GLADSTONE CAPITAL CORP
Form 10-Q
January 29, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED DECEMBER 31, 2012

¨ **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 x 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	x
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 x.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. The number of shares of the issuer s common stock, $0.001 par value per share, outstanding as of January 28, 2013 was 21,000,160.

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	December 31, 2012	September 30, 2012
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of **$268,204** and $268,500, respectively)	**$ 236,753**	$ 237,135
Control investments (Cost of **$88,485** and $96,521, respectively)	**33,760**	36,825
Total investments at fair value (Cost of **$356,689** and $365,021, respectively)	**270,513**	273,960
Cash and cash equivalents	**11,555**	10,155
Restricted cash	**1,488**	507
Interest receivable	**2,664**	2,696
Due from custodian	**2,865**	2,177
Deferred financing costs	**2,700**	2,957
Other assets	**696**	950
TOTAL ASSETS	**$ 292,481**	$ 293,402
LIABILITIES		
Borrowings at fair value (Cost of **$55,800** and $58,800, respectively)	**$ 57,781**	$ 62,451
Mandatorily redeemable preferred stock, $0.001 par value per share, $25 liquidation preference per share; **4,000,000** shares authorized; **1,539,882** shares issued and outstanding at December 31 and September 30, 2012, respectively	**38,497**	38,497
Accounts payable and accrued expenses	**395**	475
Interest payable	**173**	185
Fees due to Adviser[(A)]	**1,784**	1,830
Fee due to Administrator[(A)]	**150**	174
Other liabilities	**1,181**	1,226
TOTAL LIABILITIES	**$ 99,961**	$ 104,838
Commitments and contingencies[(B)]		
NET ASSETS	**$ 192,520**	$ 188,564
ANALYSIS OF NET ASSETS		
Common stock, $0.001 par value per share, **46,000,000** shares authorized; **21,000,160** shares issued and outstanding at December 31 and September 30, 2012, respectively	**$ 21**	$ 21
Capital in excess of par value	**324,714**	324,714
Notes receivable from employees[(A)]	**(3,024)**	(3,024)
Cumulative net unrealized depreciation on investments	**(86,176)**	(91,061)
Cumulative net unrealized appreciation on borrowings	**(1,981)**	(3,651)
Overdistributed net investment income	**(474)**	(474)
Accumulated net realized losses	**(40,560)**	(37,961)
TOTAL NET ASSETS	**$ 192,520**	$ 188,564

NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD	**$ 9.17**	$ 8.98

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

(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
INVESTMENT INCOME		
Interest income		
Non-Control/Non-Affiliate investments	**$ 7,314**	$ 7,889
Control investments	**812**	1,358
Cash and cash equivalents	**1**	6
Notes receivable from employees[(A)]	**53**	67
Total interest income	**8,180**	9,320
Other income		
Non-Control/Non-Affiliate investments	**1,648**	
Total investment income	**9,828**	9,320
EXPENSES		
Base management fee[(A)]	**1,432**	1,556
Incentive fee[(A)]	**1,215**	1,035
Administration fee[(A)]	**150**	195
Interest expense on borrowings	**856**	1,139
Dividend expense on mandatorily redeemable preferred stock	**686**	434
Amortization of deferred financing fees	**256**	457
Professional fees	**258**	292
Other general and administrative expenses	**317**	244
Expenses before credits from Adviser	**5,170**	5,352
Credits to fees from Adviser[(A)]	**(201)**	(450)
Total expenses net of credits	**4,969**	4,902
NET INVESTMENT INCOME	**4,859**	4,418
REALIZED AND UNREALIZED GAIN (LOSS)		
Net realized loss:		
Non-Control/Non-Affiliate investments	**(641)**	(8,249)
Control investments	**(2,407)**	
Total net realized loss	**(3,048)**	(8,249)
Net unrealized (depreciation) appreciation:		
Non-Control/Non-Affiliate investments	**(86)**	6,618
Control investments	**4,971**	(4,375)
Borrowings	**1,670**	299

Total net unrealized appreciation		**6,555**		2,542
Net realized and unrealized gain (loss)		**3,507**		(5,707)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**8,366**	$	(1,289)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE				
Basic and diluted	**$**	**0.40**	$	(0.06)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING				
Basic and diluted		**21,000,160**		21,038,590

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

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
OPERATIONS:		
Net investment income	**$ 4,859**	$ 4,418
Net realized loss on investments	**(3,048)**	(8,249)
Net unrealized appreciation of investments	**4,885**	2,243
Net unrealized depreciation of borrowings	**1,670**	299
Net increase (decrease) in net assets resulting from operations	**8,366**	(1,289)
DISTRIBUTIONS:		
Distributions to common stockholders	**(4,410)**	(4,418)
CAPITAL TRANSACTIONS:		
Stock redemption for repayment of principal on employee notes[A]		(155)
Repayment of principal on employee notes[A]		158
Net increase in net assets from capital transactions		3
NET INCREASE (DECREASE) IN NET ASSETS	**3,956**	(5,704)
NET ASSETS, BEGINNING OF PERIOD	**188,564**	213,720
NET ASSETS, END OF PERIOD	**$ 192,520**	$ 208,016

[A] Refer to Note 4 *Related Party Transactions* for additional information.

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets resulting from operations	**$ 8,366**	$ (1,289)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities:		
Purchase of investments	**(51,818)**	(11,251)
Principal repayments on investments	**50,596**	10,780
Proceeds from sale of investments	**5,918**	4,489
Net change in premiums, discounts and amortization	**474**	(74)
Net realized loss on investments	**3,162**	8,400
Net unrealized appreciation on investments	**(4,885)**	(2,243)
Net unrealized depreciation on borrowings	**(1,670)**	(299)
Increase in restricted cash	**(981)**	(1,225)
Amortization of deferred financing fees	**257**	457
Decrease in interest receivable	**32**	132
(Increase) decrease in due from custodian	**(688)**	877
Decrease in other assets	**254**	273
(Decrease) increase in accounts payable and accrued expenses	**(80)**	11
Decrease in interest payable	**(12)**	(84)
Decrease in fees due to Adviser[(A)]	**(46)**	(346)
(Decrease) increase in fee due to Administrator[(A)]	**(24)**	1
(Decrease) increase in other liabilities	**(45)**	917
Net cash provided by operating activities	**8,810**	9,526
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	**44,000**	11,000
Repayments on borrowings	**(47,000)**	(53,500)
Proceeds from issuance of mandatorily redeemable preferred stock		38,497
Deferred financing fees		(2,068)
Distributions paid to common stockholders	**(4,410)**	(4,418)
Receipt of principal on employee notes		3
Net cash used in financing activities	**(7,410)**	(10,486)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,400**	(960)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**10,155**	6,732
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 11,555**	$ 5,772
NON-CASH ACTIVITIES[(B)]	**$**	$ 155

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

(B) Redemption of 20,000 shares of common stock as consideration to reduce the principal balance of an employee loan by $155. Refer to Note 4 *Related Party Transactions* for additional information.

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

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

AS OF DECEMBER 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS:					
Non-syndicated Loans:					
AG Transportation Holdings, LLC	Cargo Transport	Senior Subordinated Term Debt (13.3%, Due 3/2018) [(I)]	$ 13,000	$ 12,757	$ 12,756
		Member Profit Participation (20% ownership) [(I) (G)]		1,000	1,000
		Profit Participation Warrants (7% ownership) [(I) (G)]		244	244
				14,001	14,000
Allen Edmonds Shoe Corporation	Personal and non-durable consumer products	Senior Subordinated Term Debt (11.3%, Due 12/2015) [(I)]	19,483	19,483	19,483
Allison Publications, LLC	Printing and publishing	Senior Term Debt (10.5% and 2.0% PIK, Due 9/2013) [(D)]	7,464	7,464	7,165
BAS Broadcasting	Broadcasting and entertainment	Senior Term Debt (11.5%, Due 7/2013) [(D)]	7,465	7,465	1,493
Chinese Yellow Pages Company	Printing and publishing	Line of Credit, $72 available (7.3%, Due 11/2013) [(D)]	378	378	227
CMI Acquisition, LLC	Mining, steel, iron and non-precious metals	Senior Subordinated Term Debt (14.0%, Due 12/2016) [(D)]	14,265	14,265	13,694
FedCap Partners, LLC	Private equity fund	Class A Membership Units (80 units (6.7% ownership)) [(G) (J)]		2,000	2,963
Francis Drilling Fluids, Ltd.	Oil and gas	Senior Subordinated Term Debt (12.0%, Due 11/2017) [(D)]	15,000	15,000	14,925
		Preferred Units (999 units) [(F) (G)]		999	548
		Common Units (999 units) [(F) G)]		1	
				16,000	15,473
GFRC Holdings, LLC	Buildings and real estate	Senior Term Debt (10.5%, Due 12/2013) [(D)]	5,024	5,024	2,261
		Senior Subordinated Term Debt (13.0%, Due 12/2013) [(D)]	6,598	6,598	2,969
				11,622	5,230
Heartland Communications Group	Broadcasting and entertainment	Line of Credit, $0 available (5.0%, Due 3/2013) [(D)]	100	100	42

		Line of Credit, $55 available (10.0%, Due 3/2013) (D)	45	45	19
		Senior Term Debt (5.0%, Due 3/2013) (D)	4,343	4,338	1,824
		Common Stock Warrants (8.8% ownership) (F) (G)		66	
				4,549	1,885
International Junior Golf Training Acquisition Company	Leisure, amusement, motion pictures and entertainment	Line of Credit, $0 available (11.0%, Due 5/2014) (D)	2,250	2,250	1,508
		Senior Term Debt (10.5%, Due 5/2014) (D)	461	461	309
		Senior Term Debt (12.5%, Due 5/2014) (C)(D)	2,500	2,500	1,675
				5,211	3,492
Legend Communications of Wyoming, LLC	Broadcasting and entertainment	Senior Term Debt (12.0%, Due 6/2013) (D)	8,390	8,390	3,566
North American Aircraft Services, LLC	Aerospace and defense	Line of Credit, $500 available (6.5%, Due 1/2013) (D)	1,500	1,500	1,496
		Senior Term Debt (7.5%, Due 8/2016) (D)	4,014	4,014	4,004
		Senior Subordinated Term Debt (11.8%, Due 8/2016) (D)	4,750	4,750	4,738
		Senior Subordinated Term Debt (12.5%, Due 8/2016) (D)	2,820	2,820	2,813
		Common Stock Warrants (35,000 shares) (F) (G)		350	361
				13,434	13,412
Northstar Broadband, LLC	Broadcasting and entertainment	Senior Term Debt (0.7%, Due 12/2012) (D) (K)	5	5	5
Ohana Media Group	Broadcasting and entertainment	Senior Term Debt (10.0%, Due 10/2016) (D)	1,570	1,570	1,492
POP Radio, LLC	Broadcasting and entertainment	Senior Term Debt (11.8%, Due 5/2017) (D)	11,356	11,356	11,356
		Junior Subordinated Term Debt (11.0% PIK, Due 11/2017) (D)	500	430	499
		Participation Unit (2.4% ownership) (F)(G)		75	
				11,861	11,855
Precision Acquisition Group Holdings, Inc.	Machinery	Equipment Note (13.0%, Due 3/2013) (D)	1,000	1,000	823
		Senior Term Debt (13.0%, Due 3/2013) (D)	4,125	4,125	3,393
		Senior Term Debt (13.0%, Due 3/2013) (C) (D)	4,053	4,053	3,334
				9,178	7,550
PROFIT Systems Acquisition Co.	Electronics	Senior Term Debt (10.5%, Due 7/2014) (C) (D)	2,400	2,400	2,376

Reliable Biopharmaceutical Holdings, Inc.	Healthcare, education and childcare	Line of Credit, $200 available (9.0%, Due 6/2014) (D)	3,800	3,800	3,477
		Mortgage Note (9.5%, Due 12/2014) (D)	7,049	7,048	6,449
		Senior Term Debt (12.0%, Due 12/2014) (C) (D)	11,422	11,422	10,451
		Senior Subordinated Term Debt (12.5%, Due 12/2014) (D)	6,000	6,000	5,490
		Common Stock Warrants (764 shares) (F) (G)		209	
				28,479	25,867

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF DECEMBER 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
Saunders & Associates	Electronics	Line of Credit, $0 available (11.3%, Due 5/2013) [(D)]	$ 917	$ 917	$ 797
		Senior Term Debt (11.3%, Due 5/2013) [(D)]	8,947	8,947	7,784
				9,864	8,581
Sunburst Media - Louisiana, LLC	Broadcasting and entertainment	Senior Term Debt (10.5%, Due 11/2013) [(D)]	6,000	6,000	2,205
Thibaut Acquisition Co.	Home and office furnishings, housewares and durable consumer products	Line of Credit, $850 available (9.0%, Due 1/2014) [(D)]	150	150	150
		Senior Term Debt (12.0%, Due 1/2014) [(C) (D)]	2,894	2,894	2,890
				3,044	3,040
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Senior Term Debt (7.5%, Due 4/2016) [(D)]	1,450	1,450	1,428
		Senior Term Debt (12.5%, Due 4/2016) [(D)]	4,000	4,000	3,940
		Common Stock Warrants (77,287 shares) [(F) (G)]		350	343
				5,800	5,711
Subtotal Non-syndicated loans				$ 202,463	$ 170,765
Syndicated Loans:					
Airvana Network Solutions, Inc.	Telecommunications	Senior Term Debt (10.0%, Due 3/2015) [(E) (K)]	$ 405	$ 391	$ 405
Allied Security Holdings, LLC	Personal, food and miscellaneous services	Senior Subordinated Term Debt (9.0%, Due 2/2018) [(E)]	1,000	992	1,000
Ameriqual Group, LLC	Beverage, food and tobacco	Senior Term Debt (9.0%, Due 3/2016) [(E)]	7,388	7,283	7,240
Applied Systems, Inc.	Insurance	Senior Subordinated Term Debt (9.5%, Due 6/2017) [(E)]	1,000	992	1,005

Ascend Learning, LLC	Healthcare, education and childcare	Senior Subordinated Term Debt (11.5%, Due 12/2017) (E)	1,000	976	997
Autoparts Holdings Limited	Automobile	Senior Term Debt (10.5%, Due 1/2018) (E)	1,000	996	950
First American Payment Systems, L.P.	Finance	Senior Subordinated Term Debt (10.8%, Due 4/2019) (E)	4,500	4,466	4,455
Hubbard Radio, LLC	Broadcasting and entertainment	Senior Subordinated Term Debt (8.8%, Due 4/2018) (E)	500	496	508
John Henry Holdings, Inc.	Containers, packaging and glass	Senior Subordinated Term Debt (10.3%, Due 5/2019) (E)	5,000	4,875	4,875
National Surgical Hospitals, Inc.	Healthcare, education and childcare	Senior Term Debt (8.3%, Due 2/2017) (E)	1,622	1,597	1,581
PLATO Learning, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (11.3%, Due 5/2019) (E)	5,000	4,906	4,850
Sensus USA, Inc.	Electronics	Senior Term Debt (8.5%, Due 5/2018) (E)	500	496	500
Springs Window Fashions, LLC	Personal and non-durable consumer products	Senior Term Debt (11.3%, Due 11/2017) (E)	7,000	6,858	6,825
SRAM, LLC	Leisure, amusement, motion pictures and entertainment	Senior Term Debt (8.5%, Due 12/2018) (E)	2,500	2,479	2,525
SumTotal Systems, Inc.	Electronics	Senior Subordinated Term Debt (10.3%, Due 5/2019) (E)	4,000	3,921	3,940
Targus Group International, Inc.	Textiles and leather	Senior Term Debt (11.0%, Due 5/2016) (E)	9,850	9,703	9,764
Vision Solutions, Inc.	Electronics	Senior Term Debt (9.5%, Due 7/2017) (E)	11,000	10,929	10,835
Wall Street Systems Holdings, Inc.	Electronics	Senior Term Debt (9.0%, Due 6/2018) (E)	3,000	2,941	2,970
WP Evenflo Group Holdings, Inc.	Diversified/conglomerate manufacturing	Senior Preferred Equity (333 shares) (F) (G)		333	470
		Junior Preferred Equity (111 shares) (F) (G)		111	168
		Common Stock (1,874 shares) (F) (G)			125
				444	763
Subtotal - Syndicated loans				$ 65,741	$ 65,988
Total Non-Control/Non-Affiliate Investments (represented 87.5% of total investments at fair value)				**$ 268,204**	**$ 236,753**

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF DECEMBER 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
CONTROL INVESTMENTS:					
Defiance Integrated Technologies, Inc.	Automobile	Senior Term Debt (11.0%, Due 4/2013) [(C) (F)]	$ 7,105	$ 7,105	$ 7,105
		Common Stock (15,500 shares) [(F) (G)]		1	2,916
				7,106	10,021
Kansas Cable Holdings, Inc.	Broadcasting and entertainment	Line of Credit, $0 available (10.0%, Due 10/2012) [(D) (H) (L)]	975	966	5
		Senior Term Debt (10.0%, Due 10/2012) [(D) (H) (L)]	1,500	1,444	7
		Senior Term Debt (10.0%, Due 10/2012) [(D) (H) (L)]	1,039	1,000	5
		Common Stock (100 shares) [(F) (G)]			
				3,410	17
Lindmark Acquisition, LLC	Broadcasting and entertainment	Senior Subordinated Term Debt (11.0%, Due 10/2017)[(D)(H)]	10,000	10,000	500
		Senior Subordinated Term Debt (13.0%, Due 10/2017)[(D) (H)]	2,000	2,000	100
		Senior Subordinated Term Debt (13.0%, Due Upon Demand) [(D) (H)]	2,109	2,109	105
		Common Stock (100 shares) [(F) (G)]		317	
				14,426	705
LocalTel, LLC	Printing and publishing	Line of credit, $16 available (10.0%, Due 6/2013) [(F) (H)]	2,834	2,834	621
		Line of Credit, $1,830 available (4.7%, Due 6/2013) [(F) (H)]	1,170	1,170	
		Senior Term Debt (12.5%, Due 6/2013) [(F) (H)]	325	325	
		Senior Term Debt (8.5%, Due 6/2013) [(F) (H)]	2,688	2,688	
		Senior Term Debt (10.5%, Due 6/2013) [(C) (F) (H)]	2,750	2,750	

		Common Stock Warrants (4,000 shares) (F) (G)			
				9,767	621
Midwest Metal Distribution, Inc.	Mining, steel, iron and non-precious metals	Senior Subordinated Term Debt (12.0%, Due 7/2013) (D)	18,281	18,275	17,847
		Common Stock (501 shares) (F) (G)		138	
				18,413	17,847
Sunshine Media Holdings	Printing and publishing	Line of credit, $300 available (4.8%, Due 8/2014) (D) (H)	1,700	1,700	263
		Senior Term Debt (4.8%, Due 5/2016) (D) (H)	16,948	16,948	2,627
		Senior Term Debt (5.5%, Due 5/2016) (C) (D) (H)	10,700	10,700	1,659
		Junior Preferred Equity (15,270 shares) (F) (G)		5,275	
		Common Stock (1,867 shares) (F) (G)		740	
				35,363	4,549
Total Control Investments (represented 12.5% of total investments at fair value)				**$ 88,485**	**$ 33,760**
Total Investments				**$ 356,689**	**$ 270,513**

(A) Certain of the securities listed in the above schedule are issued by affiliate(s) of the indicated portfolio company.

(B) Percentages represent cash interest rates in effect at December 31, 2012, and due dates represent the contractual maturity date. If applicable, paid in kind (PIK) interest rates are noted separately from the cash interest rates.

(C) Last Out Tranche (LOT) of senior debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after the senior debt.

(D) Fair value was primarily based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc.

(E) Security valued based on the indicative bid price on or near December 31, 2012, 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. We also considered discounted cash flow methodologies.

(G) Security is non-income producing.

(H) Debt security is on non-accrual status.

(I) New proprietary portfolio investment valued at cost, as it was determined that the price paid during the three months ended December 31, 2012, best represents fair value as of December 31, 2012.

(J) There are certain limitations on our ability to transfer our units owned prior to dissolution of the entity, which must occur no later than May 3, 2020.

(K) Security was paid off, at par, subsequent to December 31, 2012, and was valued based on the payoff.

(L) Subsequent to December 31, 2012, maturity date was extended until March 31, 2013.

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

SEPTEMBER 30, 2012

(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.	Broadcasting and entertainment	Senior Term Debt (14.0%, Due 2/2011) (D) (H)	$ 903	$ 903	$
Allison Publications, LLC	Printing and publishing	Senior Term Debt (10.5%, Due 9/2013) (D)	7,864	7,864	7,510
BAS Broadcasting	Broadcasting and entertainment	Senior Term Debt (11.5%, Due 7/2013) (D)	7,465	7,465	1,866
Chinese Yellow Pages Company	Printing and publishing	Line of Credit, $12 available (7.3%, Due 11/2012) (D)	438	438	285
CMI Acquisition, LLC	Mining, steel, iron and non-precious metals	Senior Subordinated Term Debt (14.0%, Due 12/2016) (D)	14,265	14,265	13,766
FedCap Partners, LLC	Private equity fund	Class A Membership Units (80 units (6.7% ownership)) (G)(J)		2,000	2,964
Francis Drilling Fluids, Ltd.	Oil and gas	Senior Subordinated Term Debt (12.0%, Due 11/2017) (D)	15,000	15,000	14,906
		Preferred Units (999 units) (F) (G)		999	479
		Common Units (999 units) (F) (G)		1	
				16,000	15,385
GFRC Holdings, LLC	Buildings and real estate	Senior Term Debt (10.5%, Due 12/2013) (D)	5,124	5,124	2,587
		Senior Subordinated Term Debt (13.0%, Due 12/2013) (D)	6,598	6,598	3,332
				11,722	5,919
Heartland Communications Group	Broadcasting and entertainment	Line of Credit, $0 available (5.0%, Due 3/2013) (D)	100	100	40
		Line of Credit, $55 available (10.0%, Due 3/2013) (D)	45	45	18
		Senior Term Debt (5.0%, Due 3/2013) (D)	4,342	4,333	1,737
		Common Stock Warrants (8.8% ownership) (F) (G)		66	
				4,544	1,795

International Junior Golf Training Acquisition Company	Leisure, amusement, motion pictures and entertainment	Line of Credit, $225 available (11.0%, Due 5/2014) (D)	2,025	2,025	1,154
		Senior Term Debt (10.5%, Due 5/2014) (D)	461	461	263
		Senior Term Debt (12.5%, Due 5/2014) (C)(D)	2,500	2,500	1,425
				4,986	2,842
Legend Communications of Wyoming, LLC	Broadcasting and entertainment	Senior Term Debt (12.0%, Due 6/2013) (D)	8,661	8,661	4,547
North American Aircraft Services, LLC	Aerospace and defense	Line of Credit, $500 available (6.5%, Due 10/2012) (D)	1,500	1,500	1,489
		Senior Term Debt (7.5%, Due 8/2016) (D)	4,265	4,265	4,233
		Senior Subordinated Term Debt (11.8%, Due 8/2016) (D)	4,750	4,750	4,714
		Senior Subordinated Term Debt (12.5%, Due 8/2016) (D)	2,820	2,820	2,799
		Common Stock Warrants (35,000 shares) (F) (G)		350	399
				13,685	13,634
Northstar Broadband, LLC	Broadcasting and entertainment	Senior Term Debt (0.7%, Due 12/2012) (D)	20	18	20
Ohana Media Group	Broadcasting and entertainment	Senior Term Debt (10.0%, Due 10/2016) (D)	1,590	1,590	1,463
POP Radio, LLC	Broadcasting and entertainment	Senior Term Debt (11.8%, Due 5/2017) (D)	11,500	11,500	11,486
		Junior Subordinated Term Debt (11.0% PIK, Due 11/2017) (D)	500	428	498
		Participation Unit (2.4% ownership) (F)(G)		75	
				12,003	11,984
Precision Acquisition Group Holdings, Inc.	Machinery	Equipment Note (13.0%, Due 3/2013) (D)	1,000	1,000	830
		Senior Term Debt (13.0%, Due 3/2013) (D)	4,125	4,125	3,424
		Senior Term Debt (13.0%, Due 3/2013) (C) (D)	4,053	4,053	3,364
				9,178	7,618
PROFIT Systems Acquisition Co.	Electronics	Senior Term Debt (10.5%, Due 7/2014) (C) (D)	2,550	2,550	2,486
Reliable Biopharmaceutical Holdings, Inc.	Healthcare, education and childcare	Line of Credit, $1,100 available (9.0%, Due 1/2013) (D)	2,900	2,900	2,690
		Mortgage Note (9.5%, Due 12/2014) (D)	7,074	7,074	6,562
		Senior Term Debt (12.0%, Due 12/2014) (C) (D)	11,452	11,452	10,622
		Senior Subordinated Term Debt (12.5%, Due 12/2014) (D)	6,000	6,000	5,565
				209	

	Common Stock Warrants (764 shares) [(F) (G)]		
		27,635	25,439

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF SEPTEMBER 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS (Continued):					
Saunders & Associates	Electronics	Line of Credit, $0 available (11.3%, Due 5/2013) [(D)]	$ 917	$ 917	$ 807
		Senior Term Debt (11.3%, Due 5/2013) [(D)]	8,947	8,947	7,873
				9,864	8,680
Sunburst Media - Louisiana, LLC	Broadcasting and entertainment	Senior Term Debt (10.5%, Due 11/2013) [(D)]	6,000	6,000	2,250
Thibaut Acquisition Co.	Home and office furnishings, housewares and durable consumer products	Line of Credit, $650 available (9.0%, Due 1/2014) [(D)]	350	350	347
		Senior Term Debt (8.5%, Due 1/2014) [(I)]	25	25	25
		Senior Term Debt (12.0%, Due 1/2014) [(C) (D)]	3,000	3,000	2,985
				3,375	3,357
Westlake Hardware, Inc.	Retail store	Senior Subordinated Term Debt (12.3%, Due 1/2014) [(D)]	12,000	12,000	11,640
		Senior Subordinated Term Debt (13.5%, Due 1/2014) [(D)]	8,000	8,000	7,720
				20,000	19,360
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Senior Term Debt (7.5%, Due 4/2016) [(D)]	1,650	1,650	1,617
		Senior Term Debt (12.5%, Due 4/2016) [(D)]	4,000	4,000	3,920
		Common Stock Warrants (77,287 shares) [(F) (G)]		350	228
				6,000	5,765
Subtotal Non-syndicated loans				$ 190,746	$ 158,935
Syndicated Loans:					
Airvana Network Solutions, Inc.	Telecommunications	Senior Term Debt (10.0%, Due 3/2015) [(E)]	$ 1,071	$ 1,036	$ 1,070
Allied Security Holdings, LLC	Personal, food and miscellaneous services	Senior Subordinated Term Debt (9.0%, Due 2/2018) [(E)]	1,000	992	990

Ameriqual Group, LLC	Beverage, food and tobacco	Senior Term Debt (9.0%, Due 3/2016) (E)	7,406	7,295	7,258
Applied Systems, Inc.	Insurance	Senior Subordinated Term Debt (9.5%, Due 6/2017) (E)	1,000	992	995
Ascend Learning, LLC	Healthcare, education and childcare	Senior Subordinated Term Debt (11.5%, Due 12/2017) (E)	1,000	975	998
Autoparts Holdings Limited	Automobile	Senior Term Debt (10.5%, Due 1/2018) (E)	1,000	996	870
Blue Coat Systems, Inc.	Electronics	Senior Subordinated Term Debt (11.5%, Due 8/2018) (E) (I)	8,500	8,497	8,500
HGI Holding, Inc.	Personal and non-durable consumer products	Senior Term Debt (6.8%, Due 10/2016) (E)	1,566	1,539	1,574
Hubbard Radio, LLC	Broadcasting and entertainment	Senior Subordinated Term Debt (8.8%, Due 4/2018) (E)	500	496	508
Keypoint Government Solutions, Inc.	Personal, food and miscellaneous services	Senior Term Debt (10.0%, Due 12/2015) (E)	6,364	6,340	6,364
Mood Media Corporation	Electronics	Senior Term Debt (10.3%, Due 11/2018) (E) (I)	8,000	7,930	8,000
National Surgical Hospitals, Inc.	Healthcare, education and childcare	Senior Term Debt (8.3%, Due 2/2017) (E)	1,662	1,596	1,581
PLATO Learning, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (11.3%, Due 5/2019) (E)	5,000	4,903	4,850
Sensus USA, Inc.	Electronics	Senior Term Debt (8.5%, Due 5/2018) (E)	500	496	500
Springs Window Fashions, LLC	Personal and non-durable consumer products	Senior Term Debt (11.3%, Due 11/2017) (E)	7,000	6,853	6,825
SRAM, LLC	Leisure, amusement, motion pictures and entertainment	Senior Term Debt (8.5%, Due 12/2018) (E)	2,500	2,478	2,538
Targus Group International, Inc.	Textiles and leather	Senior Term Debt (11.0%, Due 5/2016) (E)	9,875	9,719	9,776
Vision Solutions, Inc.	Electronics	Senior Term Debt (9.5%, Due 7/2017) (E)	11,000	10,926	10,945
Wall Street Systems Holdings, Inc.	Electronics	Senior Term Debt (9.0%, Due 6/2018) (E) (I)	3,000	2,974	3,000
WP Evenflo Group Holdings, Inc.	Diversified/conglomerate manufacturing	Senior Term Debt (8.0%, Due 2/2013) (E)	277	277	274
		Senior Preferred Equity (333 shares) (F) (G)		333	460
		Junior Preferred Equity (111 shares) (F) (G)		111	164
		Common Stock (1,874 shares) (F) (G)			160
				721	1,058
Subtotal - Syndicated loans				$ 77,754	$ 78,200

Total Non-Control/Non-Affiliate Investments (represented 86.6% of total investments at fair value)	**$ 268,500**	**$ 237,135**

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

AS OF SEPTEMBER 30, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
CONTROL INVESTMENTS:					
Defiance Integrated Technologies, Inc.	Automobile	Senior Term Debt (11.0%, Due 4/2013) [C] [F]	$ 7,185	$ 7,185	$ 7,185
		Common Stock (15,500 shares) [F] [G]		1	4,113
				7,186	11,298
Kansas Cable Holdings, Inc.	Broadcasting and entertainment	Line of Credit, $56 available (10.0%, Due 10/2012) [D] [H]	919	910	8
		Senior Term Debt (10.0%, Due 10/2012) [D] [H]	1,500	1,444	13
		Senior Term Debt (10.0%, Due 10/2012) [D] [H]	1,039	1,000	9
		Common Stock (100 shares) [F] [G]			
				3,354	30
Lindmark Acquisition, LLC	Broadcasting and entertainment	Senior Subordinated Term Debt (11.0%, Due 10/2017)[D][H]	10,000	10,000	750
		Senior Subordinated Term Debt (13.0%, Due 10/2017)[D] [H]	2,000	2,000	150
		Senior Subordinated Term Debt (13.0%, Due Upon Demand) [D] [H]	1,909	1,909	143
		Common Stock (100 shares) [F] [G]		317	
				14,226	1,043
LocalTel, LLC	Printing and publishing	Line of credit, $226 available (10.0%, Due 6/2013) [F] [H]	2,624	2,624	548
		Line of Credit, $1,830 available (4.7%, Due 6/2013) [F] [H]	1,170	1,170	
		Senior Term Debt (12.5%, Due 6/2013) [F] [H]	325	325	
		Senior Term Debt (8.5%, Due 6/2013) [F] [H]	2,688	2,688	
		Senior Term Debt (10.5%, Due 6/2013) [C] [F] [H]	2,750	2,750	
		Common Stock Warrants (4,000 shares) [F] [G]			

				9,557	548
Midwest Metal Distribution, Inc.	Mining, steel, iron and non-precious metals	Senior Subordinated Term Debt (12.0%, Due 7/2013) (D)	18,281	18,272	17,824
		Common Stock (501 shares) (F) (G)		138	
				18,410	17,824
Sunshine Media Holdings	Printing and publishing	Line of credit, $200 available (4.8%, Due 8/2014) (D) (H)	1,800	1,800	270
		Senior Term Debt (4.8%, Due 5/2016) (D) (H)	16,948	16,948	2,542
		Senior Term Debt (5.5%, Due 5/2016) (C) (D) (H)	10,700	10,700	1,605
		Junior Preferred Equity (15,270 shares) (F) (G)		5,275	
		Common Stock (1,867 shares) (F) (G)		740	
				35,463	4,417
Viapack, Inc.	Chemicals, plastics and rubber	Line of Credit, $0 available (6.5%, Due 3/2013) (D)	3,800	3,800	760
		Senior Real Estate Term Debt (5.0%, Due 3/2014) (D)	600	600	120
		Senior Term Debt (6.2%, Due 3/2014) (C) (D) (H)	3,925	3,925	785
		Preferred Equity (100 shares) (F) (G)			
		Guarantee ($300)			
				8,325	1,665
Total Control Investments (represented 13.4% of total investments at fair value)				**$ 96,521**	**$ 36,825**
Total Investments (K)				**$ 365,021**	**$ 273,960**

(A) Certain of the securities listed in the above schedule are issued by affiliate(s) of the indicated portfolio company.

(B) Percentages represent cash interest rates in effect at September 30, 2012, and due dates represent the contractual maturity date. If applicable, PIK interest rates are noted separately from the cash interest rates.

(C) 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 September 30, 2012, 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. We also considered discounted cash flow methodologies.

(G) Security is non-income producing.

(H) Debt security is on non-accrual status.

(I) Security was paid off, at par, subsequent to September 30, 2012, and was valued based on the payoff.

(J) There are certain limitations on our ability to transfer our units owned prior to dissolution of the entity, which must occur no later than May 3, 2020.

(K) Cumulative gross unrealized depreciation for federal income tax purposes is $98.7 million; cumulative gross unrealized appreciation for federal income tax purposes is $6.1 million. Cumulative net unrealized depreciation is $92.6 million, based on a tax cost of $366.6 million.

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

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

DECEMBER 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA AND AS OTHERWISE INDICATED)

NOTE 1. ORGANIZATION

Gladstone Capital Corporation was incorporated under the General Corporation Law of the State of Maryland on May 30, 2001, and completed an initial public offering on August 23, 2001. The terms the Company, we, our, and us all refer to Gladstone Capital Corporation and its consolidated subsidiaries. We are a closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, we have elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). Our investment objectives are to (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

Gladstone Business Loan, LLC (Business Loan), a wholly-owned subsidiary of ours, was established on February 3, 2003, for the sole purpose of owning our portfolio of investments in connection with our line of credit.

Gladstone Financial Corporation (Gladstone Financial), a wholly-owned subsidiary of ours, 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 us, 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 the foregoing two subsidiaries are consolidated with those of ours.

We are externally managed by Gladstone Management Corporation (the Adviser), an affiliate of ours.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (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, we have omitted certain disclosures accompanying annual financial statements prepared in accordance with GAAP. The accompanying condensed consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All 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 American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any portfolio company investments, including those in which we have a controlling interest. In our opinion, 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 three months ended December 31, 2012, are not necessarily indicative of results that ultimately may be achieved for the fiscal year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended September 30, 2012, as filed with the Securities and Exchange Commission (the SEC) on November 13, 2012.

Our 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.

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Investment Valuation Policy

We carry our investments at fair value to the extent that market quotations are readily available and reliable and otherwise at fair value as determined in good faith by our board of directors (our Board of Directors). In determining the fair value of our investments, the Adviser has established an investment valuation policy (the Policy). The Policy has been approved by our Board of Directors, and each quarter our Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether to accept the recommended valuation of our investment portfolio. Such determination of fair values may involve subjective judgments and estimates.

The Adviser uses generally accepted valuation techniques to value our portfolio unless it has specific information about the value of an investment to determine otherwise. From time to time, the Adviser may accept an appraisal of a business in which we hold securities. These appraisals are expensive and occur infrequently, but provide a third-party valuation opinion that may differ in results, techniques and scope used to value our investments. When the Adviser obtains these specific third-party appraisals, the Adviser uses estimates of value provided by such appraisals and its own assumptions, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date, to value our investments.

The Policy, summarized below, applies to publicly traded securities, securities for which a limited market exists and securities for which no market exists.

Publicly traded securities: The Adviser determines the value of a publicly traded security based on the closing price for the security on the exchange or securities market on which it is listed and primarily traded on the valuation date. To the extent that we own a restricted security that is not freely tradable, but for which a public market otherwise exists, the Adviser will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature. As of December 31 and September 30, 2012, we did not have any investments in publicly traded securities.

Securities for which a limited market exists: The Adviser values securities that are not traded on an established secondary securities market, but for which a limited market for the security exists, such as certain participations in, or assignments of, syndicated loans, at the quoted bid price, which are non-binding. In valuing these assets, the Adviser assesses trading activity in an asset class and evaluates variances in prices and other market insights to determine if any available quoted prices are reliable. In general, if the Adviser concludes that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if firm bid prices are unavailable, the Adviser bases the value of the security upon the indicative bid price (IBP) offered by the respective originating syndication agent s trading desk, or secondary desk, on or near the valuation date. To the extent that the Adviser uses the IBP as a basis for valuing the security, the Adviser may take further steps to consider additional information to validate that price in accordance with the Policy, including but not limited to reviewing a range of indicative bids to the extent it has ready access to such qualified information.

In the event these limited markets become illiquid such that market prices are no longer readily available, the Adviser will value our syndicated loans using alternative methods, such as estimated net present values of the future cash flows or discounted cash flows (DCF). The use of a DCF methodology follows that prescribed by the Financial Accounting Standards Board (the FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, which provides guidance on the use of a reporting entity s own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs, such as quotes in active markets, are not available. When relevant observable market data does not exist, an alternative outlined in ASC 820 is the valuation of investments based on DCF. For the purposes of using DCF to provide fair value estimates, the Adviser considers multiple inputs, such as a risk-adjusted discount rate that incorporates adjustments that market participants would make, both for nonperformance and liquidity risks. As such, the Adviser develops a modified discount rate approach that incorporates risk premiums including, among other things, increased probability of default, higher loss given default or increased liquidity risk. The DCF valuations applied to the syndicated loans provide an estimate of what the Adviser believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Adviser applies the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

As of December 31 and September 30, 2012, the Adviser determined that the IBPs were reliable indicators of fair value for our syndicate investments. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported); the Adviser determined that these valuation inputs were classified as Level 3 within the fair value hierarchy as defined in ASC 820.

Securities for which no market exists: The valuation methodology for securities for which no market exists falls into four categories: (A) portfolio investments comprised solely of debt securities; (B) portfolio investments in controlled companies comprised of a bundle of securities, which can include debt and equity securities; (C) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities; and (D) portfolio investments comprised of non-publicly traded, non-control equity securities of other funds.

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(A) Portfolio investments comprised solely of debt securities: Debt securities that are not publicly traded on an established securities market, or for which a market does not exist (Non-Public Debt Securities), and that are issued by portfolio companies in which we have no equity or equity-like securities, are fair valued utilizing opinions of value submitted to us by Standard & Poor s Securities Evaluations, Inc. (SPSE). The Adviser may also submit paid-in-kind (PIK) interest to SPSE for its evaluation when it is determined that PIK interest is likely to be received.

(B) Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities: The fair value of these investments is determined based on the total enterprise value (TEV) of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820 for our Non-Public Debt Securities and equity or equity-like securities (e.g., preferred equity, common equity or other equity-like securities) that are purchased together as part of a package, where we have control or could gain control through an option or warrant security; both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale or recapitalization of the portfolio company. We generally exit the debt and equity securities of an issuer together. Applying the liquidity waterfall approach to all of the investments of an issuer, the Adviser first calculates the TEV of the issuer by incorporating some or all of the following factors:

- the issuer s ability to make payments;
- the earnings of the issuer;
- recent sales to third parties of similar securities;
- the comparison to publicly traded securities; and
- DCF or other pertinent factors.

In gathering the sales to third parties of similar securities, the Adviser generally references industry statistics and may use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once the Adviser has estimated the TEV of the issuer, it will subtract the value of all the debt securities of the issuer, which are valued at the contractual principal balance. Fair values of these debt securities are discounted for any shortfall of TEV over the total debt outstanding for the issuer. Once the values for all outstanding senior securities, which include all the debt securities, have been subtracted from the TEV of the issuer, the remaining amount, if any, is used to determine the value of the issuer s equity or equity-like securities. If, in the Adviser s judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, the Adviser may recommend that we use a valuation by SPSE, or, if that is unavailable, a DCF valuation technique.

(C) Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities: The Adviser values Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which we do not control or cannot gain control as of the measurement date, using a hypothetical secondary market as our principal market. In accordance with ASC 820 (as amended by the FASB s Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS), (ASU 2011-04)), the Adviser has defined our unit of account at the investment level (either debt or equity) and as such determines our fair value of these non-control investments assuming the sale of an individual security using the standalone premise of value. As such, the Adviser estimates the fair value of the debt component using estimates of value provided by SPSE and its own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, the Adviser estimates the fair value of the equity based on factors such as the overall value of the issuer, the relative fair value of other units of account, including debt, or other relative value approaches. Consideration is also given to capital structure and other contractual obligations that may impact the fair value of the equity. Furthermore, the Adviser may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in the absence of other observable market data, our own assumptions.

(D) Portfolio investments comprised of non-publicly traded, non-control equity securities of other funds: The Adviser generally values any uninvested capital of the non-control fund at par value and values any invested capital at the net asset value (NAV) provided by the non-control fund.

Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly and materially from the values that would have been obtained had a ready market for the securities existed. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Adviser might reasonably expect us to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

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Refer to Note 3 *Investments* for additional information regarding fair value measurements and our application of ASC 820.

Interest Income Recognition

Interest income, adjusted for amortization of premiums and acquisition costs, the accretion of discounts and the amortization of amendment fees, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management s judgment, are likely to remain current, or due to a restructuring such that the interest income is deemed to be collectable. At December 31, 2012, four portfolio companies were on non-accrual with an aggregate debt cost basis of approximately $56.6 million, or 16.4% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately $5.9 million, or 2.3% of the fair value of all debt investments in our portfolio. At September 30, 2012, six portfolio companies were either fully or partially on non-accrual with an aggregate debt cost basis of approximately $61.1 million, or 17.3% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of approximately $6.8 million, or 2.6% of the fair value of all debt investments in our portfolio.

As of December 31 and September 30, 2012, we had 23 and 24 original issue discount (OID) loans, respectively, primarily from the syndicated loans in our portfolio. We recorded OID income of $72 and $82 for the three months ended December 31, 2012 and 2011, respectively. The unamortized balance of OID investments as of December 31 and September 30, 2012 totaled $1.4 million and $1.1 million, respectively.

As of December 31, 2012, we had two investments that bore PIK interest and as of September 30, 2012, we had one investment that bore PIK interest. PIK interest, computed at the contractual rate specified in a loan agreement, is added to the principal balance of a loan and recorded as income. To maintain our status as a RIC, this non-cash source of income must be paid out to common stockholders in the form of distributions, even though we have not yet collected the cash. We recorded $53 and $0 of PIK income during the three months ended December 31, 2012 and 2011, respectively. We collected $0 PIK interest in cash for the three months ended December 31, 2012 and 2011, respectively.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We recorded $1.1 million of success fees during the three months ended December 31, 2012, which resulted from our exit of Westlake Hardware, Inc. We did not record any success fees during the three months ended December 31, 2011. As of December 31, 2012, we have an aggregate off-balance sheet success fee receivable of approximately $12.2 million on our accruing debt securities.

During the three months ended December 31, 2012, we recognized an aggregate of $0.5 million in prepayment fees which resulted from the early payoffs of four of our syndicated loans during the period. We did not recognize any prepayment fees for the three months ended December 31, 2011.

Both success and prepayment fees are recorded in other income in our accompanying *Condensed Consolidated Statements of Operations*.

NOTE 3. INVESTMENTS

ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 provides a consistent definition of fair value that focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

- *Level 1* inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

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Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active or inactive markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

Level 3 inputs to the valuation methodology are unobservable and reflect assumptions that market participants would use when pricing the asset or liability. Level 3 inputs can include the Adviser s own assumptions based upon the best available information.

As of December 31 and September 30, 2012, all of our investments were valued using Level 3 inputs. We transfer investments in and out of Level 1, 2 and 3 as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the three months ended December 31, 2012 and 2011, there were no transfers in or out of Level 1, 2 and 3.

The following table presents the investments carried at fair value as of December 31 and September 30, 2012, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type, all of which are valued using Level 3 inputs:

	Total Recurring Fair Value Measurements Reported in *Condensed Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3)	
	December 31, 2012	**September 30, 2012**
Non-Control/Non-Affiliate Investments		
Senior debt	**$ 131,533**	$ 150,500
Senior subordinated debt	**98,498**	81,282
Junior subordinated debt	**499**	498
Preferred equity	**1,186**	1,103
Common equity/equivalents	**5,037**	3,752
Total Non-Control/Non-Affiliate Investments	**$ 236,753**	$ 237,135
Control Investments		
Senior debt	**$ 12,292**	$ 13,845
Senior subordinated debt	**18,552**	18,867
Common equity/equivalents	**2,916**	4,113
Total Control Investments	**$ 33,760**	$ 36,825
Total Investments at Fair Value	**$ 270,513**	$ 273,960

In accordance with ASU 2011-04, which was effective for us beginning January 1, 2012, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31, 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy, the Adviser may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt related calculations and on the cost basis for all equity-related calculations for the particular input.

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	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value as of December 31, 2012	**Valuation Technique/ Methodology**	**Unobservable Input**	**Range / Weighted Average**
Non-syndicated debt only investments	**$ 79,597**(A)	SPSE(B)	EBITDA(C) Risk Ratings(D)	$60 - $4,312 / $1,685 2.0 - 10.0 / 5.7
Syndicated debt only investments	**65,225**	Market Quotes	IBP(E)	95.0% - 101.5% / 98.4%
Bundled debt and equity investments	**122,728**(F)	SPSE(B)	EBITDA(C) Risk Ratings(D)	($1,416) - $9,577 / $2,175 2.0 - 8.0 / 4.3
		TEV	EBITDA multiples(C) EBITDA(C)	4.1 - 9.4 / 5.6 ($1,416) - $9,577 / $1,965
Fund of fund investments	**2,963**	NAV(G)		
Total Fair Value for Level 3 Investments	**$ 270,513**			

(A) Includes a new non-syndicated debt only investment, which was valued at its cost of $19.5 million, as it was determined that the price paid during the three months ended December 31, 2012, best represents fair value as of December 31, 2012.

(B) SPSE makes an independent assessment of the data the Adviser submits to them (which includes the financial and operational performance, as well as the Adviser s internally assessed risk ratings of the portfolio companies see footnote (D) below) and its own independent data to form an opinion as to what they consider to be the market values for our securities. With regard to its work, SPSE has stated that the data submitted to us is proprietary in nature.

(C) Adjusted earnings before interest expense, taxes, depreciation and amortization (EBITDA) is an unobservable input, which is generally based on the most recently available trailing twelve month financial statements submitted to the Adviser from the portfolio companies. EBITDA multiples, generally indexed, represent the Adviser s estimate of where market participants might price these investments. For our bundled debt and equity investments, the EBITDA and EBITDA multiples impact the TEV fair value determination and the value of the issuer s debt, equity, or equity-like securities are valued in accordance with the Adviser s liquidity waterfall approach.

(D) As part of the Adviser s valuation procedures, it risk rates all of our investments in debt securities. The Adviser uses the Nationally Recognized Statistical Rating Organization s risk rating system for generally all syndicated loans and a proprietary risk rating system for all other debt securities. The Adviser s risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. The risk rating system covers both qualitative and quantitative aspects of the portfolio company business and the securities we hold.

(E) The Adviser generally bases the value of our syndicated debt securities on the IBP offered by the respective originating syndication agent s trading desk, or secondary desk, on or near the valuation date. These bid prices are non-binding and are generally based on the underlying company performance and security characteristics, as well as other market conditions and credit risk factors.

(F) Includes a new bundled debt and equity investment, which was valued at its cost of $14.0 million, as it was determined that the price paid during the three months ended December 31, 2012, best represents fair value as of December 31, 2012.

(G) The Adviser generally values any uninvested capital of the non-control fund at par value and values any invested capital at the NAV provided by the non-control fund.

A portfolio company s EBITDA and EBITDA multiples are the significant unobservable inputs generally included in the Adviser s internally assessed TEV models used to value our proprietary debt and equity investments. Holding all other factors constant, increases (decreases) in the EBITDA and/or the EBITDA multiples inputs would result in a higher (lower) fair value measurement. Per our valuation policy, the Adviser generally uses an indexed EBITDA multiple. EBITDA and EBITDA multiple inputs do not have to directionally correlate since EBITDA is a company performance metric and EBITDA multiples can be influenced by market, industry, size and other factors.

Changes in Level 3 Fair Value Measurements of Investments

The following tables provide the changes in fair value, broken out by security type, during the three month periods ended December 31, 2012 and 2011 for all investments for which we determine fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (that is, components that are actively quoted and can be validated to external sources). In these cases, we categorize the fair value measurement in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Accordingly, the gains and losses in the tables below include changes in fair value, due in part to observable factors that are part of the valuation methodology.

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Senior Debt	Senior Subordinated Debt[A]	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended December 31, 2012:					
Fair value as of September 30, 2012	**$ 164,345**	**$ 100,647**	**$ 1,103**	**$ 7,865**	**$ 273,960**
Total (losses) gains:					
Net realized (loss) gain[B]	(3,165)	3			(3,162)
Net unrealized (depreciation) appreciation[C]	(1,141)	(950)	83	(1,155)	(3,163)
Reversal of prior period net depreciation on realization[C]	7,411	637			8,048
New investments, repayments and settlements:[D]					
Issuances/originations	4,392	46,183		1,243	51,818
Settlements/repayments	(22,099)	(28,971)			(51,070)
Sales	(5,918)				(5,918)
Fair value as of December 31, 2012	**$ 143,825**	**$ 117,549**	**$ 1,186**	**$ 7,953**	**$ 270,513**

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended December 31, 2011:					
Fair value as of September 30, 2011	**$ 200,145**	**$ 92,148**	**$ 566**	**$ 10,088**	**$ 302,947**
Total (losses) gains:					
Net realized loss[B]	(8,400)				(8,400)
Net unrealized (depreciation) appreciation[C]	(8,836)	(1,244)	(586)	1,352	(9,314)
Reversal of prior period net depreciation on realization[C]	11,113	444			11,557
New investments, repayments and settlements[D]					
Issuances/originations	7,830	2,820	601		11,251
Settlements/repayments	(4,542)	(6,164)			(10,706)
Sales	(4,489)				(4,489)
Fair value as of December 31, 2011	**$ 192,821**	**$ 88,004**	**$ 581**	**$ 11,440**	**$ 292,846**

(A) Includes a junior subordinated debt investment totaling $0.5 million in fair value as of December 31 and September 30, 2012, respectively. There were no junior subordinated debt investments as of December 31 or September 30, 2011, respectively.

(B) Included in net realized loss on Non-Control/Non-Affiliate and Control investments on our accompanying *Condensed Consolidated Statements of Operations* for the three months ended December 31, 2012 and 2011.

(C) Included in net unrealized appreciation (depreciation) on Non-Control/Non-Affiliate and Control investments on our accompanying *Condensed Consolidated Statements of Operations* for the three months ended December 31, 2012 and 2011.

(D) Includes increases in the cost basis of investments resulting from new portfolio investments, the amortization of discounts, and PIK, as well as decreases in the costs basis of investments resulting from principal repayments or sales, the amortization of premiums and acquisition costs and other cost-basis adjustments.

Non-Syndicated Investments

As of December 31 and September 30, 2012, we held 29 and 30 non-syndicated investments with an aggregate fair value of $204.5 million and $195.8 million, respectively. During the three months ended December 31, 2012, we invested in two new non-syndicated investments for an aggregate of $33.7 million; we sold one non-syndicated investment; wrote off one non-syndicated investment for a realized loss of $0.9 million and had one non-syndicated investment pay off early, for which we received a principal payment of $20.0 million and a success fee of $1.1 million. Additionally, during the three months ended December 31, 2012, we funded $1.6 million to existing non-syndicated portfolio companies through revolver draws and add-on investments, while scheduled and unscheduled principal payments totaled $22.2 million from existing non-syndicated portfolio companies. The following significant non-syndicated investment transactions occurred during the three months ended December 31, 2012:

Viapack, Inc. In November 2012, we sold our investment in Viapack, Inc. (Viapack) for net proceeds of $5.9 million, which resulted in a realized loss of $2.4 million recorded in the three months ended December 31, 2012. Viapack had partially been on non-accrual status at the time of the sale.

AG Transportation Holdings, LLC. In December 2012, we invested $14.0 million in AG Transportation Holdings, LLC. (AG Trucking) through a combination of senior subordinated term debt and equity. AG Trucking, headquartered in Goshen, Indiana, is a regional food-grade liquid and dry bulk carrier providing a variety of bulk transportation services, including liquid transportation, dry bulk dumps, freight brokering, private fleet conversion and project runs to large international agricultural and food manufacturing firms.

Allen Edmonds Shoe Corporation In December 2012, we invested $19.5 million in Allen Edmonds Shoe Corporation (Allen Edmonds) through senior subordinated term debt that we purchased from one of Allen Edmonds existing lenders. Allen Edmonds, headquartered in Port Washington, Wisconsin, manufactures premium men s footwear and accessories, which it sells through its retail stores, catalogs and internet site and also through its wholesale and e-commerce channels.

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Syndicated Investments

We held a total of 19 syndicate loans with an aggregate fair value of $66.0 million, or 24.4% of our total investment portfolio, as of December 31, 2012, as compared to 20 syndicate loans with an aggregate fair value of $78.2 million, or 28.5% of our total investment portfolio, as of September 30, 2012. During the three months ended December 31, 2012, we had six early payoffs of syndicated investments for a combined total of $27.7 million and four new syndicated investments for a combined total of $16.5 million. We received an aggregate of $0.5 million in prepayment fees related to four of these early payoffs of syndicated investments during the three months ended December 31, 2012.

Investment Concentrations

As of December 31, 2012, our investment portfolio consisted of loans to 48 companies located in 27 states across 22 different industries, with an aggregate fair value of $270.5 million. The five largest investments at fair value as of December 31, 2012, totaled $92.7 million, or 34.3% of our total investment portfolio, as compared to the five largest investments at fair value as of September 30, 2012, which totaled $91.8 million, or 33.5% of our total investment portfolio. As of December 31, 2012, our average investment by obligor was $7.4 million at cost, compared to $7.3 million at cost as of September 30, 2012. The following table outlines our investments by security type as of December 31 and September 30, 2012:

	December 31, 2012				**September 30, 2012**			
	Cost		**Fair Value**		**Cost**		**Fair Value**	
Senior debt	**$ 208,368**	**58.4%**	**$ 143,825**	**53.2%**	$ 235,158	64.4%	$ 164,345	60.0%
Senior subordinated debt	**135,681**	**38.1**	**117,050**	**43.3**	118,469	32.5	100,149	36.5
Junior subordinated debt	**430**	**0.1**	**499**	**0.2**	428	0.1	498	0.2
Total debt investments	**344,479**	**96.6**	**261,374**	**96.7**	354,055	97.0	264,992	96.7
Preferred equity	**6,719**	**1.9**	**1,186**	**0.4**	6,719	1.8	1,103	0.4
Common equity/equivalents	**5,491**	**1.5**	**7,953**	**2.9**	4,247	1.2	7,865	2.9
Total equity investments	**12,210**	**3.4**	**9,139**	**3.3**	10,966	3.0	8,968	3.3
Total Investments	**$ 356,689**	**100.0%**	**$ 270,513**	**100.0%**	$ 365,021	100.0%	$ 273,960	100.0%

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Investments at fair value consisted of the following industry classifications at December 31 and September 30, 2012:

	December 31, 2012		September 30, 2012	
Industry Classification	**Fair Value**	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Healthcare, education and childcare	**$ 33,297**	**12.3%**	$ 32,867	12.0%
Mining, steel, iron and non-precious metals	**31,541**	**11.7**	31,590	11.5
Electronics	**29,202**	**10.8**	42,111	15.4
Personal and non-durable consumer products	**26,308**	**9.7**	8,399	3.1
Broadcast and entertainment	**23,730**	**8.8**	25,505	9.3
Aerospace and defense	**16,375**	**6.1**	16,597	6.0
Oil and gas	**15,473**	**5.7**	15,386	5.6
Cargo Transportation	**14,000**	**5.2**		
Printing and publishing	**12,562**	**4.6**	12,760	4.6
Automobile	**10,971**	**4.1**	12,168	4.4
Textiles and leather	**9,764**	**3.6**	9,776	3.6
Machinery	**7,549**	**2.8**	7,618	2.8
Beverage, food and tobacco	**7,240**	**2.7**	7,258	2.6
Diversified/conglomerate manufacturing	**6,475**	**2.4**	6,824	2.5
Leisure, amusement, motion pictures and entertainment	**6,016**	**2.2**	5,380	2.0
Buildings and real estate	**5,230**	**1.9**	5,920	2.2
Containers, packaging and glass	**4,875**	**1.8**		
Finance	**4,455**	**1.6**		
Home and office furnishing, housewares and durable consumer goods	**3,040**	**1.1**	3,357	1.2
Other, < 1%[(A)]	**1,410**	**0.5**	3,730	1.4
Personal, food and miscellaneous services	**1,000**	**0.4**	7,354	2.7
Retail store			19,360	7.1
Total Investments	**$ 270,513**	**100.0%**	$ 273,960	100.0%

(A) No individual industry within this category exceeds 1% of the total fair value as of the respective periods.

Investments at fair value were included in the following geographic regions of the U.S. at December 31 and September 30, 2012:

	December 31, 2012		September 30, 2012	
Geographic Region	**Fair Value**	**Percent of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Midwest	**$ 138,151**	**51.1%**	$ 127,179	46.4%
South	**67,655**	**25.0**	62,677	22.9
West	**50,846**	**18.8**	66,268	24.2
Northeast	**13,861**	**5.1**	9,836	3.6
Outside continental U.S.			8,000	2.9
Total Investments	**$ 270,513**	**100.0%**	$ 273,960	100.0%

The geographic region reflects the location of the headquarters of our portfolio companies. A portfolio company may have a number of other business locations in other geographic regions.

Investment Principal Repayments

The following table summarizes the contractual principal repayments and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, at December 31, 2012:

		Amount
For the remaining nine months ending September 30:	2013	$ 91,045
For the fiscal year ending September 30:	2014	36,096
	2015	26,868
	2016	77,906
	2017	36,349
	Thereafter	77,609
	Total contractual repayments	**$ 345,873**
	Equity investments	12,210
	Adjustments to cost basis on debt investments	(1,394)
	Total cost basis of investments held at December 31, 2012:	**$ 356,689**

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Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies and are included in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We maintain an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. We charge the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of December 31 and September 30, 2012, we had gross receivables from portfolio companies of $0.6 million and $0.8 million, respectively. The allowance for uncollectible receivables was $0.4 million as of December 31 and September 30, 2012. In addition, we recorded an allowance for uncollectible interest receivable of $0 and $21 as of December 31 and September 30, 2012, respectively.

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

We entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement). The Adviser is controlled by our chairman and chief executive officer. In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee. On July 10, 2012, our Board of Directors approved the renewal of the Advisory Agreement through August 31, 2013.

The following table summarizes the management fees, incentive fees and associated credits reflected in our accompanying *Condensed Consolidated Statements of Operations*:

	Three Months Ended December 31,	
	2012	**2011**
Average total assets subject to base management fee[(A)]	**$ 286,400**	$ 311,200
Multiplied by prorated annual base management fee of 2.0%	**0.5%**	0.5%
Base management fee[(B)]	**$ 1,432**	$ 1,556
Reduction for loan servicing fees	**(858)**	(959)
Adjusted base management fee	**574**	597
Credit for fees received by Adviser from the portfolio companies	**(140)**	(47)
Fee reduction for the voluntary, irrevocable waiver of 2.0% fee on senior syndicated loans to 0.5% per annum	**(61)**	(125)
Net base management fee	**$ 373**	$ 425

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