

GLADSTONE CAPITAL CORP
Form 10-Q
August 03, 2011

**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, 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)

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 12 b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

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 August 1, 2011 was 21,039,242.

**GLADSTONE CAPITAL CORPORATION
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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, 2011 | September 30, 2010 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------------|
| ASSETS | | |
| Investments at fair value | | |
| Non-Control/Non-Affiliate investments (Cost of \$290,669 and \$244,140, respectively) | \$ 255,906 | \$ 223,737 |
| Control investments (Cost of \$84,521 and \$54,076, respectively) | 43,373 | 33,372 |
| Total investments at fair value (Cost of \$375,190 and \$298,216, respectively) | 299,279 | 257,109 |
| Cash | 7,776 | 7,734 |
| Interest receivable investments in debt securities | 2,619 | 2,648 |
| Interest receivable employees ^(A) | 97 | 104 |
| Due from custodian | 1,922 | 255 |
| Deferred financing fees | 993 | 1,266 |
| Prepaid assets | 660 | 799 |
| Other assets | 784 | 603 |
| TOTAL ASSETS | \$ 314,130 | \$ 270,518 |
| LIABILITIES | | |
| Borrowings at fair value (Cost of \$92,200 and \$16,800, respectively) | \$ 92,700 | \$ 17,940 |
| Accounts payable and accrued expenses | 601 | 752 |
| Interest payable | 263 | 693 |
| Fee due to Administrator ^(A) | 174 | 267 |
| Fees due to Adviser ^(A) | 1,791 | 673 |
| Other liabilities | 1,065 | 947 |
| TOTAL LIABILITIES | 96,594 | 21,272 |
| NET ASSETS | \$ 217,536 | \$ 249,246 |
| ANALYSIS OF NET ASSETS | | |
| Common stock, \$0.001 par value per share, 50,000,000 shares authorized and 21,039,242 shares issued and outstanding at June 30, 2011 and September 30, 2010 | \$ 21 | \$ 21 |
| Capital in excess of par value | 326,935 | 326,935 |
| Notes receivable employees ^(A) | (4,998) | (7,103) |
| Net unrealized depreciation on investments | (75,911) | (41,108) |
| Net unrealized appreciation on borrowings | (500) | (1,140) |
| Overdistributed net investment income | (758) | (1,103) |

| | | |
|---------------------------------|-------------------|-------------------|
| Accumulated net realized losses | (27,253) | (27,256) |
| TOTAL NET ASSETS | \$ 217,536 | \$ 249,246 |
| NET ASSETS PER SHARE | \$ 10.34 | \$ 11.85 |

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

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

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, | |
| | 2011 | 2010 | 2011 | 2010 |
| INVESTMENT INCOME | | | | |
| Interest income | | | | |
| Non-Control/Non-Affiliate investments | \$ 7,028 | \$ 6,992 | \$ 19,722 | \$ 23,037 |
| Control investments | 1,406 | 375 | 3,604 | 1,853 |
| Notes receivable from employees ^(A) | 102 | 108 | 347 | 330 |
| Total interest income | 8,536 | 7,475 | 23,673 | 25,220 |
| Other income | | | | |
| Non-Control/Non-Affiliate investments | 444 | 494 | 1,089 | 2,367 |
| Control investments | | | 625 | |
| Total other income | 444 | 494 | 1,714 | 2,367 |
| Total Investment income | 8,980 | 7,969 | 25,387 | 27,587 |
| EXPENSES | | | | |
| Loan servicing fee ^(A) | 814 | 819 | 2,413 | 2,600 |
| Base management fee ^(A) | 637 | 658 | 1,751 | 2,118 |
| Incentive fee ^(A) | 1,133 | 153 | 3,395 | 1,601 |
| Administration fee ^(A) | 174 | 186 | 535 | 540 |
| Interest expense | 958 | 891 | 1,316 | 3,562 |
| Amortization of deferred financing fees | 368 | 240 | 1,032 | 1,182 |
| Professional fees | 360 | 501 | 894 | 1,632 |
| Other expenses | 196 | 178 | 799 | 1,142 |
| Expenses before credits from Adviser | 4,640 | 3,626 | 12,135 | 14,377 |
| Credits to fees from Adviser ^(A) | (194) | (86) | (348) | (120) |
| Total expenses net of credits to fees | 4,446 | 3,540 | 11,787 | 14,257 |
| NET INVESTMENT INCOME | 4,534 | 4,429 | 13,600 | 13,330 |
| REALIZED AND UNREALIZED | | | | |
| (LOSS) GAIN ON: | | | | |
| Net realized (loss) gain on investments | (2) | (2,865) | 3 | (2,893) |
| Net unrealized (depreciation) appreciation on investments | (18,789) | (1,556) | (34,803) | 3,525 |

| | | | | |
|----------------------------------------------------------------------------|-------------|------------|-------------|------------|
| Net unrealized (appreciation) depreciation on borrowings | (53) | (1,756) | 640 | (1,405) |
| Net loss on investments and borrowings | (18,844) | (6,177) | (34,160) | (773) |
| NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | \$ (14,310) | \$ (1,748) | \$ (20,560) | \$ 12,557 |
| NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE: | | | | |
| Basic and Diluted | \$ (0.68) | \$ (0.08) | \$ (0.98) | \$ 0.60 |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: | | | | |
| Basic and Diluted | 21,039,242 | 21,039,242 | 21,039,242 | 21,067,465 |

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

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

GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

| | Nine Months Ended June | |
|--------------------------------------------------------------------------------|-------------------------------|-------------|
| | 30, | |
| | 2011 | 2010 |
| <i>Operations:</i> | | |
| Net investment income | \$ 13,600 | \$ 13,330 |
| Net realized gain (loss) on investments | 3 | (2,893) |
| Net unrealized (depreciation) appreciation on investments | (34,803) | 3,525 |
| Net unrealized depreciation (appreciation) on borrowings | 640 | (1,405) |
| Net (decrease) increase in net assets from operations | (20,560) | 12,557 |
| <i>Distributions:</i> | | |
| Distributions to stockholders | (13,255) | (13,271) |
| <i>Capital transactions:</i> | | |
| Shelf offering costs | | (28) |
| Conversion of former employee stock option loans from recourse to non-recourse | | (420) |
| Repayment of principal on employee notes | 2,105 | |
| Reclassification of principal on employee note | | 515 |
| Net increase in net assets from capital transactions | 2,105 | 67 |
| Total decrease in net assets | (31,710) | (647) |
| Net assets at beginning of period | 249,246 | 249,076 |
| Net assets at end of period | \$ 217,536 | \$ 248,429 |

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

GLADSTONE CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

| | Nine Months Ended June | |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------|
| | 30, | |
| | 2011 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net (decrease) increase in net assets resulting from operations | \$ (20,560) | \$ 12,557 |
| Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash (used in) provided by operating activities: | | |
| Purchase of investments | (118,646) | (8,337) |
| Principal repayments on investments | 39,855 | 56,900 |
| Proceeds from sale of investments | 777 | 3,119 |
| Increase in investment balance due to paid in kind interest | (12) | (62) |
| Repayment of paid in kind interest | | 51 |
| Increase in investment balance due to transferred interest | (204) | (1,230) |
| Net change in premiums, discounts and amortization | 1,420 | 1,194 |
| Net realized (gain) loss on investments | (163) | 2,893 |
| Net unrealized depreciation (appreciation) on investments | 34,803 | (3,525) |
| Net unrealized (depreciation) appreciation on borrowings | (640) | 1,405 |
| Amortization of deferred financing fees | 1,032 | 1,182 |
| Change in compensation expense from non-recourse notes | | 245 |
| Decrease in interest receivable | 36 | 472 |
| (Increase) decrease in due from custodian | (1,667) | 1,272 |
| Decrease (increase) in prepaid assets | 139 | (246) |
| (Increase) decrease in other assets | (181) | 1,211 |
| Decrease in accounts payable and accrued expenses | (151) | (440) |
| (Decrease) increase in interest payable | (430) | 7 |
| Increase in fees due to Adviser ^(A) | 1,118 | 1,566 |
| Decrease in administration fee due to Administrator ^(A) | (93) | (30) |
| Increase (decrease) in other liabilities | 118 | (172) |
| Net cash (used in) provided by operating activities | (63,449) | 70,032 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Shelf offering costs | | (28) |
| Proceeds from borrowings | 109,800 | 8,400 |
| Repayments on borrowings | (34,400) | (62,500) |
| Distributions paid | (13,255) | (13,271) |
| Receipt of principal on employee notes | 2,105 | |
| Deferred financing fees | (759) | (1,441) |
| Net cash provided by (used in) financing activities | 63,491 | (68,840) |
| NET INCREASE IN CASH | 42 | 1,192 |

| | | |
|----------------------------------|-----------------|----------|
| CASH, BEGINNING OF PERIOD | 7,734 | 5,276 |
| CASH, END OF PERIOD | \$ 7,776 | \$ 6,468 |

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

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

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

| Company ^(A) | Industry | Investment ^(B) | Principal | Cost | Fair Value |
|----------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------|-----------|--------|------------|
| NON-CONTROL/NON-AFFILIATE INVESTMENTS | | | | | |
| Syndicated | | | | | |
| as follows: | | | | | |
| Mass Television Network, Inc. | Service-cable airtime (infomercials) | Senior Term Debt (14.0%, Due 2/2011) ^(D) | \$ 903 | \$ 903 | \$ |
| Mon Publications, LLC | Service-publisher of consumer oriented magazines | Senior Term Debt (10.5%, Due 9/2012) ^(D) | 8,613 | 8,632 | 8 |
| Broadcasting | Service-radio station operator | Senior Term Debt (11.5%, Due 7/2013) ^(D) | 7,465 | 7,465 | 6 |
| Case Yellow Company | Service-publisher of Chinese language directories | Line of Credit, \$250 available (7.3%, Due 11/2011) ^(D) | 450 | 450 | |
| | | Senior Term Debt (7.3%, Due 11/2011) ^(D) | 198 | 198 | |
| Acquisition, | Service-recycling | Senior Subordinated Term Debt (12.0%, Due 12/2016) ^(D) | 14,265 | 14,265 | 14 |
| ap Partners, | Private equity fund | Class A Membership Units ^(G) | 1,200 | 1,200 | 1 |
| | | Uncalled Capital Commitment (\$800) | | | |
| C Holdings, | Manufacturing-glass-fiber reinforced concrete | Senior Term Debt (11.5%, Due 12/2012) ^(D) | 5,811 | 5,811 | 5 |
| | | Senior Subordinated Term Debt (14.0%, Due 12/2012) ^{(C) (D)} | 6,632 | 6,632 | 5 |
| al Materials Technologies, Inc. | Manufacturing-steel wool products and metal fibers | Senior Term Debt (13.0%, Due 6/2012) ^{(C) (D)} | 2,835 | 2,835 | 2 |
| land Communications | Service-radio station operator | Line of Credit, \$0 available (10.0%, Due 3/2013) ^(D) | 100 | 100 | |
| | | Line of Credit, \$0 available (10.0%, Due 3/2013) ^(D) | 100 | 100 | |
| | | Senior Term Debt (5.0%, Due 3/2013) ^(D) | 4,342 | 4,312 | 1 |
| | | Common Stock Warrants (8.75% ownership) ^{(F) (G)} | | 66 | |
| ational Junior Training | Service-golf training | Line of Credit, \$0 available (11.0%, Due 5/2012) ^(D) | 1,500 | 1,500 | 1 |

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| | | | | | |
|---------------------------------------|---------------------------------------------------------------------|------------------------------------------------------------------------|--------|--------|----|
| Position Company | | Senior Term Debt (10.5%, Due 5/2012) ^(D) | 1,060 | 1,060 | |
| | | Senior Term Debt (12.5%, Due 5/2012) ^{(C)(D)} | 2,500 | 2,500 | 2 |
| Q Corporation | Service-AM/FM radio broadcaster | Line of Credit, \$42 available (12.3, Due 7/2010) ^{(D)(G)(H)} | 162 | 158 | |
| | | Senior Term Debt (12.3%, Due 7/2010) ^{(D)(G)(H)} | 2,081 | 2,038 | |
| and Communications Wyoming, LLC | Service-operator of radio stations | Senior Term Debt (12.0%, Due 6/2013) ^(D) | 9,812 | 9,812 | 5 |
| | | Senior Term Debt (14.0%, Due 7/2011) ^(D) | 220 | 220 | |
| all Holdings, | Service-distributor of personal care products and supplements | Line of Credit, \$0 available (8.0%, Due 12/2012) ^(D) | 1,985 | 1,985 | |
| | | Senior Term Debt (8.5%, Due 12/2012) ^(D) | 1,870 | 1,870 | |
| | | Senior Term Debt (3.5%, Due 12/2012) ^{(C)(D)} | 2,000 | 2,000 | |
| | | Senior Term Debt (3.5%, Due 12/2012) ^{(C)(D)} | 4,648 | 4,648 | |
| | | Preferred Equity (1,000,000 shares) ^{(F)(G)} | | | |
| | | Common Stock (688,500 shares) ^{(F)(G)} | | | |
| ern Contours, | Manufacturing-veneer and laminare components | Senior Subordinated Term Debt (13.0%, Due 9/2012) ^(D) | 6,171 | 6,171 | 5 |
| star band, LLC | Service-cable TV franchise owner | Senior Term Debt (0.7%, Due 12/2012) ^(D) | 95 | 83 | |
| ision ision Group ngs, Inc. | Manufacturing-consumable components for the Aluminum industry | Equipment Note (13.0%, Due 11/2011) ^(D) | 1,000 | 1,000 | |
| | | Senior Term Debt (13.0%, Due 11/2011) ^(D) | 4,125 | 4,125 | 3 |
| | | Senior Term Debt (13.0%, Due 11/2011) ^{(C)(D)} | 4,053 | 4,053 | 3 |
| FTSystems ision Co. | Service-design and develop ERP software | Line of Credit, \$350 available (4.5%, Due 7/2011) ^(J) | | | |
| | | Senior Term Debt (8.5%, Due 7/2011) ^{(D)(J)} | 250 | 250 | |
| | | Senior Term Debt (10.5%, Due 7/2011) ^{(C)(D)(J)} | 2,900 | 2,900 | 2 |
| Management ng Co. | Service-healthcare supplies | Senior Term Debt (9.5%, Due 1/2013) ^(D) | 1,563 | 1,563 | 1 |
| | | Senior Term Debt (11.5%, Due 1/2013) ^{(C)(D)} | 3,060 | 3,060 | 2 |
| ble pharmaceutical ngs, Inc. | Manufacturing-pharmaceutical and biochemical intermediates | Line of Credit, \$2,400 available (9.0%, Due 1/2013) ^(D) | 1,600 | 1,600 | 1 |
| | | Mortgage Note (9.5%, Due 12/2014) ^(D) | 7,190 | 7,190 | 7 |
| | | Senior Term Debt (12.0%, Due 12/2014) ^{(C)(D)} | 11,603 | 11,603 | 11 |
| | | Senior Subordinated Term Debt (12.5%, Due 12/2014) ^(D) | 6,000 | 6,000 | 5 |
| | | Common Stock Warrants ^{(F)(G)} (764 shares) | | 209 | |
| | | Line of Credit, \$2,500 available (11.3%, Due 5/2013) ^(D) | | | |

lers &
ciates

Manufacturing-equipment
provider for
frequency control devices

Senior Term Debt (11.3%, Due 5/2013) ^(D)
7

8,947 8,947 8

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

| Company ^(A) | Industry | Investment ^(B) | Principal | Cost | Fair Value |
|----------------------------|----------------------------------------------------|---------------------------------------------------------------------|-----------|------------|------------|
| Cable, Inc. | Service-cable, internet, voice provider | Senior Term Debt (10.0%, Due 10/2012) ^{(D) (G) (H)} | \$ 1,666 | \$ 951 | \$ |
| | | Senior Term Debt (10.0%, Due 10/2012) ^{(D) (G) (H)} | 2,931 | 2,931 | 1 |
| burst Media Louisiana, LLC | Service-radio station operator | Senior Term Debt (10.5%, Due 12/2011) ^(D) | 6,175 | 6,181 | 4,3 |
| bout Acquisition Co. | Service-design and distribute wall covering | Line of Credit, \$250 available (9.0%, Due 1/2014) ^(D) | 750 | 750 | 7 |
| | | Senior Term Debt (8.5%, Due 1/2014) ^(D) | 550 | 550 | 5 |
| | | Senior Term Debt (12.0%, Due 1/2014) ^{(C) (D)} | 3,000 | 3,000 | 2,8 |
| pack, Inc. ^(K) | Manufacturing-polyethylene film | Senior Real Estate Term Debt (10.0%, Due 3/2014) ^(D) | 600 | 600 | 1 |
| | | Senior Term Debt (13.0%, Due 3/2014) ^{(C) (D)} | 3,925 | 3,925 | 9 |
| stlake Hardware, Inc. | Retail-hardware and variety | Senior Subordinated Term Debt (12.3%, Due 1/2014) ^(D) | 12,000 | 12,000 | 11,7 |
| | | Senior Subordinated Term Debt (13.5%, Due 1/2014) ^(D) | 8,000 | 8,000 | 7,7 |
| stland Technologies, | 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 | 1,9 |
| | | Senior Term Debt (12.5%, Due 4/2016) ^(D) | 4,000 | 4,000 | 3,9 |
| | | Common Stock Warrants (77,287 shares) ^{(F) (G)} | | 350 | 3 |
| nchester Electronics | Manufacturing-high bandwidth connectors and cables | Senior Term Debt (5.2%, Due 5/2012) ^(D) | 1,250 | 1,250 | 1,2 |
| | | Senior Term Debt (5.7%, Due 5/2013) ^(D) | 1,682 | 1,682 | 1,6 |
| | | Senior Subordinated Term Debt (14.0%, Due 6/2013) ^(D) | 9,825 | 9,825 | 9,6 |
| <i>total</i> | | | | \$ 197,509 | \$ 161,8 |
| <i>n-syndicated</i> | | | | | |
| <i>ns</i> | | | | | |

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| | | | | | |
|---------------------------------|------------------------------------------------------------|-------------------------------------------------------------------|----------|----------|----------|
| Avana Network Solutions, Inc. | Service-telecommunications | Senior Term Debt (10.0%, Due 3/2015) ^(E) | \$ 8,024 | \$ 7,869 | \$ 8,110 |
| Avia Security Holdings, LLC | Service-contract security officer providers | Senior Subordinated Term Debt (8.5%, Due 2/2018) ^(E) | 1,000 | 990 | 1,000 |
| Avia Specialty Vehicles, Inc. | Manufacturing-specialty vehicles | Senior Term Debt (9.5%, Due 2/2016) ^(E) | 9,975 | 9,784 | 9,784 |
| Avia Group, LLC | Manufacturing-production and distribution of food products | Senior Term Debt (9.8%, Due 3/2016) ^(E) | 7,500 | 7,356 | 7,356 |
| Avia Systems, Inc. | Software for property & casualty insurance industry | Senior Subordinated Term Debt (9.3%, Due 6/2017) ^(E) | 1,000 | 991 | 1,000 |
| Avia Learning, LLC | Service-technology-based learning solutions | Senior Subordinated Term Debt (12.3%, Due 12/2017) ^(E) | 1,000 | 971 | 1,000 |
| Avia Corporate | Service-develops, implements and supports software | Senior Subordinated Term Debt (9.5%, Due 2/2017) ^(E) | 4,000 | 3,961 | 4,000 |
| Avia Communications Group, Inc. | Service-telecommunications | Senior Term Debt (12.0%, Due 11/2015) ^(E) | 1,900 | 1,864 | 1,900 |
| Avia Health, Inc. | Service-post-acute care services | Senior Term Debt (10.3%, Due 5/2017) ^(E) | 2,000 | 1,970 | 1,970 |
| Avia Brass and Copper, Inc. | Service-telecommunications | Senior Term Debt (10.3%, Due 8/2015) ^(E) | 2,976 | 2,897 | 3,000 |
| Avia Holding, Inc | Service-telecommunications | Senior Term Debt (6.8%, Due 10/2016) ^(E) | 1,757 | 1,721 | 1,721 |
| Avia Radio, LLC | Service-radio station operator | Senior Subordinated Term Debt (8.8%, Due 4/2018) ^(E) | 500 | 495 | 500 |
| Avia Government Solutions, Inc. | Service-security consulting services | Senior Term Debt (10.0%, Due 12/2015) ^(E) | 6,965 | 6,932 | 6,932 |
| Avia Media Corporation | Service-media and marketing solutions | Senior Term Debt (10.3%, Due 11/2018) ^(E) | 8,000 | 7,921 | 7,921 |
| Avia Surgical Hospitals, Inc. | Service-physician-partnered surgical facilities | Senior Term Debt (8.3%, Due 2/2017) ^(E) | 1,703 | 1,675 | 1,703 |
| Avia USA, Inc. | Service-provider of utility communication services | Senior Term Debt (8.5%, Due 5/2018) ^(E) | 500 | 495 | 500 |

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| | | | | | |
|---------------------------|---------------------------------------------|------------------------------------------------------|-------|-------|-----|
| ings Window hions, LLC | Manufacturing-window | Senior Term Debt (11.3%, Due 11/2017) ^(E) | 5,000 | 4,851 | 4,8 |
| AM, LLC | Manufacturing-premium bicycle components | Senior Term Debt (8.5%, Due 12/2018) ^(E) | 2,500 | 2,475 | 2,5 |

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| | | | | | |
|-----------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------|--------|-------------------|----------------|
| Technologies, | | Common Stock (15,500 shares) ^{(F) (G)} | | 1 | 4, |
| mark Acquisition, LLC | Service-advertising | Senior Subordinated Term Debt (11.0%, Due 10/2012) ^{(D) (G) (H)} | 10,000 | 10,000 | 2, |
| | | Senior Subordinated Term Debt (13.0%, Due 10/2012) ^{(D) (G) (H)} | 2,000 | 2,000 | |
| | | Senior Subordinated Term Debt (13.0%, Due Upon Demand) ^{(D) (G) (H)} | 1,909 | 1,908 | |
| | | Common Stock (100 shares) ^{(F) (G)} | | 317 | |
| ITel, LLC | Service-yellow pages publishing | Line of credit, \$77 available (10.0%, Due 12/2011) ^{(F) (G) (H)} | 1,773 | 1,773 | |
| | | Line of Credit, \$1,830 available (4.7%, Due 6/2012) ^{(F) (G) (H)} | 1,170 | 1,170 | |
| | | Senior Term Debt (12.5%, Due 2/2012) ^{(F) (G) (H)} | 325 | 325 | |
| | | Senior Term Debt (8.5%, Due 6/2012) ^{(F) (G) (H)} | 2,688 | 2,688 | |
| | | Senior Term Debt (10.5%, Due 6/2012) ^{(C) (F) (G) (H)} | 2,750 | 2,750 | |
| | | Common Stock Warrants (4,000 shares) ^{(F) (G)} | | | |
| West Metal Distribution, Inc. | Distribution-aluminum sheets and stainless steel | Senior Subordinated Term Debt (12.0%, Due 7/2013) ^(D) | 18,281 | 18,260 | 16, |
| | | Common Stock (501 shares) ^{(F) (G)} | | 138 | |
| Machine Media Holdings ^(L) | Service-publisher regional B2B trade magazines | Line of credit, \$100 available (10.5%, Due 5/2016) ^(D) | 1,900 | 1,900 | |
| | | Senior Term Debt (10.5%, Due 5/2016) ^(D) | 16,948 | 16,948 | 5, |
| | | Senior Term Debt (5.0%, Due 5/2016) ^{(C) (D)} | 10,700 | 10,700 | 3, |
| | | Junior Preferred Equity (1013.5 shares) ^{(F) (G)} | | 740 | |
| | | Common Stock (933.5 shares) ^{(F) (G)} | | 375 | |
| Healthcare Communications, | Service-magazine publisher/operator | Line of credit, \$131 available (6.0%, Due 12/2010) ^{(F) (G) (H)} | 269 | 269 | |
| | | Line of credit, \$0 available (6.0%, Due 12/2010) ^{(F) (G) (H)} | 450 | 450 | |
| | | Common Stock (100 shares) ^{(F) (G)} | | 2,470 | |
| Control Investments (represented 14.5% of total investments at fair value) | | | | \$ 84,521 | \$ 43, |
| Total Investments | | | | \$ 375,190 | \$ 299, |

- (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 June 30, 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 June 30, 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. Gladstone Capital Corporation (the Company) also considered discounted cash flow methodologies.
- (G) Security is non-income producing.
- (H) Debt security is on non-accrual status.
- (I) During the quarter ended March 31, 2011, the Company purchased a controlling interest in common stock from existing shareholders of Sunshine Media Holdings. This purchase resulted in the Company reclassifying the investment from Non-Control/Non-Affiliate to Control.
- (J) Subsequent to June 30, 2011, PROFITSystems Acquisition Co.'s debt securities were extended to July 2014.
- (K) Subsequent to June 30, 2011, the Company purchased a controlling interest in the equity securities of Viapack, Inc.

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

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2010
(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 12/2011) ^(E) | \$ 963 | \$ 963 | \$ 809 |
| Allison Publications, LLC | Service-publisher of consumer oriented magazines | Senior Term Debt (10.5%, Due 9/2012) ^(E) | 9,064 | 9,094 | 8,543 |
| | | Senior Term Debt (13.0%, Due 12/2010) ^(E) | 65 | 65 | 64 |
| BAS Broadcasting | Service-radio station operator | Senior Term Debt (11.5%, Due 7/2013) ^(E) | 7,465 | 7,465 | 6,644 |
| Chinese Yellow Pages Company | Service-publisher of Chinese language directories | Line of Credit, \$250 available (7.3%, Due 11/2010) ^(E) | 450 | 450 | 428 |
| | | Senior Term Debt (7.3%, Due 11/2010) ^(E) | 333 | 333 | 317 |
| CMI Acquisition, LLC | Service-recycling | Senior Subordinated Term Debt (10.3%, Due 11/2012) ^(E) | 5,972 | 5,972 | 5,868 |
| FedCap Partners, LLC | Private equity fund | Class A Membership Units ^(H) Uncalled Capital Commitment (\$1,600) | 400 | 400 | 400 |
| Finn Corporation | Manufacturing-landscape equipment | Common Stock Warrants (33,000 shares) ^{(G)(H)} | | 37 | 284 |
| GFRC Holdings LLC | Manufacturing-glass-fiber reinforced concrete | Senior Term Debt (11.5%, Due 12/2012) ^(E) | 6,111 | 6,111 | 6,004 |
| | | Senior Subordinated Term Debt (14.0%, Due 12/2012) ^{(C)(E)} | 6,632 | 6,632 | 6,450 |
| Global Materials Technologies, Inc. | Manufacturing-steel wool products and metal fibers | Senior Term Debt (13.0%, Due 6/2012) ^(C) | 3,560 | 3,560 | 2,937 |

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(E)

| | | | | | |
|--------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------|-------|-------|-------|
| Heartland Communications Group | Service-radio station operator | Line of Credit, \$100 available (8.5%, Due 3/2013) | | | |
| | | Line of Credit, \$100 available (8.5%, Due 3/2013) | | | |
| | | Senior Term Debt (8.5%, Due 3/2013) (E) | 4,342 | 4,301 | 2,519 |
| | | Common Stock Warrants (8.75%) (G) (H) | | 66 | |
| Interfilm Holdings, Inc. | Service-slitter and distributor of plastic films | Senior Term Debt (12.3%, Due 10/2012) (E) | 2,400 | 2,400 | 2,382 |
| International Junior Golf Training Acquisition Company | Service-golf training | Line of Credit, \$1,500 available (9.0%, Due 5/2011) (E) | | | |
| | | Senior Term Debt (8.5%, Due 5/2012) (E) | 1,557 | 1,557 | 1,537 |
| | | Senior Term Debt (10.5%, Due 5/2012) (C) (E) | 2,500 | 2,500 | 2,456 |
| KMBQ Corporation | Service-AM/FM radio broadcaster | Line of Credit, \$39 available (12.3%, Due 7/2010) (E) (J) (P) | 161 | 161 | 16 |
| | | Senior Term Debt (12.3%, Due 7/2010) (E) (J) (P) | 1,921 | 1,921 | 192 |
| Legend Communications of Wyoming LLC | Service-operator of radio stations | Senior Term Debt (12.0%, Due 6/2013) (E) | 9,880 | 9,880 | 6,422 |
| Newhall Holdings, Inc. | Service-distributor of personal care products and supplements | Line of Credit, \$0 available (5.0%, Due 12/2012) (E) | 1,350 | 1,350 | 1,269 |
| | | Senior Term Debt (5) (5.0%, Due 12/2012) (E) | 3,870 | 3,870 | 3,638 |
| | | Senior Term Debt (5.0%, Due 12/2012) (C) (E) | 4,648 | 4,648 | 4,323 |
| | | Preferred Equity (1,000,000 shares) (G) (H) Common Stock (688,500 shares) (G) (H) | | | |
| Northern Contours, Inc. | Manufacturing-veneer and laminate components | Senior Subordinated Term Debt (13.0%, Due 9/2012) (E) | 6,301 | 6,301 | 5,765 |

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| | | | | | |
|-----------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------------------------|-------|-------|-------|
| Northstar Broadband, LLC | Service-cable TV franchise owner | Senior Term Debt (0.7%, Due 12/2012) ^(E) | 135 | 117 | 102 |
| Pinnacle Treatment Centers, Inc. | Service-Addiction treatment centers | Line of Credit, \$350 available (12.0%, Due 10/2010) ^{(E) (L)} | 150 | 150 | 150 |
| | | Senior Term Debt (10.5%, Due 12/2011) ^(E) | 1,950 | 1,950 | 1,945 |
| | | Senior Term Debt (10.5%, Due 12/2011) ^(C) ^(E) | 7,500 | 7,500 | 7,481 |
| | | | | | |
| Precision Acquisition Group Holdings,. Inc | Manufacturing-consumable components for the Aluminum industry | Equipment Note (13.0%, Due 10/2010) ^{(E) (M)} | 1,000 | 1,000 | 950 |
| | | Senior Term Debt (13.0%, Due 10/2010) ^(E) ^(M) | 4,125 | 4,125 | 3,919 |
| | | Senior Term Debt (13.0%, Due 10/2010) ^(C) ^{(E) (M)} | 4,053 | 4,053 | 3,850 |

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)

| Company^(A) | Industry | Investment^(B) | Principal | Cost | Fair Value |
|-------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------|------------------|-------------|-------------------|
| PROFITSystems Acquisition Co. | Service-design and develop ERP software | Line of Credit, \$350 available (4.5%, Due 7/2011) | \$ | \$ | \$ |
| | | Senior Term Debt (8.5%, Due 7/2011) (E) | 1,000 | 1,000 | 940 |
| | | Senior Term Debt (10.5%, Due 7/2011) (C) (E) | 2,900 | 2,900 | 2,697 |
| RCS Management Holding Co. | Service-healthcare supplies | Senior Term Debt (9.5%, Due 1/2011) (C) (E) | 1,938 | 1,937 | 1,918 |
| | | Senior Term Debt (11.5%, Due 1/2011) (D) (E) | 3,060 | 3,060 | 3,029 |
| Reliable Biopharmaceutical Holdings, Inc. | Manufacturing-pharmaceutical and biochemical intermediates | Line of Credit, \$3,800 available (9.0%, Due 10/2010) (E) (N) | 1,200 | 1,200 | 1,188 |
| Inc. | biochemical intermediates | Mortgage Note (9.5%, Due 10/2014) (E) | 7,256 | 7,255 | 7,201 |
| | | Senior Term Debt (9.0%, Due 10/2012) (E) | 1,080 | 1,080 | 1,069 |
| | | Senior Term Debt (11.0%, Due 10/2012) (C) (E) | 11,693 | 11,693 | 11,386 |
| | | Senior Subordinated Term Debt (12.0%, Due 10/2013) (E) | 6,000 | 6,000 | 5,730 |
| | | Common Stock Warrants (764 shares) (G) (H) | | 209 | |
| Saunders & Associates | Manufacturing-equipment provider for frequency control devices | Senior Term Debt (9.8%, Due 5/2013) (E) | 8,947 | 8,947 | 8,935 |
| SCI Cable, Inc. | | | 1,165 | 450 | 140 |

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| | | | | | |
|-------------------------------|----------------------------------------------------|--------------------------------------------------------------------|--------|--------|--------|
| | Service-cable, internet, voice provider | Senior Term Debt (10.0%, Due 10/2012) ^{(E) (J) (P)} | | | |
| | | Senior Term Debt (10.0%, Due 10/2012) ^{(E) (J) (P)} | 2,931 | 2,931 | 352 |
| Sunburst Media Louisiana, LLC | Service-radio station operator | Senior Term Debt (10.5%, Due 6/2011) ^(E) | 6,375 | 6,391 | 5,100 |
| Sunshine Media Holdings | Service-publisher regional B2B trade magazines | Line of credit, \$401 available (10.5%, Due 2/2011) ^(E) | 1,599 | 1,599 | 1,499 |
| | | Senior Term Debt (10.5%, Due 5/2012) ^(E) | 16,948 | 16,948 | 15,889 |
| | | Senior Term Debt (13.3%, Due 5/2012) ^{(C) (E)} | 10,700 | 10,700 | 9,898 |
| Thibaut Acquisition Co. | Service-design and distribute wall covering | Line of Credit, \$0 available (9.0%, Due 1/2011) ^(E) | 1,000 | 1,000 | 970 |
| | | Senior Term Debt (8.5%, Due 1/2011) ^(E) | 1,075 | 1,075 | 1,043 |
| | | Senior Term Debt (12.0%, Due 1/2011) ^{(C) (E)} | 3,000 | 3,000 | 2,888 |
| Viapack, Inc. | Manufacturing-polyethylene film | Senior Real Estate Term Debt (10.0%, Due 3/2011) ^(E) | 675 | 675 | 672 |
| | | Senior Term Debt (13.0%, Due 3/2011) ^{(C) (E)} | 4,005 | 4,005 | 3,990 |
| Westlake Hardware, Inc. | Retail-hardware and variety | Senior Subordinated Term Debt (12.3%, Due 1/2014) ^(E) | 12,000 | 12,000 | 11,820 |
| | | Senior Subordinated Term Debt (13.5%, Due 1/2014) ^(E) | 8,000 | 8,000 | 7,800 |
| Winchester Electronics | Manufacturing-high bandwidth connectors and cables | Senior Term Debt (5.3%, Due 5/2012) ^(E) | 1,250 | 1,250 | 1,244 |
| | | Senior Term Debt (6.0%, Due 5/2013) ^(E) | 1,686 | 1,686 | 1,661 |

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| | | | |
|------------------------------------------------------------------------|-------|-------|-------|
| Senior Subordinated Term Debt (14.0%, Due 6/2013) ^(E) | 9,875 | 9,875 | 9,603 |
|------------------------------------------------------------------------|-------|-------|-------|

| | | | |
|----------------------------------------------|--|------------|------------|
| <i>Subtotal Non-syndicated loans</i> | | \$ 225,798 | \$ 206,326 |
|----------------------------------------------|--|------------|------------|

Syndicated Loans:

| | | | | | |
|-----------------------------------|----------------------------|-----------------------------------------------------------|-------|-------|-------|
| Airvana Network Solutions, Inc | Service-telecommunications | Senior Term Debt (11.0%, Due 8/2014) ^(F) | 9,056 | 8,858 | 8,942 |
|-----------------------------------|----------------------------|-----------------------------------------------------------|-------|-------|-------|

| | | | | | |
|---------------------------------------------------|----------------------------|-----------------------------------------------------------------------|-------|-------|-------|
| Puerto Rico Cable Acquisition Company, Inc. | Service-telecommunications | Senior Subordinated Term Debt (7.9%, Due 1/2012) ^(F) | 7,141 | 7,159 | 6,427 |
|---------------------------------------------------|----------------------------|-----------------------------------------------------------------------|-------|-------|-------|

| | | | | | |
|-----------------------------------|--------------------------------------|----------------------------------------------------------|-------|-------|-------|
| WP Evenflo Group Holdings Inc. | Manufacturing-infant and juvenile | Senior Term Debt (8.0%, Due 2/2013) ^(F) | 1,881 | 1,881 | 1,655 |
|-----------------------------------|--------------------------------------|----------------------------------------------------------|-------|-------|-------|

| | | | | |
|----------|-----------------------------------------------------------------|--|-----|-----|
| products | Senior Preferred Equity (333.3 shares) ^{(G) (H)} | | 333 | 379 |
|----------|-----------------------------------------------------------------|--|-----|-----|

| | | | | |
|--|-----------------------------------------------------------------|--|-----|---|
| | Junior Preferred Equity (111.1 shares) ^{(G) (H)} | | 111 | 8 |
|--|-----------------------------------------------------------------|--|-----|---|

| | | | | |
|--|--------------------------------------------------------------------|--|--|--|
| | Common Stock (1,873.95 shares) ^(G) ^(H) | | | |
|--|--------------------------------------------------------------------|--|--|--|

| | | | |
|--------------------------------------|--|-----------|-----------|
| <i>Subtotal Syndicated loans</i> | | \$ 18,342 | \$ 17,411 |
|--------------------------------------|--|-----------|-----------|

| | | | |
|-------------------------------------------------------------------------------------------------------------|--|-------------------|-------------------|
| Total Non-Control/Non-Affiliate Investments (represented 87% of total investments at fair value) | | \$ 244,140 | \$ 223,737 |
|-------------------------------------------------------------------------------------------------------------|--|-------------------|-------------------|

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2010
(DOLLAR AMOUNTS IN THOUSANDS)

| Company ^(A) | Industry | Investment ^(B) | Principal | Cost | Fair Value |
|----------------------------------------|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------|------------|
| CONTROL INVESTMENTS | | | | | |
| BERTL, Inc. | Service-web-based evaluator of imaging products | Line of Credit, \$302 available (6.5%, Due 10/2010) ^{(G) (J) (K) (P)} Common Stock (100 shares) ^{(G) (H)} | \$ 1,319 | \$ 1,319 | \$ |
| | | | | 424 | |
| Defiance Integrated Technologies, Inc. | Manufacturing-trucking parts | Senior Term Debt (11.0%, Due 4/2013) ^{(C) (E)} Common Stock (15,500 shares) ^{(G) (H)} Guaranty (\$250) | 8,325 | 8,325 | 8,325 |
| | | | | 1 | 1,543 |
| Lindmark Acquisition, LLC | Service-advertising | Senior Subordinated Term Debt (11.0%, Due 10/2012) ^{(E) (I) (J) (P)} Senior Subordinated Term Debt (13.0%, Due 12/2010) ^{(E) (I) (J) (P)} Senior Subordinated Term Debt (13.0%, Due Upon Demand) ^{(E)(I)(J)(P)} Common Stock (100 shares) ^{(G) (H)} | 10,000 | 10,000 | 5,000 |
| | | | 2,000 | 2,000 | 1,000 |
| | | | 1,794 | 1,794 | 897 |
| | | | | 1 | |
| LocalTel, LLC | Service-yellow pages publishing | Line of credit, \$152 available (10.0%, Due 12/2010) ^{(G) (J) (P)} Line of Credit, \$1,830 available (4.8%, Due 6/2011) ^{(G) (J) (P)} Senior Term Debt (12.5%, Due 2/2012) ^{(G) (J) (P)} Senior Term Debt (8.5%, Due 6/2011) ^{(G) (J) (P)} Senior Term Debt (10.5%, Due 6/2011) ^{(C) (G) (J) (P)} | 1,698 | 1,698 | 1,063 |
| | | | 1,170 | 1,170 | |
| | | | 325 | 325 | |
| | | | 2,688 | 2,688 | |
| | | | 2,750 | 2,750 | |

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| | | Common Stock Warrants (4,000 shares) (G) (H) | | | |
|---------------------------------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------------|-------------------|
| Midwest Metal Distribution, Inc. | Distribution-aluminum sheets and stainless steel | Senior Subordinated Term Debt (12.0%, Due 7/2013) ^(E) Common Stock (501 shares) ^{(G) (H)} | 18,281 | 18,254 138 | 15,539 |
| U.S. Healthcare Communications, Inc. | Service-magazine publisher/operator | Line of credit, \$131 available (6.0%, Due 12/2010) ^{(G) (J) (P)} Line of credit, \$0 available (6.0%, Due 12/2010) ^{(G) (J) (P)} Common Stock (100 shares) ^{(G) (H)} | 269 450 | 269 450 2,470 | 5 |
| Total Control Investments (represented 13% of total investments at fair value) | | | | \$ 54,076 | \$ 33,372 |
| Total Investments ^(O) | | | | \$ 298,216 | \$ 257,109 |

- (A) Certain of the securities listed in the chart above are issued by affiliate(s) of the indicated portfolio company.
- (B) Percentage represents interest rates in effect at September 30, 2010, and due date represents the contractual maturity date.
- (C) LOT of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt.
- (D) LOT of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt, however, the debt is also junior to another LOT.
- (E) Fair value was primarily based on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc.
- (F) Security valued based on the indicative bid price on or near September 30, 2010, offered by the respective syndication agent's trading desk or secondary desk.
- (G) 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.
- (H) Security is non-income producing.
- (I) Lindmark's loan agreement was amended in March 2009 to provide that any unpaid current interest accrues as a success fee. The success fee is not recorded until paid (see Note 2, Summary of Significant Accounting Policies *Interest Income Recognition*).

- (J) BERTL, KMBQ, Lindmark, LocalTel, SCI Cable and U.S. Healthcare are currently past due on interest payments and are on non-accrual.
- (K) BERTL's interest includes paid in kind interest. Please refer to Note 2 Summary of Significant Accounting Policies. Subsequent to September 30, 2010, BERTL's line of credit maturity date was extended to October 2011.
- (L) Subsequent to September 30, 2010, Pinnacle's line of credit maturity date was extended to January 2011.
- (M) Subsequent to September 30, 2010, Precision's equipment note and senior term loan maturity dates were extended to November 2010.
- (N) Subsequent to September 30, 2010, Reliable's line of credit limit was reduced to \$3,500, the interest rate floor was increased to 10.0% and the maturity date was extended to January 2011.
- (O) Aggregate gross unrealized depreciation for federal income tax purposes is \$1,919; aggregate gross unrealized appreciation for federal income tax purposes is \$43,023. Net unrealized depreciation is \$41,104 based on a tax cost of \$298,186.
- (P) Debt security is on non-accrual status.

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

GLADSTONE CAPITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2011
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA AND AS
OTHERWISE INDICATED)

NOTE 1. ORGANIZATION

Gladstone Capital Corporation (the Company) was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. The Company is a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, the Company has elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). The Company's investment objective is to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, senior subordinated notes and junior subordinated notes, of established private businesses that are substantially owned by leveraged buyout funds, individual investors or are family-owned businesses, with a particular focus on senior notes. In addition, the Company may acquire from others existing loans that meet this profile.

Gladstone Business Loan, LLC (Business Loan), a wholly-owned subsidiary of the Company, was established on February 3, 2003 for the purpose of holding the Company's portfolio of loan investments. Gladstone Capital Advisers, Inc. established on December 30, 2003, is also a wholly-owned subsidiary of the Company.

Gladstone Financial Corporation (Gladstone Financial), a wholly-owned subsidiary of the Company, was established on November 21, 2006 for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone Financial (previously known as Gladstone SSBIC Corporation) acquired this license in February 2007. The license enables the Company, through this subsidiary, to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies.

The financial statements of all of the aforementioned subsidiaries are consolidated with those of the Company. The Company is externally managed by Gladstone Management Corporation (the Adviser), an affiliate of the Company.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933, as amended (the Securities Act). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Under Article 6 of Regulation S-X under the Securities Act, and the authoritative accounting guidance provided by the AICPA Audit and Accounting Guide for Investment Companies, the Company is not permitted to consolidate any portfolio company investments, including those in which the Company has a controlling interest. In the opinion of the Company's management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the nine months ended June 30, 2011 are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended September 30, 2010, as filed with the Securities and Exchange Commission (the SEC) on November 22, 2010.

The fiscal year-end *Condensed Consolidated Statement of Assets and Liabilities* was derived from audited financial statements but does not include all disclosures required by GAAP.

Reclassifications

Certain amounts in the prior period's financial statements have been reclassified to conform to the presentation for the period ended June 30, 2011 with no effect to net increase in net assets resulting from operations.

Investment Valuat