

GLADSTONE CAPITAL CORP
Form 10-Q
April 30, 2014
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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 QUARTERLY PERIOD ENDED MARCH 31, 2014

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 814-00237

GLADSTONE CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of	54-2040781 (I.R.S. Employer
incorporation or organization)	Identification No.)
1521 WESTBRANCH DRIVE, SUITE 100 MCLEAN, VIRGINIA (Address of principal executive office)	22102 (Zip Code)
(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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares of the issuer's common stock, \$0.001 par value per share, outstanding as of April 29, 2014 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)

	March 31, 2014	September 30, 2013
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of \$233,134 and \$218,713, respectively)	\$ 208,527	\$ 181,870
Affiliate investments (Cost of \$59,757 and \$9,440, respectively)	57,826	10,787
Control investments (Cost of \$62,880 and \$104,113, respectively)	26,967	64,221
Total investments at fair value (Cost of \$355,771 and \$332,266, respectively)	293,320	256,878
Cash and cash equivalents	6,390	13,900
Restricted cash and cash equivalents	1,031	1,176
Interest receivable	2,326	2,488
Due from custodian	1,929	16,473
Deferred financing fees	2,531	3,086
Other assets	819	1,090
TOTAL ASSETS	\$ 308,346	\$ 295,091
LIABILITIES		
Borrowings at fair value (Cost of \$60,200 and \$46,900, respectively)	\$ 60,514	\$ 47,102
Mandatorily redeemable preferred stock, \$0.001 par value per share, \$25 liquidation preference per share; 4,000,000 shares authorized and 1,539,882 shares issued and outstanding	38,497	38,497
Accounts payable and accrued expenses	345	494
Interest payable	191	170
Fees due to Adviser ^(A)	1,666	1,706
Fee due to Administrator ^(A)	213	126
Other liabilities	1,344	1,004
TOTAL LIABILITIES	\$ 102,770	\$ 89,099
Commitments and contingencies ^(B)		
NET ASSETS	\$ 205,576	\$ 205,992
COMPONENTS OF NET ASSETS		
	\$ 21	\$ 21

Common stock, \$0.001 par value per share, **46,000,000** shares authorized and **21,000,160** shares issued and outstanding

Capital in excess of par value	322,936	322,936
Note receivable from employee ^(A)	(175)	(175)
Cumulative net unrealized depreciation of investments	(62,451)	(75,388)
Cumulative net unrealized appreciation of other	(375)	(260)
Overdistributed net investment income	(100)	(100)
Accumulated net realized losses	(54,280)	(41,042)
TOTAL NET ASSETS	\$ 205,576	\$ 205,992
NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD	\$ 9.79	\$ 9.81

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

(B) Refer to Note 11 *Commitments and Contingencies* for additional information.

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
INVESTMENT INCOME				
Interest income:				
Non-Control/Non-Affiliate investments	\$ 6,285	\$ 6,835	\$ 12,684	\$ 14,149
Affiliate investments	874		1,093	
Control investments	1,008	1,545	2,577	2,357
Cash and cash equivalents		1		2
Notes receivable from employees ^(A)	4	43	8	96
Total interest income	8,171	8,424	16,362	16,604
Other income:				
Non-Control/Non-Affiliate investments	960		961	1,648
Control investments	200		400	
Total investment income	9,331	8,424	17,723	18,252
EXPENSES				
Base management fee ^(A)	1,504	1,419	2,960	2,851
Incentive fee ^(A)	1,121	953	2,095	2,168
Administration fee ^(A)	213	187	416	337
Interest expense on borrowings	669	803	1,284	1,659
Dividend expense on mandatorily redeemable preferred stock	686	686	1,372	1,372
Amortization of deferred financing fees	315	329	630	585
Professional fees	337	35	627	293
Other general and administrative expenses	328	241	649	558
Expenses before credits from Adviser	5,173	4,653	10,033	9,823
Credits to fees from Adviser ^(A)	(327)	(639)	(1,205)	(840)
Total expenses net of credits	4,846	4,014	8,828	8,983
NET INVESTMENT INCOME	4,485	4,410	8,895	9,269

**NET REALIZED AND UNREALIZED
(LOSS) GAIN**

Net realized (loss) gain:				
Non-Control/Non-Affiliate investments	(2,610)	30	(2,610)	(611)
Control investments	71		(10,703)	(2,407)
Total net realized (loss) gain	(2,539)	30	(13,313)	(3,018)
Net unrealized (depreciation) appreciation:				
Non-Control/Non-Affiliate investments	10,141	(1,772)	12,237	(1,858)
Affiliate investments	(6,339)		(6,495)	
Control investments	(7,742)	(5,861)	7,195	(890)
Other	(108)	430	(115)	2,100
Total net unrealized (depreciation) appreciation	(4,048)	(7,203)	12,822	(648)
Net realized and unrealized loss	(6,587)	(7,173)	(491)	(3,666)
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS				
	\$ (2,102)	\$ (2,763)	\$ 8,404	\$ 5,603
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	\$ 0.21	\$ 0.21	\$ 0.42	\$ 0.44
Net (decrease) increase in net assets resulting from operations	\$ (0.10)	\$ (0.13)	\$ 0.40	\$ 0.27
Dividends declared and paid per share	\$ 0.21	\$ 0.21	\$ 0.42	\$ 0.42
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic and Diluted	21,000,160	21,000,160	21,000,160	21,000,160

(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)

	Six Months Ended March 31,	
	2014	2013
OPERATIONS		
Net investment income	\$ 8,895	\$ 9,269
Net realized loss on investments	(13,313)	(3,018)
Net unrealized appreciation (depreciation) of investments	12,937	(2,748)
Net unrealized (appreciation) depreciation of other	(115)	2,100
Net increase in net assets resulting from operations	8,404	5,603
DISTRIBUTIONS		
Distributions to common stockholders	(8,820)	(8,820)
CAPITAL TRANSACTIONS		
Repayment of principal on employee notes ^(A)		1,800
NET DECREASE IN NET ASSETS	(416)	(1,417)
NET ASSETS, BEGINNING OF PERIOD	205,992	188,564
NET ASSETS, END OF PERIOD	\$ 205,576	\$ 187,147

^(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)

	Six Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	\$ 8,404	\$ 5,603
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Purchase of investments		