

GLADSTONE CAPITAL CORP  
Form 10-Q  
August 04, 2008  
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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 JUNE 30, 2008**

**o 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**  
(State or other jurisdiction of incorporation or organization)

**54-2040781**  
(I.R.S. Employer Identification No.)

**1521 WESTBRANCH DRIVE, SUITE 200**

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**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 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, outstanding as of August 4, 2008 was 21,087,574.

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## GLADSTONE CAPITAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	June 30, 2008	September 30, 2007
<b>ASSETS</b>		
Non-Control/Non-Affiliate investments (Cost 6/30/08: \$441,319; 9/30/07: \$354,835)	\$ 411,069	\$ 348,921
Control investments (Cost 6/30/08: \$3,881; 9/30/07: \$924)	671	924
Total investments at fair value (Cost 6/30/08: \$445,200; 9/30/07 \$355,759)	411,740	349,845
Cash and cash equivalents	5,426	8,839
U.S. Treasury bill		2,484
Interest receivable investments in debt securities	3,301	2,426
Interest receivable employees (Refer to Note 4)	91	21
Due from custodian	6,637	3,230
Deferred financing fees	2,383	186
Prepaid assets	202	337
Other assets	462	361
<b>TOTAL ASSETS</b>	<b>\$ 430,242</b>	<b>\$ 367,729</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 8	\$ 6
Interest payable	522	588
Fee due to Administrator (Refer to Note 4)	285	237
Fees due to Adviser (Refer to Note 4)	468	708
Borrowings under lines of credit	133,090	144,440
Accrued expenses and deferred liabilities	905	791
Funds held in escrow	290	
<b>TOTAL LIABILITIES</b>	<b>135,568</b>	<b>146,770</b>
<b>NET ASSETS</b>	<b>\$ 294,674</b>	<b>\$ 220,959</b>
<b>ANALYSIS OF NET ASSETS</b>		
Common stock, \$0.001 par value, 50,000,000 shares authorized and 21,087,574 and 14,762,574 shares issued and outstanding at June 30, 2008 and September 30, 2007, respectively	\$ 21	\$ 15
Capital in excess of par value	341,281	235,907
Notes receivable employees (Refer to Note 4)	(9,179)	(9,230)
Net unrealized depreciation on investments	(33,460)	(5,915)
Unrealized depreciation on derivative	(304)	(292)
(Distributions in excess of) accumulated undistributed net investment income	(3,685)	474
<b>TOTAL NET ASSETS</b>	<b>\$ 294,674</b>	<b>\$ 220,959</b>
<b>NET ASSETS PER SHARE</b>	<b>\$ 13.97</b>	<b>\$ 14.97</b>

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 JUNE 30, 2008**  
**(DOLLAR AMOUNTS IN THOUSANDS)**  
**(UNAUDITED)**

Company	Industry	Investment (1)	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS</b>				
Access Television Network, Inc. (2)	Service-cable airtime (infomercials)	Senior Term Debt (6) (10.5% Due 3/2009)	\$ 2,078	\$ 1,960
ACE Expeditors, Inc	Service - over-the-ground logistics	Line of Credit, \$850 available (6) (6.0% Due 1/2011) Senior Term Debt (6) (9.5% Due 1/2012) Warrants (8)	200  12,544  200	197  12,356  157
ActivStyle Acquisition Co. (2)	Service-medical products distribution	Line of Credit, \$1,500 available (6) (6.7%, Due 7/2009) Senior Term Debt (6) (8.5%, Due 9/2012) Senior Term Debt (3) (6) (10.5%, Due 9/2012)	1,100  4,852  4,435	1,078  4,754  4,302
Allison Publications, LLC (2)	Service-publisher of consumer oriented magazines	Line of Credit, \$4,000 available (9.0%, Due 9/2010) Senior Term Debt (6) (9.0%, Due 9/2012)	   11,070	   10,615
Anitox Acquisition Company (2)	Manufacturing-preservatives for animal feed	Line of Credit, \$3,000 available (6) (6.7%, Due 1/2010) Senior Term Debt (6) (8.5%, Due 1/2012) Senior Term Debt (3) (6) (10.5%, Due 1/2012)	2,000  2,550  2,750	1,940  2,473  2,626
Badanco Acquisition Corp.	Service-luggage design and distribution	Senior Subordinated Term Debt (6) (11.5%, Due 7/2012)	9,506	9,150
BAS Broadcasting	Service-radio station operator	Senior Term Debt (5) (11.5%, Due 7/2013) Senior Term Debt (3) (5)	7,300  1,000	7,300  1,000

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(12.0%, Due 7/2009)

Bresnan Communications, LLC	Service-telecommunications	Senior Term Debt (7) (5.0%, Due 9/2013)	3,001	2,865
		Senior Subordinated Term Debt (7) (7.4%, Due 3/2014)	1,509	1,365
CCS, LLC	Service-cable tv franchise owner	Senior Term Debt (6) (9.0%, Due 8/2008)	3,427	3,358
CHG Companies, Inc. (2)	Service-healthcare staffing	Letter of Credit (7) (5.1%, Due 12/2012)	400	380
		Senior Term Debt (7) (4.9%, Due 12/2012)	1,580	1,501
		Senior Subordinated Term Debt (7) (8.7%, Due 12/2012)	500	445

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Company	Industry	Investment (1)	Cost	Fair Value
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, \$950 available (6) (9.0%, Due 9/2010)	\$ 700	\$ 667
		Senior Term Debt (6) (9.0%, Due 9/2010)	748	703
Clinton Holdings, LLC (2)	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (6) (12.0%, Due 1/2013)	15,500	15,422
		Common Stock Warrants (8)	109	
CMI Acquisition, LLC (2)	Service-recycling	Senior Subordinated Term Debt (6) (10.2%, Due 11/2012)	6,435	6,121
Community Media Corporation	Service-publisher of free weekly newspapers	Senior Term Debt (6) (7.0%, Due 8/2012)	2,358	2,280
Country Road Communications LLC (2)	Service-telecommunications	Senior Subordinated Term Debt (7) (10.2%, Due 7/2013)	5,971	5,820
Defiance Acquisition Corporation	Manufacturing-trucking parts	Senior Term Debt (3) (6) (11.0%, Due 4/2010)	6,245	5,496
Doe & Ingalls Management LLC (2)	Distributor-specialty chemicals	Senior Term Debt (6) (6.0%, Due 11/2010)	3,300	3,234
		Senior Term Debt (3) (6) (7.0%, Due 11/2010)	4,421	4,311
Emdeon Business Services, Inc.	Service-healthcare technology solutions	Senior Term Debt (7) (4.8%, Due 11/2013)	2,365	2,239
		Senior Subordinated Term Debt (7) (7.8%, Due 5/2014)	2,011	1,860
Express Courier International, Inc.	Service-ground delivery and logistics	Line of Credit, \$1,200 available (6) (6.7%, Due 6/2009)	900	884
		Senior Term Debt (6) (9.3%, Due 6/2011)	3,408	3,348
		Senior Term Debt (3) (6) (11.3%, Due 6/2011)	4,644	4,539
Finn Corporation	Manufacturing-landscape equipment	Common Stock Warrants (8)	37	3,197
GFRC Holdings LLC	Manufacturing-glass-fiber reinforced concrete	Line of Credit, \$3,000 available (6) (6.7%, Due 12/2010)		
		Senior Term Debt (6) (9.8%, Due 12/2012)	7,362	7,252
		Senior Subordinated Term Debt (3) (6) (12.3%, Due 12/2012)	6,716	6,565
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (3) (6) (13.0%, Due 11/2009)	4,830	4,492
GTM Holdings, Inc.	Manufacturing-socks	Senior Term Debt (7)	493	420



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(2)	(5.4%, Due 10/2013) Senior Subordinated Term Debt (7) (8.7%, Due 4/2014)	500	400
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Company	Industry	Investment (1)	Cost	Fair Value
Greatwide Logistics Services, Inc.	Service - logistics and transportation	Senior Term Debt (7) (6.3%, Due 12/2013)	\$ 3,950	\$ 3,160
		Senior Subordinated Term Debt (7) (9.3%, Due 6/2014)	4,000	2,200
GS Maritime Intermediate Holdings LLC	Service-cargo transport	Senior Subordinated Term Debt (7) (10.0%, Due 12/2013)	1,000	990
Harrington Holdings, Inc. (2)	Service - healthcare products distribution	Senior Term Debt (7) (4.7%, Due 1/2014)	2,469	2,271
		Senior Subordinated Term Debt (7) (8.5%, Due 1/2014)	5,000	4,250
Heartland Communications Group, LLC (2)	Service-radio station operator	Line of Credit, \$500 available (6) (10.0%, Due 12/2008)	105	84
		Senior Term Debt (6) (10.0%, Due 5/2011)	4,606	3,651
Interfilm Holdings, Inc.	Service-slitter and distributor of plastic films	Senior Term Debt (6) (10.5%, Due 10/2012)	5,000	4,856
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, \$1,500 available (6) (9.0%, Due 5/2010)	1,400	1,355
		Senior Term Debt (6) (6.7%, Due 5/2012)	2,650	2,564
		Senior Term Debt (3) (6) (10.5%, Due 5/2012)	2,500	2,400
It's Just Lunch International, LLC	Service-dating service	Line of Credit, \$750 available (6) (6.5%, Due 6/2009)	550	303
		Senior Term Debt (6) (6.7%, Due 6/2011)	3,300	1,815
		Senior Term Debt (3) (6) (9) (10.5%, Due 6/2011)	500	275
John Henry Holdings, Inc. (2)	Manufacturing-packaging products	Senior Subordinated Term Debt (7) (11.6%, Due 6/2011)	8,000	7,760
Kinetek Acquisition Corp.	Manufacturing-custom engineered motors & controls	Senior Term Debt (7) (5.3%, Due 11/2013)	1,482	1,359
		Senior Subordinated Term Debt (7) (8.0%, Due 5/2014)	1,508	1,275
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, \$200 available (6) (10.0%, Due 3/2010)	153	143
		Senior Term Debt (6) (10.0%, Due 3/2010)	1,794	1,663

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Legend Communications of Wyoming LLC	Service-operator of radio stations	Line of Credit, \$500 available (5) (11.0%, Due 6/2011)	200	200
		Senior Term Debt (5) (11.0%, Due 6/2013)	9,250	9,250
Lindmark Outdoor Advertising LLC	Service-advertising	Senior Subordinated Term Debt (6) (11.0%, Due 10/2012)	10,000	9,350

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Company	Industry	Investment (1)	Cost	Fair Value
LocalTel, Inc.	Service-yellow pages publishing	Line of Credit, \$3,000 available (6) (10) (non-accrual, Due 6/2009)	\$ 1,170	\$ 234
		Senior Term Debt (6) (10) (non-accrual, Due 6/2011)	2,688	538
		Senior Term Debt (3) (6) (10) (non-accrual, Due 6/2011)	2,750	550
Meteor Holding Corporation (2)	Manufacturing-bar code scanning and data capture	Senior Term Debt (7) (7.0%, Due 12/2013)	2,330	2,330
		Senior Subordinated Term Debt (7) (10.3%, Due 12/2013)	1,500	1,500
Multi-Ag Media LLC (2)	Service-dairy magazine publisher/ information database	Senior Term Debt (6) (9.0%, Due 12/2009)	2,203	2,121
Newhall Holdings, Inc. (2)	Service-distributor of personal care products and supplements	Line of Credit, \$4,000 available (6) (6.0%, Due 5/2010)	1,100	1,064
		Senior Term Debt (6) (8.3%, Due 5/2012)	4,320	4,190
		Senior Term Debt (3) (6) (11.3%, Due 5/2012)	4,500	4,343
Northern Contours, Inc. (2)	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (6) (10.0%, Due 5/2010)	7,000	6,440
Pinnacle Treatment Centers, Inc.	Service-Addiction treatment centers	Line of Credit, \$500 available (6) (6.7%, Due 12/2009)		
		Senior Term Debt (6) (8.5%, Due 12/2011)	3,750	3,600
		Senior Term Debt (3) (6) (10.5%, Due 12/2011)	7,500	7,163
Precision Acquisition Group Holdings, Inc. (2)	Manufacturing-consumable components for the aluminum industry	Equipment Note, \$1,500 available (6) (8.5%, Due 10/2011)	1,000	999
		Senior Term Debt (6) (8.5%, Due 10/2010)	4,875	4,869
		Senior Term Debt (3) (6) (11.5%, Due 10/2010)	4,179	4,174
PROFITSystems Acquisition Co. (2)	Service-design and develop ERP software	Line of Credit, \$1,250 available (6) (6.7%, Due 7/2009)		
		Senior Term Debt (6) (8.5%, Due 7/2011)	2,350	2,233
		Senior Term Debt (3) (6) (10.5%, Due 7/2011)	2,900	2,733
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (7) (10.3%, Due 1/2012)	7,192	5,713
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (3) (6) (8.5%, Due 1/2011)	2,938	2,805

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Senior Term Debt (4) (6) (10.5%, Due 1/2011)	3,060	2,869
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Company	Industry	Investment (1)	Cost	Fair Value
RedPrairie Holding, Inc. (2)	Service-design and develop supply chain software	Senior Term Debt (7) (5.7%, Due 7/2012)	\$ 4,412	\$ 4,148
		Senior Subordinated Term Debt (7) (9.3%, Due 1/2013)	3,000	2,580
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, \$5,000 available (6) (6.0%, Due 10/2010)	1,200	1,176
		Mortgage Note (6) (9.5%, Due 10/2014)	7,422	7,311
		Senior Term Debt (6) (9.0%, Due 10/2012)	1,800	1,773
		Senior Term Debt (3) (6) (11.0%, Due 10/2012)	11,963	11,694
		Senior Subordinated Term Debt (6) (12.0%, Due 10/2013)	6,000	5,663
		Common Stock Warrants (8)	209	
RiskMetrics Group Holdings, LLC	Service - develop risk and wealth management solutions	Senior Term Debt (7) (4.8%, Due 1/2014)	1,937	1,874
Saunders & Associates	Manufacturing-equipment provider for frequency control devices	Line of Credit, \$2,500 available (5) (7.0%, Due 5/2009)		
		Senior Term Debt (5) (9.8%, Due 5/2013)	11,000	10,973
SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (6) (11.0%, Due 10/2008)	2,717	1,897
Sunburst Media - Louisiana, LLC	Service-radio station operator	Senior Term Debt (6) (9.5%, Due 6/2011)	7,862	7,020
Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Line of Credit, \$3,000 available (6) (9.0%, Due 5/2010)	700	661
		Senior Term Debt (6) (9.0%, Due 5/2012)	17,000	16,108
		Senior Term Debt (3) (6) (11.5%, Due 5/2012)	10,000	9,300
Thibaut Acquisition Co.	Service-design and disribute wall covering	Line of Credit, \$2,000 available (6) (7.0%, Due 1/2011)	2,000	1,920
		Senior Term Debt (6) (7.0%, Due 1/2011)	2,188	2,100
		Senior Term Debt (3) (6) (10.5%, Due 1/2011)	3,000	2,820
Viapack, Inc. (2)	Manufacturing-polyethylene film	Senior Real Estate Term Debt (7.0%, Due 3/2011)	875	840
		Senior Term Debt (3) (6) (11.3%, Due 3/2011)	4,117	3,922
Visual Edge Technology, Inc. (2)	Service-office equipment distribution	Senior Subordinated Term Debt (6) (11.5%, Due 8/2011)	5,000	3,000

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Wesco Holdings, Inc. (2)	Service-aerospace parts and distribution	Senior Term Debt (7) (5.1%, Due 9/2013)	2,452	2,346
		Senior Subordinated Term Debt (7) (8.6%, Due 3/2014)	2,268	2,199

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Company	Industry	Investment (1)	Cost	Fair Value
West Coast Yellow Pages, Inc.	Service-directory publisher	Senior Term Debt (6) (10) (non-accrual, Due 8/2010)	\$ 1,555	\$ 616
Westlake Hardware, Inc. (2)	Retail-hardware and variety	Senior Subordinated Term Debt (6) (9.0%, Due 1/2011) Senior Subordinated Term Debt (6) (10.3%, Due 1/2011)	15,000 10,000	14,325 9,400
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (6) (6.2%, Due 5/2013) Senior Subordinated Term Debt (6) (12.0%, Due 4/2013)	1,980 9,975	1,918 9,576
WP Evenflo Group Holdings Inc. (2)	Manufacturing-infant and juvenile products	Senior Term Debt (7) (5.1%, Due 2/2013) Senior Subordinated Term Debt (7) (8.6%, Due 2/2014)	1,910 2,000	1,595 1,600
<b>Total Non-Control/Non-Affiliate Investments</b>			<b>\$ 441,319</b>	<b>\$ 411,069</b>
<b>CONTROL INVESTMENTS</b>				
BERTL, Inc.	Service-web-based evaluator of digital imaging products	Line of Credit, \$700 available (11) (8.7%, Due 10/2009) Common Stock (8)	\$ 726 424	\$
U.S. HealthCare, Inc.	Service-magazine publisher/operator	Line of credit, \$200 available (10) (non-accrual, Due 3/2010) Line of credit, \$450 available (10) (non-accrual, Due 3/2010) Common Stock (8)	30 231 2,470	30 231 410
<b>Total Control Investments</b>			<b>\$ 3,881</b>	<b>\$ 671</b>
<b>Total Investments</b>			<b>\$ 445,200</b>	<b>\$ 411,740</b>

(1) Percentage represents interest rates in effect at June 30, 2008 and due date represents the contractual maturity date.

(2) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.

(3) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.

(4) Last Out Tranche of senior debt, meaning if the company is liquidated then 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) Investment valued at cost due to recent acquisition.



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- (6) Fair value was based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
- (7) Marketable securities, such as syndicated loans, are valued based on the indicative bid price, on or near June 30, 2008, offered by the respective originating syndication agent's trading desk, or secondary desk.
- (8) Security is non-income producing.
- (9) It's Just Lunch may borrow an additional \$1,750 of the senior term debt facility, subject to certain conditions including Gladstone Capital's approval. Borrowings of \$500 were outstanding at June 30, 2008.
- (10) LocalTel, West Coast Yellow Pages and U.S. Healthcare are currently past due on interest payments and are on non-accrual.
- (11) BERTL line of credit was overdrawn by \$26 as of June 30, 2008. The Company is currently restructuring the line of credit. BERTL interest is currently being capitalized as Paid in Kind (PIK) interest. Please refer to Note 2 Summary of Significant Accounting Policies.

*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 SEPTEMBER 30, 2007

(DOLLAR AMOUNTS IN THOUSANDS)

Company	Industry	Investment (1)	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS</b>				
Access Television Network, Inc. (2)	Service-cable airtime (infomercials)	Line of Credit, \$500 available (11.8% Due 3/2009) Senior Term Debt (6) (11.8% Due 3/2009)	\$ 2,616	\$ 2,558
ActivStyle Acquisition Co. (2)	Service-medical products distribution	Line of Credit, \$1,500 available (6) (10.0%, Due 7/2009) Senior Term Debt (6) (10.0%, Due 9/2012) Senior Term Debt (3) (6) (12.6%, Due 9/2012)	600 5,245 4,435	597 5,219 4,407
Allison Publications, LLC (2)	Service-publisher of consumer oriented magazines	Senior Term Debt (6) (9.8%, Due 12/2011)	7,884	7,780
Anitox Acquisition Company (2)	Manufacturing-preservatives for animal feed	Senior Real Estate Term Debt (8.8%, Due 1/2012) Line of Credit, \$3,000 available (10.0%, Due 1/2010) Senior Term Debt (6) (10.0%, Due 1/2012) Senior Term Debt (3) (6) (12.3%, Due 1/2012)	3,110 2,750 2,750	3,060 2,736 2,736
Badanco Acquisition Corp.	Service-luggage design and distribution	Senior Subordinated Term Debt (6) (12.4%, Due 7/2012)	9,653	9,628
Bresnan Communications, LLC	Service-telecommunications	Senior Term Debt (7) (7.4%, Due 9/2013) Senior Subordinated Term Debt (7) (9.9%, Due 3/2014)	3,002 1,510	2,910 1,485
CCS, LLC	Service-cable tv franchise owner	Senior Term Debt (6) (11.8%, Due 10/2007)	3,433	3,416
CHG Companies, Inc. (2)	Service-healthcare staffing	Letter of Credit (6) (7) (7.1%, Due 12/2012) Senior Term Debt (6) (7)	400 1,588	385 1,528

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		(7.9%, Due 12/2012) Senior Subordinated Term Debt (6) (7) (11.9%, Due 12/2012)	500	480
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, \$950 available (6) (11.8%, Due 9/2010) Senior Term Debt (6) (11.8%, Due 9/2010)	230  1,071	229  1,051
Clinton Holdings, LLC (2)	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (13.0%, Due 1/2013) Common Stock Warrants (8)	15,500  109	15,500  223

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Company	Industry	Investment (1)	Cost	Fair Value
CMI Acquisition, LLC (2)	Service-recycling	Senior Subordinated Term Debt (6) (12.4%, Due 11/2012)	\$ 6,500	\$ 6,451
Community Media Corporation	Service-publisher of free weekly newspapers	Senior Term Debt (6) (9.8%, Due 8/2012)	2,511	2,482
Country Road Communications LLC (2)	Service-telecommunications	Senior Subordinated Term Debt (6) (7) (13.1%, Due 7/2013)	5,967	5,880
Defiance Acquisition Corporation	Manufacturing-trucking parts	Senior Term Debt (3) (6) (13.8%, Due 4/2010)	6,325	6,246
Doe & Ingalls Management LLC (2)	Distributor-specialty chemicals	Senior Term Debt (6) (9.3%, Due 11/2010) Senior Term Debt (3) (6) (10.3%, Due 11/2010)	3,900 4,455	3,900 4,455
Emdeon Business Services, Inc.	Service-healthcare technology solutions	Senior Term Debt (7) (7.4%, Due 11/2013) Senior Subordinated Term Debt (7) (10.2%, Due 5/2014)	2,434 2,013	2,383 1,985
Express Courier International, Inc.	Service-ground delivery and logistics	Line of Credit, \$1,500 available (6) (10.0%, Due 6/2009) Senior Term Debt (6) (10.0%, Due 6/2011) Senior Term Debt (3) (6) (12.3%, Due 6/2011)	900 4,113 3,950	899 4,107 3,945
Finn Corporation	Manufacturing-landscape equipment	Common Stock Warrants (8)	37	3,005
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (3) (6) (14.8%, Due 11/2009)	5,100	4,883
GTM Holdings, Inc. (2)	Manufacturing-socks	Senior Term Debt (7) (8.1%, Due 10/2013) Senior Subordinated Term Debt (7) (11.4%, Due 4/2014)	496 500	481 495
Greatwide Logistics Services, Inc.	Service - logistics and transportation	Senior Term Debt (7) (8.7%, Due 12/2013) Senior Subordinated Term Debt (7) (11.7%, Due 6/2014)	3,970 4,000	3,454 3,280
Harrington Holdings, Inc. (2)	Service - healthcare products distribution	Senior Term Debt (7) (7.4%, Due 1/2014) Senior Subordinated Term Debt (7) (11.2%, Due 1/2014)	2,488 5,000	2,419 4,825

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Company	Industry	Investment (1)	Cost	Fair Value
Heartland Communications Group, LLC (2)	Service-radio station operator	Line of Credit, \$500 available (6) (11.3%, Due 5/2008)	\$ 10	\$ 10
		Senior Term Debt (6) (11.3%, Due 5/2011)	4,824	4,534
IJGT Acquisition Company	Service-golf training	Line of Credit, \$1,000 available (6) (10.0%, Due 5/2010)	500	498
		Senior Term Debt (6) (10.0%, Due 5/2012)	2,650	2,637
		Senior Term Debt (3) (6) (12.3%, Due 5/2012)	2,500	2,481
It's Just Lunch International, LLC	Service-dating service	Line of Credit, \$750 available (6) (9.8%, Due 6/2009)	550	492
		Senior Term Debt (6) (10.0%, Due 6/2011)	3,300	2,954
		Senior Term Debt (3) (6) (9) (12.3%, Due 6/2011)	500	448
John Henry Holdings, Inc. (2)	Manufacturing-packaging products	Senior Subordinated Term Debt (7) (12.8%, Due 6/2011)	8,000	8,000
Kinetek Acquisition Corp.	Manufacturing-custom engineered motors & controls	Senior Term Debt (7) (7.6%, Due 11/2013)	1,494	1,444
		Senior Subordinated Term Debt (7) (10.6%, Due 5/2014)	1,509	1,440
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, \$200 available (12.8%, Due 3/2010)	152	151
		Senior Term Debt (6) (12.8%, Due 3/2010)	1,813	1,786
LocalTel, Inc.	Service-yellow pages publishing	Line of Credit, \$3,000 available (6) (10.3%, Due 6/2009)	1,135	948
		Senior Term Debt (6) (10.3%, Due 6/2011)	2,688	2,244
		Senior Term Debt (3) (6) (12.8%, Due 6/2011)	2,750	2,200
Macfadden Performing Arts Media, LLC	Service-magazine publisher	Line of Credit, \$1,400 available (6) (10.8%, Due 6/2009)	516	510
		Senior Term Debt (6) (10.8%, Due 6/2009)	6,705	6,558
Meteor Holding Corporation (2)	Manufacturing-bar code scanning and data capture	Senior Term Debt (7) (8.2%, Due 12/2013)	2,348	2,325
		Senior Subordinated Term Debt (7) (11.5%, Due 12/2013)	1,500	1,425

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Company	Industry	Investment (1)	Cost	Fair Value
Multi-Ag Media LLC (2)	Service-dairy magazine publisher/information database	Senior Term Debt (6) (11.8%, Due 12/2009)	\$ 2,548	\$ 2,523
Newhall Holdings, Inc.(2)	Service-distributor of personal care products and supplements	Line of Credit, \$4,000 available (6) (8.8%, Due 5/2010)		
		Senior Term Debt (3) (6) (9.5%, Due 5/2012)	4,500	4,489
		Senior Term Debt (3) (6) (11.8%, Due 5/2012)	4,500	4,489
Northern Contours, Inc. (2)	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (6) (12.8%, Due 5/2010)	7,000	6,983
Pinnacle Treatment Centers, Inc.	Service-Addiction treatment centers	Line of Credit, \$500 available (10.0%, Due 12/2009)		
		Senior Term Debt (6) (10.0%, Due 12/2011)	2,500	2,488
		Senior Term Debt (3) (6) (12.8%, Due 12/2011)	4,500	4,466
Precision Acquisition Group Holdings, Inc. (2)	Manufacturing-consumable components for the aluminum industry	Equipment Note, \$1,000 available (6) (10.3%, Due 10/2011)	672	672
		Senior Term Debt (6) (10.3%, Due 10/2010)	5,000	5,006
		Senior Term Debt (3) (6) (12.3%, Due 10/2010)	4,200	4,205
PROFITSystems Acquisition Co. (2)	Service-design and develop ERP software	Line of Credit, \$1,250 available (10.0%, Due 7/2009)		
		Senior Term Debt (6) (10.0%, Due 7/2011)	2,800	2,797
		Senior Term Debt (3) (6) (12.3%, Due 7/2011)	2,900	2,896
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (6) (7) (11.5%, Due 1/2012)	7,799	7,388
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (3) (6) (10.3%, Due 1/2011)	3,000	2,880
		Senior Term Debt (4) (6) (12.8%, Due 1/2011)	3,000	2,865
Reading Broadcasting, Inc.	Service-television station operator	Senior Term Debt (6) (12.3%, Due 3/2008)	7,560	7,498
RedPrairie Holding, Inc. (2)	Service-design and develop supply chain software	Senior Term Debt (7) (8.5%, Due 7/2012)	4,458	4,235
		Senior Subordinated Term Debt (7) (11.9%, Due 1/2013)	3,000	2,850
RiskMetrics Group Holdings, LLC	Service - develop risk and wealth management solutions	Senior Term Debt (7) (7.4%, Due 1/2014)	1,990	1,965
		Senior Subordinated Term Debt (7)	500	495

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(10.7%, Due 7/2014)

SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (6) (13.8%, Due 10/2008)	2,482	2,398
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Company	Industry	Investment (1)	Cost	Fair Value
SCS Acquisition Corp. (2)	Service-chemically treated	Senior Term Debt (6)	\$ 5,117	\$ 5,111
	equipment distribution	(9.8%, Due 12/2011) Senior Term Debt (3) (6) (11.8%, Due 12/2011)	6,494	6,477
Sunburst Media - Louisiana, LLC	Service-radio station operator	Senior Term Debt (6) (11.5%, Due 6/2011)	7,878	7,800
Sunshine Media Holdings	Service-publisher regional B2B	Line of Credit, \$3,000 available (6)	700	695
	trade magazines	(9.8%, Due 5/2010) Senior Term Debt (6) (9.8%, Due 5/2012)	17,000	16,915
		Senior Term Debt (3) (6) (12.3%, Due 5/2012)	10,000	9,925
Thibaut Acquisition Co.	Service-design and disribute	Line of Credit, \$1,000 available (6)	800	798
	wall covering	(10.3%, Due 1/2011) Senior Term Debt (6) (10.3%, Due 1/2011)	2,713	2,709
		Senior Term Debt (3) (6) (12.8%, Due 1/2011)	3,000	2,992
U.S. HealthCare Communications, LLC	Service-magazine publisher/operator	Senior Term Debt (6) (10) (non-accrual, Due 4/2011)	2,244	1,809
Viapack, Inc. (2)	Manufacturing-polyethylene film	Senior Real Estate Term Debt (10.3%, Due 3/2011)	975	975
		Senior Term Debt (3) (6) (11.8%, Due 3/2011)	4,223	4,192
Visual Edge Technology, Inc. (2)	Service-office equipment distribution	Senior Subordinated Term Debt (6) (13.8%, Due 8/2011)	5,000	3,575
Wesco Holdings, Inc. (2)	Service-aerospace parts and distribution	Senior Term Debt (7) (7.5%, Due 9/2013)	2,454	2,383
		Senior Subordinated Term Debt (7) (11.0%, Due 3/2014)	2,270	2,233
West Coast Yellow Pages, Inc.	Service-directory publisher	Senior Term Debt (6) (13.3%, Due 8/2010)	1,584	1,518
Westlake Hardware, Inc. (2)	Retail-hardware and variety	Senior Subordinated Term Debt (6) (13.0%, Due 1/2011)	15,000	14,987
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (6) (9.5%, Due 5/2013)	1,995	1,990
		Senior Subordinated Term Debt (6)	10,000	9,950



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(12.8%, Due 4/2013)

WP Evenflo Group Holdings Inc. (2)	Manufacturing-infant and juvenile products	Senior Term Debt (7) (8.0%, Due 2/2013)	1,990	1,851
		Senior Subordinated Term Debt (7) (11.5%, Due 2/2014)	2,000	1,860
<b>Total Non-Control/Non-Affiliate Investments</b>			<b>\$ 354,835</b>	<b>\$ 348,921</b>

**CONTROL INVESTMENTS**

BERTL, Inc.	Service-web-based evaluator of digital imaging products	Common Stock (5) (8)	924	924
<b>Total Investments (11)</b>			<b>\$ 355,759</b>	<b>\$ 349,845</b>

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- (1) Percentage represents interest rates in effect at September 30, 2007 and due date represents the contractual maturity date.
- (2) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.
- (3) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
- (4) Last Out Tranche of senior debt, meaning if the company is liquidated then 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) Investment valued at cost due to recent acquisition.
- (6) Fair value was based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
- (7) Marketable securities, such as syndicated loans, are valued based on the indicative bid price, on or near September 28, 2007, offered by the respective originating syndication agent's trading desk, or secondary desk.
- (8) Security is non-income producing.
- (9) It's Just Lunch revolving may borrow an additional \$1,750 of the senior term debt facility, subject to certain conditions including Gladstone Capital's approval. Borrowings of \$500 were outstanding at September 30, 2007.
- (10) U.S. Healthcare Communications, LLC is currently past due on interest payments and is on non-accrual.
- (11) Aggregate gross unrealized depreciation for federal income tax purposes is \$9,107; aggregate gross unrealized appreciation for federal income tax purposes is \$3,192. Net unrealized depreciation is \$5,915 based on a tax cost of \$355,759.

*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 DATA)

(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
<b>INVESTMENT INCOME</b>				
Interest income investments	\$ 11,236	\$ 8,912	\$ 33,499	\$ 25,065
Interest income cash and cash equivalents	38	109	285	178
Interest income notes receivable from employees (Refer to Note 4)	118	133	354	404
Prepayment fees and other income	28	47	34	432
Total investment income	11,420	9,201	34,172	26,079
<b>EXPENSES</b>				
Interest expense	1,771	1,762	5,982	4,694
Loan servicing fee (Refer to Note 4)	1,598	898	4,541	2,377
Base management fee (Refer to Note 4)	529	847	1,664	1,997
Incentive fee (Refer to Note 4)	1,340	1,167	4,089	3,474
Administration fee (Refer to Note 4)	285	187	737	482
Professional fees	167	149	706	369
Amortization of deferred financing fees	572	72	830	199
Stockholder related costs	34	39	292	190
Directors fees	52	56	163	167
Insurance expense	57	66	170	191
Other expenses	103	82	263	220
Expenses before credit from Adviser	6,508	5,325	19,437	14,360
Credit to base management and incentive fees from Adviser (Refer to Note 4)	(1,785)	(1,829)	(5,708)	(4,873)
Total expenses net of credit to base management and incentive fees	4,723	3,496	13,729	9,487
NET INVESTMENT INCOME	6,697	5,705	20,443	16,592
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>				
Realized (loss) gain on sale of investments	(86)	(5)	(86)	82
Realized gain on settlement of derivative		8	6	31
Unrealized depreciation on derivative			(12)	(26)
Net unrealized (depreciation) appreciation on investments	(3,802)	257	(27,545)	(2,466)
Net (loss) gain on investments	(3,888)	260	(27,637)	(2,379)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 2,809	\$ 5,965	\$ (7,194)	\$ 14,213
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:</b>				
Basic and Diluted	\$ 0.13	\$ 0.44	\$ (0.37)	\$ 1.12

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WEIGHTED AVERAGE SHARES OF COMMON STOCK

OUTSTANDING:

Basic and Diluted	21,087,574	13,561,511	19,237,203	12,701,845
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*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,	
	2008	2007
<i>Operations:</i>		
Net investment income	\$ 20,443	\$ 16,592
Net realized (loss) gain on sale of investments	(86)	82
Realized gain on settlement of derivative	6	31
Unrealized depreciation on derivative	(12)	(26)
Net unrealized depreciation on investments	(27,545)	(2,466)
Net (decrease) increase in net assets from operations	(7,194)	14,213
<i>Capital transactions:</i>		
Issuance of common stock under shelf offering	106,226	46,075
Distributions to stockholders	(24,523)	(16,013)
Repayment of principal on employee notes	51	301
Shelf offering costs	(845)	(406)
Stock surrendered in settlement of withholding tax		(1,488)
Increase in net assets from capital transactions	80,909	28,469
Total increase in net assets	73,715	42,682
Net assets at beginning of year	220,959	172,571
Net assets at end of period	\$ 294,674	\$ 215,253

*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)****(UNAUDITED)**

	<b>Nine Months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (decrease) increase in net assets resulting from operations	\$ (7,194)	\$ 14,213
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(137,502)	(253,728)
Principal repayments on investments	47,802	99,803
Net amortization of premiums and discounts	215	30
Increase in investment balance due to payment in kind interest	(42)	
Amortization of deferred financing fees	830	199
Realized loss on investments	86	123
Unrealized depreciation on derivative	12	26
Change in net unrealized depreciation on investments	27,545	2,466
Increase in interest receivable	(945)	(822)
(Increase) decrease in funds due from custodian	(3,406)	457
Decrease in prepaid assets	135	40
Increase in other assets	(113)	(165)
Increase in accounts payable	2	1
(Decrease) increase in interest payable	(65)	269
Increase in accrued expenses and deferred liabilities	114	133
(Increase) decrease in fees due to affiliate (Refer to Note 4)	(241)	164
Increase in administration fee due to Gladstone Administration (Refer to Note 4)	47	187
Increase (decrease) in funds held in escrow	290	(1)
Net cash used in operating activities	(72,430)	(136,605)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Redemption of U.S. Treasury Bill	2,484	
Net cash provided by investing activities	2,484	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from the issuance of common shares	106,226	45,669
Borrowings from the line of credit	151,418	277,800
Repayments on the line of credit	(162,768)	(166,605)
Distributions paid	(24,523)	(16,013)
Receipt of principal on notes receivable employees (Refer to Note 4)	51	301
Deferred financing fees	(3,026)	(299)
Shelf offering costs	(845)	
Withholding tax obligation settlement		(1,488)
Net cash provided by financing activities	66,533	139,365
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,413)</b>	<b>2,760</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>8,839</b>	<b>731</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 5,426</b>	<b>\$ 3,491</b>

<b>CASH PAID DURING PERIOD FOR INTEREST</b>	\$	6,047	\$	4,424
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*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.*

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## GLADSTONE CAPITAL CORPORATION

## FINANCIAL HIGHLIGHTS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
<b>Per Share Data (1)</b>				
Net asset value at beginning of period	\$ 14.27	\$ 13.82	\$ 14.97	\$ 14.02
<b>Income from investment operations:</b>				
Net investment income (2)	0.32	0.42	1.06	1.31
Net unrealized (depreciation) appreciation on investments (2)	(0.19)	0.02	(1.43)	(0.19)
Total from investment operations	0.13	0.44	(0.37)	1.12
Distributions to stockholders (3)	(0.42)	(0.42)	(1.26)	(1.26)
Issuance of common stock under shelf offering		1.50	0.68	1.50
Offering costs	(0.01)	(0.23)	(0.05)	(0.23)
Repayment of principal on notes receivable				0.02s New Roman" SIZE="2"> 474 30
Net amortization of investment premium and discount	8	18	43	
(Increase) decrease in accrued interest receivable	(66)	6	3	
(Increase) decrease in other assets	19	(733)	14	
Increase (decrease) in accrued interest payable and other liabilities	(1,360)	1,608		
Net cash (used in) operating activities	(1,991)	(635)	(306)	
<b>Cash Flows from Investing Activities:</b>				
Proceeds from maturities of and principal paydowns on securities available for sale	176	429	1,091	
Investment in stock of Bank	(1,500)		(4,000)	
Cash paid to acquire Bank of Commerce	(20,640)		0	
Net (increase) decrease in loans	(14,838)	(4,279)	41	
Net cash (used in) investing activities	(36,802)	(3,850)	(2,868)	
<b>Cash Flows from Financing Activities:</b>				
Dividends paid		(9)	(9)	
Proceeds from issuance of junior subordinated debt	20,000			
Purchase of treasury stock			(285)	
Proceeds from exercise of common stock options	105	690	70	
Proceeds from sale of common stock		39,280		
Net cash provided by (used in) financing activities	20,105	39,961	(224)	
Increase (decrease) in cash and cash equivalents	(18,688)	35,476	(3,398)	



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Cash and cash equivalents, beginning of year	37,138	1,662	5,060
Cash and cash equivalents, end of year	\$ 18,450	\$ 37,138	\$ 1,662

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**Table of Contents****COMMUNITY BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 18. Quarterly Data (Unaudited)**

	2005				2004			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(Dollars in thousands, except per share data)							
Interest and dividend income	\$ 15,394	\$ 12,561	\$ 9,676	\$ 8,706	\$ 8,171	\$ 7,553	\$ 7,255	\$ 7,059
Interest Expense	4,703	3,326	2,306	2,176	1,815	1,681	1,744	1,622
Net Interest Income	10,691	9,235	7,370	6,530	6,356	5,872	5,511	5,437
Provision for loan losses	269	725	91		340	360		222
Net interest income, after provision for loan losses	10,422	8,510	7,279	6,530	6,016	5,512	5,511	5,215
Noninterest income	803	677	419	376	392	378	350	369
Noninterest expenses (1)(2)	7,027	5,421	4,641	3,423	5,424	3,671	3,429	3,422
Income before income taxes	4,198	3,766	3,057	3,483	984	2,219	2,432	2,162
Provision for income taxes	1,221	1,080	1,037	1,101	141	714	808	713
Net Income	\$ 2,977	\$ 2,686	\$ 2,020	\$ 2,382	\$ 843	\$ 1,505	\$ 1,624	\$ 1,449
Earnings per common share:								
Basic	\$ 0.40	\$ 0.38	\$ 0.30	\$ 0.35	\$ 0.16	\$ 0.32	\$ 0.35	\$ 0.31
Diluted	\$ 0.40	\$ 0.38	\$ 0.29	\$ 0.35	\$ 0.16	\$ 0.31	\$ 0.34	\$ 0.31

- (1) 2005 noninterest expenses increased due to additional employees, reporting requirements in our first year as a public company and additional costs associated with the acquisition of Bank of Commerce, including rent and depreciation expenses.
- (2) Fourth quarter of 2004 includes approximately \$1.9 million of expense relating to the stock appreciation rights. See Note 13 of the financial statements.

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**[LETTER HEAD OF MCGLADREY & PULLEN]**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors

Community Bancorp

Las Vegas, Nevada

We have audited the consolidated balance sheets of Community Bancorp and Subsidiary (collectively referred to as the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 10, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ McGLADREY & PULLEN, LLP

McGLADREY & PULLEN, LLP

Las Vegas, Nevada

March 10, 2006

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**EXHIBIT INDEX**

**Exhibit**

<b>Number</b>	<b>Description</b>
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a) Certification by Chief Executive Officer
31.2	Rule 13a-14(a) Certification by Chief Financial Officer
32.1	Section 1350 Certifications