

GLADSTONE CAPITAL CORP
Form 10-Q
May 04, 2010
[Table of Contents](#)

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 MARCH 31, 2010

- 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

MCLEAN, VIRGINIA 22102

Edgar Filing: GLADSTONE CAPITAL CORP - Form 10-Q

(Address of principal executive office)

(703) 287-5800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company .

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares of the issuer's Common Stock, \$0.001 par value, outstanding as of May 4, 2010 was 21,039,242.

Table of Contents

GLADSTONE CAPITAL CORPORATION

TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	<u>Condensed Consolidated Statements of Assets and Liabilities as of March 31, 2010 and September 30, 2009</u>	2
	<u>Condensed Consolidated Schedules of Investments as of March 31, 2010 and September 30, 2009</u>	3
	<u>Condensed Consolidated Statements of Operations for the three and six months ended March 31, 2010 and 2009</u>	11
	<u>Condensed Consolidated Statements of Changes in Net Assets for the six months ended March 31, 2010 and 2009</u>	12
	<u>Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2010 and 2009</u>	13
	<u>Financial Highlights for the three and six months ended March 31, 2010 and 2009</u>	14
	<u>Notes to Condensed Consolidated Financial Statements</u>	16
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations Overview</u>	32
	<u>Results of Operations</u>	35
	<u>Liquidity and Capital Resources</u>	43
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	53
<u>Item 4.</u>	<u>Controls and Procedures</u>	54
PART II.	OTHER INFORMATION	
<u>Item 1.</u>	<u>Legal Proceedings</u>	55
<u>Item 1A.</u>	<u>Risk Factors</u>	55
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	57
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	57
<u>Item 5.</u>	<u>Other Information</u>	58
<u>Item 6.</u>	<u>Exhibits</u>	58
<u>SIGNATURES</u>		58

Table of Contents

GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	March 31, 2010	September 30, 2009
ASSETS		
Non-Control/Non-Affiliate investments (Cost 3/31/10: \$274,627; 9/30/09: \$312,043)	\$ 256,227	\$ 286,997
Control investments (Cost 3/31/10: \$55,467; 9/30/09: \$52,350)	35,524	33,972
Total investments at fair value (Cost 3/31/10: \$330,094; 9/30/09: \$364,393)	291,751	320,969
Cash	4,261	5,276
Interest receivable investments in debt securities	2,387	3,048
Interest receivable employees (Refer to Note 4)	91	85
Due from custodian	10,571	3,059
Due from Adviser (Refer to Note 4)		69
Deferred financing fees	1,610	1,230
Prepaid assets	288	341
Receivable from portfolio companies, less allowance for uncollectible receivables of \$177 and \$0 at March 31, 2010 and September 30, 2009, respectively	367	1,528
Other assets	312	305
TOTAL ASSETS	\$ 311,638	\$ 335,910
LIABILITIES		
Accounts payable	\$	\$ 67
Interest payable	244	378
Fee due to Administrator (Refer to Note 4)	176	216
Due to Adviser (Refer to Note 4)	2,365	834
Borrowings under line of credit at fair value (Cost 3/31/10: \$53,000; 9/30/09: \$83,000)	53,000	83,350
Accrued expenses and deferred liabilities	1,203	1,800
Funds held in escrow	101	189
TOTAL LIABILITIES	57,089	86,834
NET ASSETS	\$ 254,549	\$ 249,076
ANALYSIS OF NET ASSETS		
Common stock, \$0.001 par value, 50,000,000 shares authorized and 21,039,242 and 21,087,574 shares issued and outstanding at March 31, 2010 and September 30, 2009, respectively	\$ 21	\$ 21
Capital in excess of par value	327,709	328,203
Notes receivable employees (Refer to Note 4)	(8,503)	(9,019)
Net unrealized depreciation on investments	(38,343)	(43,425)
Net unrealized appreciation on borrowings under line of credit		(350)
Accumulated Net Realized Losses	(26,335)	(26,354)
TOTAL NET ASSETS	\$ 254,549	\$ 249,076
NET ASSETS PER SHARE	\$ 12.10	\$ 11.81

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

Table of Contents

GLADSTONE CAPITAL CORPORATION
CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF MARCH 31, 2010
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS				
<i>Non-syndicated Loans:</i>				
Access Television Network, Inc.	Service-cable airtime (infomercials)	Senior Term Debt (14.5%, Due 12/2009) (5) (11)	\$ 963	\$ 794
Allison Publications, LLC	Service-publisher of consumer oriented magazines	Senior Term Debt (10.5%, Due 9/2012) (5) Senior Term Debt (13.0%, Due 12/2010) (5)	9,399 195	8,779 191
Anitox Acquisition Company	Manufacturing-preservatives for animal feed	Line of Credit, \$3,000 available (4.5%, Due 1/2011) (5) Senior Term Debt (8.5%, Due 1/2012) (5) Senior Term Debt (10.5%, Due 1/2012) (3) (5)	1,950 2,603 3,688	1,950 2,596 3,660
BAS Broadcasting	Service-radio station operator	Senior Term Debt (11.5%, Due 7/2013) (5)	7,435	6,766
Chinese Yellow Pages Company	Service-publisher of Chinese language directories	Line of Credit, \$700 available (7.3%, Due 9/2010) (5) Senior Term Debt (7.3%, Due 9/2010) (5)	450 425	432 407
CMI Acquisition, LLC	Service-recycling	Senior Subordinated Term Debt (10.3%, Due 11/2012) (5)	6,240	6,061
Doe & Ingalls Management LLC	Distributor-specialty chemicals	Senior Term Debt (8.0%, Due 11/2010) (5) Senior Term Debt (9.0%, Due 11/2010) (3) (5)	1,900 4,343	1,881 4,299
Finn Corporation	Manufacturing-landscape equipment	Common Stock Warrants (7) (8)	37	651
GFRC Holdings LLC	Manufacturing-glass-fiber reinforced concrete	Senior Term Debt (9.0%, Due 12/2012) (5) Senior Subordinated Term Debt (11.5%, Due 12/2012) (3) (5)	6,405 6,649	6,333 6,516
Global Materials Technologies, Inc.	Manufacturing-steel wool products and metal fibers	Senior Term Debt (14.0%, Due 6/2010) (3) (5)	4,310	3,232

Edgar Filing: GLADSTONE CAPITAL CORP - Form 10-Q

Heartland Communications Group	Service-radio station operator	Senior Term Debt (10.0%, Due 5/2011) (5)	4,559	2,272
Interfilm Holdings, Inc.	Service-slitter and distributor of plastic films	Senior Term Debt (12.3%, Due 10/2012) (5)	4,924	4,796
International Junior Golf Training Acquisition Company	Service-golf training	Line of Credit, \$1,500 available (9.0%, Due 5/2010) (5) (13)	1,500	1,487
		Senior Term Debt (8.5%, Due 5/2012) (5)	1,854	1,823
		Senior Term Debt (10.5%, Due 5/2012) (3) (5)	2,500	2,438
KMBQ Corporation	Service-AM/FM radio broadcaster	Line of Credit, \$200 available (11.0%, Due 7/2010) (5)	162	32
		Senior Term Debt (11.0%, Due 7/2010) (5)	1,921	384
Legend Communications of Wyoming LLC	Service-operator of radio stations	Line of Credit, \$500 available (12.0%, Due 6/2011) (5)	497	430
		Senior Term Debt (12.0%, Due 6/2013) (5)	9,373	8,107
Newhall Holdings, Inc.	Service-distributor of personal care products and supplements	Line of Credit, \$1,350 available (5.0%, Due 5/2010) (5)	1,000	934
		Senior Term Debt (5) (5.0%, Due 5/2012) (5)	3,870	3,614
		Senior Term Debt (5.0%, Due 5/2012) (3) (5)	4,648	4,294
		Preferred Equity (7) (8) Common Stock (7) (8)		
Northern Contours, Inc.	Manufacturing-veneer and laminate components	Senior Subordinated Term Debt (13.0%, Due 9/2012) (5)	6,388	5,781

Table of Contents

GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF MARCH 31, 2010

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
Northstar Broadband, LLC	Service-cable TV franchise owner	Senior Term Debt (0.7%, Due 12/2012) (5)	\$ 143	\$ 120
Pinnacle Treatment Centers, Inc.	Service-Addiction treatment centers	Senior Term Debt (10.5%, Due 12/2011) (5)	2,350	2,332
		Senior Term Debt (10.5%, Due 12/2011) (3) (5)	7,500	7,359
Precision Acquisition Group Holdings, Inc.	Manufacturing-consumable components for the aluminum industry	Equipment Note (13.0%, Due 10/2010) (5)	1,000	975
		Senior Term Debt (13.0%, Due 10/2010) (5)	4,125	4,022
		Senior Term Debt (13.0%, Due 10/2010) (3) (5)	4,053	3,952
PROFITSystems Acquisition Co.	Service-design and develop ERP software	Line of Credit, \$350 available (4.5%, Due 7/2010)		
		Senior Term Debt (8.5%, Due 7/2011) (5)	1,300	1,216
		Senior Term Debt (10.5%, Due 7/2011) (3) (5)	2,900	2,686
RCS Management Holding Co.	Service-healthcare supplies	Senior Term Debt (8.5%, Due 1/2011) (3) (5)	2,187	2,179
		Senior Term Debt (10.5%, Due 1/2011) (4) (5)	3,060	3,037
Reliable Biopharmaceutical Holdings, Inc.	Manufacturing-pharmaceutical and biochemical intermediates	Line of Credit, \$5,000 available (9.0%, Due 10/2010) (5)	700	698
		Mortgage Note (9.5%, Due 10/2014) (5)	7,293	7,284
		Senior Term Debt (9.0%, Due 10/2012) (5)	1,305	1,302
		Senior Term Debt (11.0%, Due 10/2012) (3) (5)	11,753	11,635
		Senior Subordinated Term Debt (12.0%, Due 10/2013) (5)	6,000	5,873
	Common Stock Warrants (7) (8)	209		
Saunders & Associates	Manufacturing-equipment provider for frequency control devices	Senior Term Debt (9.8%, Due 5/2013) (5)	9,558	9,534
SCI Cable, Inc.	Service-cable, internet, voice provider	Senior Term Debt (non-accrual, Due 10/2008) (5) (10) (13)	3,031	379
Sunburst Media - Louisiana, LLC	Service-radio station operator	Senior Term Debt (10.5%, Due 6/2011) (5)	6,401	5,961

Edgar Filing: GLADSTONE CAPITAL CORP - Form 10-Q

Sunshine Media Holdings	Service-publisher regional B2B trade magazines	Line of credit, \$2,000 available (9.0%, Due 2/2011) (5)	799	751
		Senior Term Debt (10.5%, Due 5/2012) (5)	16,948	15,931
		Senior Term Debt (13.3%, Due 5/2012) (3) (5)	10,700	9,898
Thibaut Acquisition Co.	Service-design and disribute wall covering	Line of Credit, \$1,000 available (9.0%, Due 1/2011) (5)	1,000	957
		Senior Term Debt (8.5%, Due 1/2011) (5)	1,413	1,352
		Senior Term Debt (12.0%, Due 1/2011) (3) (5)	3,000	2,839
VantaCore	Service-acquisition of aggregate quarries	Senior Subordinated Term Debt (12.0%, Due 8/2013) (14)	13,590	13,590
Viapack, Inc.	Manufacturing-polyethylene film	Senior Real Estate Term Debt (10.0%, Due 3/2011) (5)	725	719
		Senior Term Debt (13.0%, Due 3/2011) (3) (5)	4,058	4,022
Westlake Hardware, Inc.	Retail-hardware and variety	Senior Subordinated Term Debt (10.3%, Due 1/2011) (5)	15,000	14,700
		Senior Subordinated Term Debt (11.5%, Due 1/2011) (5)	10,000	9,700
Winchester Electronics	Manufacturing-high bandwidth connectors and cables	Senior Term Debt (5.2%, Due 12/2010) (5)	1,250	1,244
		Senior Term Debt (5.7%, Due 5/2013) (5)	1,686	1,648
		Senior Subordinated Term Debt (14.0%, Due 6/2013) (5)	9,900	9,529
<i>Subtotal Non-syndicated loans</i>			265,125	248,364

Table of Contents

GLADSTONE CAPITAL CORPORATION
CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
AS OF MARCH 31, 2010
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
Syndicated Loans:				
Puerto Rico Cable Acquisition Company, Inc.	Service-telecommunications	Senior Subordinated Term Debt (7.8%, Due 1/2012) (6)	\$ 7,167	\$ 6,284
WP Evenflo Group Holdings Inc.	Manufacturing-infant and juvenile products	Senior Term Debt (8.0%, Due 2/2013) (6)	1,891	1,579
		Senior Preferred Equity (7) (8)	333	
		Junior Preferred Equity (7) (8)	111	
		Common Stock (7) (8)		
<i>Subtotal - Syndicated loans</i>			9,502	7,863
Total Non-Control/Non-Affiliate Investments			\$ 274,627	\$ 256,227
CONTROL INVESTMENTS				
BERTL, Inc.	Service-web-based evaluator of digital imaging products	Line of Credit, \$1,023 available (non-accrual, Due 10/2010) (7)(10)(12) Common Stock (7) (8)	\$ 996 423	\$ 232
Clinton Holdings, LLC	Distribution-aluminum sheets and stainless steel	Senior Subordinated Term Debt (12.0%, Due 1/2013) (5) Common Stock Warrants (7) (8)	17,140 109	12,855
Defiance Integrated Technologies, Inc.	Manufacturing-trucking parts	Senior Term Debt (11.0%, Due 4/2013) (3) (5) Common Stock (7) (8) Guaranty (\$250)	8,324 1	8,325
Lindmark Acquisition, LLC	Service-advertising	Senior Subordinated Term Debt (non-accrual, Due 10/2012) (5) (9) (10)	10,000	8,825
		Senior Subordinated Term Debt (non-accrual, Due 12/2010) (5) (9) (10)	2,000	1,765
		Senior Subordinated Term Debt (non-accrual, Due Upon Demand) (5)(9)(10)	1,788	1,274
		Common Stock (7) (8)	1	
LYP Holdings Corp.	Service-yellow pages publishing	Line of credit, \$1,850 available (10.0%, Due 12/2010) (7)	1,698	1,698
		Senior Term Debt (12.5%, Due 2/2012) (7)	325	325
		Line of Credit, \$3,000 available (non-accrual, Due 6/2010) (7) (10)	1,170 2,688	64

Edgar Filing: GLADSTONE CAPITAL CORP - Form 10-Q

		Senior Term Debt (non-accrual, Due 6/2011) (7) (10)		
		Senior Term Debt (non-accrual, Due 6/2011) (3) (7) (10)	2,750	
		Common Stock Warrants (7) (8)		
U.S. Healthcare Communications, Inc.	Service-magazine publisher/operator	Line of credit, \$400 available (non-accrual, Due 12/2010) (7) (10)	269	161
		Line of credit, \$450 available (non-accrual, Due 12/2010) (7) (10)	450	
		Common Stock (7) (8)	2,470	
Western Directories, Inc.	Service-directory publisher	Line of credit, \$1,280 available (non-accrual, Due 12/2010) (7) (10)	1,280	
		Preferred Stock (7) (8)	1,584	
		Common Stock (7) (8)	1	

Total Control Investments