

FOR HIGH YIELDS, LOOK TO BDCS

“**Gladstone Capital Corp.** (GLAD 7.90 Nasdaq – yield 10.7%) continues to have a strong portfolio, with only 2.8% of its loans (at cost) in default, a low rate given the economy. The portfolio is valued at 88% of cost, but this mainly reflects the economy rather than any concerns at individual companies. Its main difficulty is making the portfolio grow. It has a modest line of credit, which must be reduced moderately by the end of the year, but needs long-term capital and doesn’t want to issue new equity at these prices; this makes it difficult to make new loans. It has applied for an SBIC license, which would enable it to borrow up to \$150 million on favorable terms, for up to 10 years. Although Gladstone’s yield is actually lower than most other BDCs [business development companies]—a not-unjustified reflection of its credit quality—it is selling at discount to other BDCs on an asset basis, selling at just 0.65% of its NAV.”

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