steel wool products and metal fibers	Senior Term Debt (10.3%, Due 8/2015) (E)	2,961	2,889	2,994
HGI Holding, Inc	Service - distributor of disposable medical products	Senior Term Debt (6.8%, Due 10/2016) (E)	1,757	1,724	1,739
Hubbard Radio, LLC	Service-radio station operator		500	495	495

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Senior Subordinated Term Debt (8.8%, Due 4/2018)
(E)

Keypoint Government Solutions, Inc.	Service-security consulting services	Senior Term Debt (10.0%, Due 12/2015) (E)	6,930	6,900	6,791
Mood Media Corporation	Service-media and marketing solutions	Senior Term Debt (10.3%, Due 11/2018) (E)	8,000	7,925	7,320
National Surgical Hospitals, Inc.	Service-physician-partnered surgical facilities	Senior Term Debt (8.3%, Due 2/2017) (E)	1,690	1,655	1,597
Sensus USA, Inc.	Service-provider of utility communication Services	Senior Term Debt (8.5%, Due 5/2018) (E)	500	495	488
Springs Window Fashions, LLC	Manufacturing-window coverings	Senior Term Debt (11.3%, Due 11/2017) (E)	5,000	4,859	4,850
SRAM, LLC	Manufacturing-premium bicycle components	Senior Term Debt (8.5%, Due 12/2018) (E)	2,500	2,476	2,488
Targus Group International, Inc.	Manufacturing-carrying cases and accessories for notebook computers	Senior Term Debt (11.0%, Due 5/2016) (E)	9,950	9,769	9,602
Ulterra Drilling Technologies, LP	Manufacturing-oil field drill bits and slick-slip reduction tools	Senior Term Debt (9.5%, Due 6/2016) (E)	1,950	1,914	1,892
Vision Solutions, Inc.	Service-provider of information availability software	Senior Term Debt (9.5%, Due 7/2017) (E)	11,000	10,918	10,725
Wall Street Systems Holdings, Inc.	Service-software provider	Senior Term Debt (9.0%, Due 6/2018) (E)	3,000	2,972	2,850

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Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
WP Evenflo Group Holdings, Inc.	Manufacturing-infant and juvenile Products	Senior Term Debt (8.0%, Due 2/2013) ^(E)	\$ 1,853	\$ 1,853	\$ 1,667
		Senior Preferred Equity (333.3 shares) ^{(F) (G)}		333	429
		Junior Preferred Equity (111.1 shares) ^{(F) (G)}		111	151
		Common Stock (1,874 shares) ^{(F) (G)}			297
<i>Subtotal - Syndicated loans</i>				\$ 90,293	\$ 89,173
Total Non-Control/Non-Affiliate Investments (represented 85.0% of total investments at fair value)				\$ 273,177	\$ 248,832
CONTROL INVESTMENTS					
BERTL, Inc.	Service-web-based evaluator of imaging products	Line of Credit, \$69 available (6.5%, Due 4/2012) ^{(F) (H)} Common Stock (100 shares) ^{(F) (G)}	\$ 1,367	\$ 1,367 424	\$
Defiance Integrated Technologies, Inc.	Manufacturing-trucking parts	Senior Term Debt (11.0%, Due 4/2013) ^{(C) (F)}	7,425	7,425	7,425
		Common Stock (15,500 shares) ^{(F) (G)}		1	8,681
Kansas Cable Holdings, Inc.	Service - cable, internet, voice provider	Line of Credit, \$14 available (10.0%, Due 10/2012) ^{(D) (H)}	511	502	8
		Senior Term Debt (10.0%, Due 10/2012) ^{(D) (H)}	1,500	1,444	22
		Senior Term Debt (10.0%, Due 10/2012) ^{(D) (H)}	1,039	1,000	16
		Common Stock (100 shares) ^{(F) (G)}			
Lindmark Acquisition, LLC	Service-advertising	Senior Subordinated Term Debt (11.0%, Due 10/2012) ^{(D) (H)}	10,000	10,000	1,700
		Senior Subordinated Term Debt (13.0%, Due 10/2012) ^{(D) (H)}	2,000	2,000	340
		Senior Subordinated Term Debt (13.0%, Due Upon Demand) ^{(D) (H)}	1,909	1,909	324
		Common Stock (100 shares) ^{(F) (G)}		317	
LocalTel, LLC	Service-yellow pages publishing	Line of credit, \$357 available (10.0%, Due 6/2012) ^{(F) (H)}	1,993	1,993	762
		Line of Credit, \$1,830 available (4.8%, Due 6/2012) ^{(F) (H)}	1,170	1,170	
		Senior Term Debt (12.5%, Due 2/2012) ^{(F) (H)}	325	325	
		Senior Term Debt (8.5%, Due 6/2012) ^{(F) (H)}	2,687	2,687	
		Senior Term Debt (10.5%, Due 6/2012) ^{(C) (F) (H)}	2,750	2,750	
		Common Stock Warrants (4,000 shares) ^{(F) (G)}			
Midwest Metal Distribution, Inc.	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (12.0%, Due 7/2013) ^(D)	18,281	18,264	17,641
		Common Stock (501 shares) ^{(F) (G)}		138	
Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Line of credit, \$400 available (4.8%, Due 8/2014) ^(D)	1,600	1,600	320
		Senior Term Debt (4.8%, Due 5/2016) ^(D)	16,948	16,948	3,390
		Senior Term Debt (5.5%, Due 5/2016) ^{(C) (D)}	10,700	10,700	2,140
		Junior Preferred Equity (8,310.8 shares) ^{(F) (G)}		3,075	
		Common Stock (934 shares) ^{(F) (G)}		740	
U.S. Healthcare Communications, Inc.	Service-magazine publisher/operator	Line of credit, \$131 available (6.0%, Due 12/2010) ^{(F) (H)}	269	269	
		Line of credit, \$0 available (6.0%, Due 12/2010) ^{(F) (H)}	450	450	
		Common Stock (100 shares) ^{(F) (G)}		2,470	

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Viapack, Inc.	Manufacturing-polyethylene film	Line of Credit, \$0 available (10.0%, Due 3/2013) ^(D) Senior Real Estate Term Debt (10.0%, Due 3/2014) ^(D) Senior Term Debt (13.0%, Due 3/2014) ^{(C) (D)} Preferred Equity (100 shares) ^{(F) (G)}	2,800 600 3,925	2,800 600 3,925	476 102 667
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Total Control Investments (represented 15.0% of total investments at fair value)	\$ 97,293	\$ 44,014
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Total Investments	\$ 370,470	\$ 292,846
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- (A) Certain of the securities listed in the above chart are issued by affiliate(s) of the indicated portfolio company.
- (B) Percentage represents interest rates in effect at December 31, 2011, and due date represents the contractual maturity date.
- (C) Last Out Tranche (LOT) of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt.
- (D) Fair value was primarily based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
- (E) Security valued based on the indicative bid price on or near December 31, 2011, offered by the respective syndication agent's trading desk or secondary desk.
- (F) Fair value was primarily based on the total enterprise value of the portfolio company using a liquidity waterfall approach. The Company also considered discounted cash flow methodologies.
- (G) Security is non-income producing.
- (H) Debt security is on non-accrual status.

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GLADSTONE CAPITAL CORPORATION
CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
AS OF DECEMBER 31, 2011
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

- (I) Security was paid off, at par, subsequent to December 31, 2011, and was valued based on the payoff.
- (J) In January 2012, the Company amended certain contractual provisions on its debt investments in International Junior Golf Training Acquisition Company, including the maturity date, which was extended to May 2014.
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Table of Contents**GLADSTONE CAPITAL CORPORATION****CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2011****(DOLLAR AMOUNTS IN THOUSANDS)**

Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS					
Non-syndicated Loans:					
Access Television Network, Inc.	Service-cable airtime (infomercials)	Senior Term Debt (14.0%, Due 2/2011) ^{(D) (H)}	\$ 903	\$ 903	\$ 45
Allison Publications, LLC	Service-publisher of consumer oriented magazines	Senior Term Debt (10.5%, Due 9/2012) ^(D)	8,463	8,478	7,861
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013) ^(D)	7,465	7,465	6,233
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, \$250 available (7.3%, Due 11/2011) ^(D) Senior Term Debt (7.3%, Due 11/2011) ^(D)	450 168	450 168	338 126
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (13.0%, Due 12/2016) ^(D)	14,265	14,265	14,336
FedCap Partners, LLC	Private equity fund	Class A Membership Units (80 units) ^(G) Uncalled Capital Commitment (\$800)		1,200	1,153
GFRC Holdings, LLC	Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (11.5%, Due 12/2012) ^(D) Senior Subordinated Term Debt (14.0%, Due 12/2012) ^(D)	5,617 6,615	5,617 6,615	4,719 5,557
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (13.0%, Due 6/2012) ^{(C) (D)}	2,635	2,635	2,212
Heartland Communications Group	Service-radio station operator	Line of Credit, \$0 available (5.0%, Due 3/2013) ^(D) Line of Credit, \$0 available (10.0%, Due 3/2013) ^(D) Senior Term Debt (5.0%, Due 3/2013) ^(D) Common Stock Warrants (8.8% ownership) ^{(F) (G)}	100 100 4,342 66	100 100 4,316 66	41 41 1,780 66
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, \$0 available (11.0%, Due 5/2012) ^(D) Senior Term Debt (10.5%, Due 5/2012) ^(D) Senior Term Debt (12.5%, Due 5/2012) ^{(C) (D)}	1,500 861 2,500	1,500 861 2,500	1,275 732 2,125
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, \$42 available (12.3%, Due 7/2010) ^{(D) (H)} Senior Term Debt (12.3%, Due 7/2010) ^{(D) (H)}	162 2,081	158 2,038	76 984
Legend Communications of Wyoming, LLC	Service-operator of radio stations	Senior Term Debt (12.0%, Due 6/2013) ^(D) Senior Term Debt (16.0%, Due 7/2011) ^(D)	9,745 220	9,745 220	5,408 123
Newhall Holdings, Inc.	Service-distributor of personal care products and supplements	Line of Credit, \$0 available (8.0%, Due 12/2012) ^{(D) (H)} Senior Term Debt (8.5%, Due 12/2012) ^{(D) (H)} Senior Term Debt (3.5%, Due 12/2012) ^{(C) (D) (H)} Senior Term Debt (3.5%, Due 12/2012) ^{(C) (D) (H)} Preferred Equity (1,000,000 shares) ^{(F) (G) (H)} Common Stock (688,500 shares) ^{(F) (G)}	1,985 1,870 2,000 4,648	1,985 1,870 2,000 4,648	98 94 100 232
North American Aircraft Services LLC	Service - repairs and maintains aircraft fuel tanks and fuel systems	Line of Credit, \$1,500 available (6.5%, Due 8/2012) ^(D) Senior Term Debt (7.5%, Due 8/2016) ^(D) Senior Subordinated Term Debt (11.8%, Due 8/2016) ^(D) Common Stock Warrants (4.8% ownership) ^{(F) (G)}	500 3,250 4,750	500 3,250 4,750	500 3,250 4,750

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Northern Contours, Inc.	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (13.0%, Due 9/2012) ^(D)	6,128	6,128	5,684
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012) ^(D)	80	70	64
Precision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the Aluminum industry	Equipment Note (13.0%, Due 11/2011) ^(D)	1,000	1,000	948
		Senior Term Debt (13.0%, Due 11/2011) ^(D)	4,125	4,125	3,908
		Senior Term Debt (13.0%, Due 11/2011) ^{(C) (D)}	4,053	4,053	3,840
PROFIT Systems Acquisition Co.	Service-design and develop ERP software	Line of Credit, \$350 available (11.25%, Due 7/2012) ^(D)			
		Senior Term Debt (10.5%, Due 7/2014) ^{(C) (D)}	3,150	3,150	3,024
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (9.5%, Due 1/2013) ^(D)	1,438	1,438	1,367
		Senior Term Debt (11.5%, Due 1/2013) ^{(C) (D)}	3,060	3,060	2,907
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, \$2,800 available (9.0%, Due 1/2013) ^(D)	1,200	1,200	1,176
		Mortgage Note (9.5%, Due 12/2014) ^(D)	7,168	7,168	7,025
		Senior Term Debt (12.0%, Due 12/2014) ^{(C)(D)}	11,573	11,573	10,906
		Senior Subordinated Term Debt (12.5%, Due 12/2014) ^(D)	6,000	6,000	5,655
		Common Stock Warrants (764 shares) ^{(F) (G)}		209	534

Table of Contents**GLADSTONE CAPITAL CORPORATION****CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****AS OF SEPTEMBER 30, 2011****(DOLLAR AMOUNTS IN THOUSANDS)**

Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
Saunders & Associates	Manufacturing-equipment provider for frequency control devices	Line of Credit, \$2,500 available (11.3%, Due 5/2013) ^(D) Senior Term Debt (11.3%, Due 5/2013) ^(D)	\$	\$	\$
			8,947	8,947	8,913
Sunburst Media - Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 12/2011) ^(D)	6,100	6,103	3,964
Thibaut Acquisition Co.	Service-design and distribute wall covering	Line of Credit, \$400 available (9.0%, Due 1/2014) ^(D) Senior Term Debt (8.5%, Due 1/2014) ^(D) Senior Term Debt (12.0%, Due 1/2014) ^{(C) (D)}	600 550 3,000	600 550 3,000	585 536 2,910
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (12.3%, Due 1/2014) ^(D) Senior Subordinated Term Debt (13.5%, Due 1/2014) ^(D)	12,000 8,000	12,000 8,000	11,640 7,700
Westland Technologies, Inc.	Service-diversified conglomerate	Line of Credit, \$1,000 available (6.5%, Due 4/2012) ^(D) Senior Term Debt (7.5%, Due 4/2016) ^(D) Senior Term Debt (12.5%, Due 4/2016) ^(D) Common Stock Warrants (77,287 shares) ^{(F) (G)}	2,000 4,000	2,000 4,000 350	1,995 3,990 307
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.2%, Due 5/2012) ^(D) Senior Term Debt (5.7%, Due 5/2013) ^(D) Senior Subordinated Term Debt (14.0%, Due 6/2013) ^(D)	1,250 1,677 9,800	1,250 1,677 9,800	1,238 1,656 9,628
Subtotal Non-syndicated loans				\$ 196,204	\$ 166,639
Syndicated Loans:					
Airvana Network Solutions, Inc.	Service-telecommunications	Senior Term Debt (10.0%, Due 3/2015) ^(E)	\$ 6,048	\$ 5,912	\$ 6,048
Allied Security Holdings, LLC	Service-contract security officer providers	Senior Subordinated Term Debt (8.5%, Due 2/2018) ^(E)	1,000	991	965
Allied Specialty Vehicles, Inc.	Manufacturing-specialty vehicles	Senior Term Debt (9.5%, Due 2/2016) ^(E)	9,950	9,767	9,751
Ameriquel Group, LLC	Manufacturing-production and distribution of food products	Senior Term Debt (9.0%, Due 3/2016) ^(E)	7,481	7,344	7,332
Applied Systems, Inc.	Software for property & casualty insurance industry	Senior Subordinated Term Debt (9.3%, Due 6/2017) ^(E)	1,000	991	990
Ascend Learning, LLC	Service-technology-based learning solutions	Senior Subordinated Term Debt (11.53%, Due 12/2017) ^(E)	1,000	972	980
Attachmate Corporate	Service-develops, implements and supports software	Senior Subordinated Term Debt (9.5%, Due 2/2017) ^(E)	4,000	3,962	3,810
Autoparts Holdings Limited		Senior Term Debt (10.5%, Due 1/2018) ^(E)	1,000	995	978

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	Supplier to the light and heavy-duty vehicle after market for replacement parts				
Covad Communications Group, Inc.	Service-telecommunications	Senior Term Debt (12.0%, Due 11/2015) ^(E)	1,850	1,818	1,795
Ernest Health, Inc.	Service-post-acute care services	Senior Term Debt (10.3%, Due 5/2017) ^(E)	2,000	1,971	1,930
Global Brass and Copper, Inc.	Manufacturing - steel wool products and metal fibers	Senior Term Debt (10.3%, Due 8/2015) ^(E)	2,969	2,893	3,054
HGI Holding, Inc	Service - distributor of disposable medical products	Senior Term Debt (6.8%, Due 10/2016) ^(E)	1,757	1,723	1,687
Hubbard Radio, LLC	Service-radio station operator	Senior Subordinated Term Debt (8.8%, Due 4/2018) ^(E)	500	495	488
Keypoint Government Solutions, Inc.	Service-security consulting services	Senior Term Debt (10.0%, Due 12/2015) ^(E)	6,948	6,916	6,670
Mood Media Corporation	Service-media and marketing solutions	Senior Term Debt (10.3%, Due 11/2018) ^(E)	8,000	7,923	7,370
National Surgical Hospitals, Inc.	Service-physician-partnered surgical facilities	Senior Term Debt (8.3%, Due 2/2017) ^(E)	1,694	1,658	1,627
Sensus USA, Inc.	Service-provider of utility communication services	Senior Term Debt (8.5%, Due 5/2018) ^(E)	500	495	483

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GLADSTONE CAPITAL CORPORATION
CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
AS OF SEPTEMBER 30, 2011
(DOLLAR AMOUNTS IN THOUSANDS)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
Springs Window Fashions, LLC	Manufacturing-window coverings	Senior Term Debt (11.3%, Due 11/2017) ^(E)	\$ 5,000	\$ 4,855	\$ 4,750
SRAM, LLC	Manufacturing-premium bicycle components	Senior Term Debt (8.5%, Due 12/2018) ^(E)	2,500	2,476	2,475
Targus Group International, Inc.	Manufacturing-carrying cases and accessories for notebook computers	Senior Term Debt (11.0%, Due 5/2016) ^(E)	9,975	9,785	9,626
Ulterra Drilling Technologies, LP	Manufacturing-oil field drill bits and slick-slip reduction tools	Senior Term Debt (9.5%, Due 6/2016) ^(E)	1,975	1,937	1,916
Vision Solutions, Inc.	Service-provider of information availability software	Senior Term Debt (9.5%, Due 7/2017) ^(E)	11,000		