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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended March 31, 2001

Commission File Number: 814-00127

BRANTLEY CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

34-1838462

(State or other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification Number)

20600 Chagrin Boulevard, Suite 1150, Cleveland, Ohio 44122

(Address of principal executive offices including zip code)

(216) 283-4800

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.01 par value

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 .

The number of shares of common stock outstanding as of March 31, 2001 was 3,810,535.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BRANTLEY CAPITAL CORPORATION

BALANCE SHEETS

	March 31, 2001 (Unaudited)	December 31, 2000
ASSETS		
Investments, at market	\$41,537,454	\$41,462,305
Cash and cash equivalents	14,798,597	14,882,432
Dividends and interest receivable	2,401,521	2,103,811
Other assets	20,761	22,950
	<hr/>	<hr/>
Total Assets	\$58,758,333	\$58,471,498
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Note payable	\$ 6,000,000	\$ 6,000,000
Advisory fee payable	364,164	383,976
Accrued interest payable	135,081	—
Accrued professional fees	18,612	68,370
Other liabilities	133,598	76,133
	<hr/>	<hr/>
Total Liabilities	6,651,455	6,528,479
	<hr/>	<hr/>
Stockholders' Equity:		
Common Stock, \$0.01 par value; 25,000,000 shares authorized and 3,810,535 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively	38,105	38,105
Additional paid in capital	37,484,895	37,484,895
Retained earnings	14,583,878	14,420,019
	<hr/>	<hr/>
Total Stockholders' Equity	52,106,878	51,943,019
	<hr/>	<hr/>
Total Liabilities and Stockholders' Equity	\$58,758,333	\$58,471,498
	<hr/>	<hr/>
Net Asset Value Per Share	\$ 13.67	\$ 13.63
	<hr/>	<hr/>

The accompanying notes to the financial statements are an integral part of these statements.

BRANTLEY CAPITAL CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	For the quarter ended March 31, 2001	For the quarter ended March 31, 2000
	<hr/>	<hr/>
Investment Income:		
Interest	\$ 168,505	\$ 408,229
Dividends	271,458	220,161
	<hr/>	<hr/>
Total investment income	439,963	628,390
	<hr/>	<hr/>
Operating Expenses:		
Advisory fees	351,571	400,065
Administration fees	18,288	29,687
Professional fees	99,110	35,804
Other	147,668	62,316
Interest on note payable	135,081	—
	<hr/>	<hr/>
Total expenses	751,718	527,872
	<hr/>	<hr/>
Investment Income (Loss), Net	(311,755)	100,518
	<hr/>	<hr/>
Net Realized and Unrealized Gains on Investments:		
Net realized gain on investments	407,096	258,127
Net unrealized gain on investments	68,518	405,176
	<hr/>	<hr/>
Net gain on investments	475,614	663,303
	<hr/>	<hr/>
Net change in net assets resulting from operations	\$ 163,859	\$ 763,821
	<hr/>	<hr/>
Net change in net assets resulting from operations per share, primary and fully diluted	\$ 0.04	\$ 0.20
	<hr/>	<hr/>
Weighted average number of shares outstanding, primary and fully diluted	3,810,535	3,810,535
	<hr/>	<hr/>

The accompanying notes to the financial statements are an integral part of these statements.

BRANTLEY CAPITAL CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at December 31, 1998	\$38,105	\$37,505,433	\$12,397,990	\$49,941,528
Net increase in net assets from operations	—	—	4,251,654	4,251,654
Distributions from:				
Net investment income	—	—	(495,370)	(495,370)
Net realized gains	—	—	(1,257,477)	(1,257,477)
Balance at December 31, 1999	\$38,105	\$37,505,433	\$14,896,797	\$52,440,335
Net increase in net assets from operations	—	—	1,879,315	1,879,315
Distributions from:				
Net investment income	—	(20,538)	(112,831)	(133,369)
Net realized gains	—	—	(2,243,262)	(2,243,262)
Balance at December 31, 2000	\$38,105	\$37,484,895	\$14,420,019	\$51,943,019
Net increase in net assets from operations	—	—	163,859	163,859
Balance at March 31, 2001	\$38,105	\$37,484,895	\$14,583,878	\$52,106,878

The accompanying notes to the financial statements are an integral part of these statements.

BRANTLEY CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

	For the quarter ended March 31, 2001	For the quarter ended March 31, 2000
	<hr/>	<hr/>
Cash Flows from Operating Activities:		
Net change in net assets resulting from operations:	\$ 163,859	\$ 763,821
Adjustments to reconcile net change in net assets resulting from operations to net cash used for operations:		
Net realized gain from investments	(407,096)	(258,127)
Net unrealized gain on investments	(68,518)	(405,176)
Changes in assets and liabilities:		
Dividend and interest receivable	(297,710)	(167,876)
Other assets	2,189	29,344
Advisory fee payable	(19,812)	26,406
Accrued professional fees	(49,758)	39,252
Dividends payable	—	(1,752,846)
Accrued interest payable	135,081	—
Other liabilities	57,465	76,914
	<hr/>	<hr/>
Net cash used for operating activities	(484,300)	(1,648,288)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Purchases of investment securities	(722,225)	(1,041,947)
Sales/ Maturities of investment securities	1,123,297	515,864
Purchases of short-term investments	(514,416,928)	(1,076,794,042)
Sales/ Maturities of short-term investments	514,416,321	1,076,789,231
	<hr/>	<hr/>
Net cash provided by (used for) investing activities	400,465	(530,894)
	<hr/>	<hr/>
Net change in cash and cash equivalents for the period	(83,835)	(2,179,182)
Cash and cash equivalents, beginning of period	14,882,432	19,127,039
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	\$ 14,798,597	\$ 16,947,857
	<hr/>	<hr/>

The accompanying notes to the financial statements are an integral part of these statements.

BRANTLEY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. Significant Accounting Policies

The interim financial statements have been prepared by Brantley Capital Corporation (“the Company”) pursuant to the rules and regulations of the Securities and Exchange Commission (the “Commission”) applicable to quarterly reports on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and related notes and schedules included in the Company’s 2000 Annual Report filed on Form 10-K dated December 31, 2000.

The unaudited financial statements reflect, in the opinion of management, all adjustments, all of which are of a normal recurring nature, necessary to present fairly the financial position of the Company as of March 31, 2001, the results of its operations for the quarter ended March 31, 2001, and its cash flows for the quarter ended March 31, 2001. Interim results are not necessarily indicative of results to be expected for a full fiscal year.

Privately placed securities are carried at fair value as determined in good faith by or under the direction of the Board of Directors. Generally, the fair value of each security will initially be based primarily upon its original cost to the Company. Cost will be the primary factor used to determine fair value on an ongoing basis until significant developments or other factors affecting the investment (such as results of the portfolio company’s operations, changes in the general market conditions, subsequent financings or the availability of market quotations) provide a basis for value other than cost valuation.

Portfolio investments listed on an exchange or traded on Nasdaq National Market are valued at the closing price listed on their respective exchange or system on the date of valuation. Securities traded in the over-the-counter market will be valued on the average of the closing bid and asked prices on the day of valuation.

Debt securities with 60 days or less remaining to maturity will be valued at amortized cost.

2. Investments, Cash and Cash Equivalents

As of March 31, 2001 and December 31, 2000, the identified costs of investments, cash, and cash equivalents were \$41,794,746 and \$41,673,688, respectively.

Cash equivalents consist of highly liquid investments with insignificant interest rate risk and original maturities of three months or less at acquisition date. Cash and cash equivalents consisted of the following:

	March 31, 2001 (Unaudited)	December 31, 2000 (Audited)
Cash	\$14,798,597	\$ 6,152,253
United States Treasury Bill 5.25%, 1/4/2001	—	8,730,179
	<u>\$14,798,597</u>	<u>\$14,882,432</u>

3. Investment Advisory Agreement

The Company has entered into an investment advisory agreement (the “Investment Advisory Agreement”) with Brantley Capital Management, L.L.C. (the “Investment Adviser”) under which the Investment Adviser is entitled to an annual management fee of 2.85% of the Company’s net assets, determined at the end of each calendar quarter, and payable quarterly in arrears throughout the term of the Investment Advisory Agreement. For the quarter ended March 31, 2001, the Investment Adviser earned \$351,571 under the Investment Advisory Agreement. Certain officers of the Company are also officers of the Investment Adviser.

BRANTLEY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

No officer of the Investment Adviser receives any compensation from the Company for serving as an officer of the Company.

4. Financial Highlights

	Quarter ended March 31, 2001	Quarter ended March 31, 2000
Net Asset Value, Beginning of the Period	\$13.63	\$13.76
Income from investment operations:		
Net investment (loss) income	(0.08)	0.03
Net realized and unrealized gain on investments	0.12	0.17
Total from investment operations	0.04	0.20
Net Asset Value, End of Period	\$13.67	\$13.96
Market Value, End of Period	\$ 8.00	\$10.75
Total return, at Market Value	(7.25)%(1)	34.38%(1)
Total return, at Net Asset Value	0.29%(1)	1.50%(1)

(1) Not annualized

BRANTLEY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The Company is a closed end, non-diversified investment company that has elected to be treated as a "business development company" under the Investment Company Act of 1940, as amended (the "Act"). The Company invests primarily in the equity and equity-linked debt securities of private companies. The Company's principal investment objective is the realization of long-term capital appreciation in the value of such investments. In addition, whenever feasible in light of market conditions and the cash flow characteristics of its portfolio companies, the Company seeks to provide an element of current income primarily from interest, dividends, and fees paid by its portfolio companies.

This report contains certain statements of a forward-looking nature relating to future events or the future financial performance of the Company and its investment portfolio companies. Words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," "might," or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. Such statements are only predictions and the actual events or results may differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those relating to investment capital demand, pricing, market acceptance, the effect of economic conditions, litigation and the effect of regulatory proceedings, competitive forces, the results of financing and investing efforts, the results of financing and investing efforts, minimum net asset value appreciation targets, potential portfolio liquidity events, the ability to complete transactions and other risks identified below or in the Company's filings with the Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Financial Statements, the Notes thereto, and the other financial information included elsewhere in this report.

Results of Operations

The Company began operations upon the completion of an initial public offering on December 3, 1996. Its principal investment objective is the realization of long-term capital appreciation in the value of its investments.

In addition, whenever feasible in light of market conditions and the cash flow characteristics of its portfolio companies, the Company seeks to provide an element of current income primarily from interest, dividends, and fees paid by its portfolio companies. Pending the completion of equity and equity-linked debt security investments that meet the Company's investment objectives, available funds are invested in short-term securities. Dividend and interest income on investments for the three-months ended March 31, 2001 and 2000 were \$439,963 and \$628,390, respectively. The significant components of total operating expenses were advisory fees of \$351,571 and \$400,065 to the Investment Adviser during the three months ended March 31, 2001 and 2000, respectively.

During the three months ended March 31, 2001, and 2000, the Company's equity and equity-linked debt security investments resulted in net realized and unrealized gains on investment transactions of \$475,614 and \$663,303, respectively. The Company has invested in various small capitalization public stocks which are subject to general stock market and business conditions and the nine private investments described below (See Financial Condition, Liquidity and Capital Resources). The unrealized gains have been significantly influenced by these general stock market and business conditions.

Financial Condition, Liquidity and Capital Resources

At March 31, 2001, the Company had \$14,798,597 in cash and cash equivalents. The Company invested the proceeds of the initial public offering on a short-term basis pending completion of investments in equity and equity-linked debt securities of private companies and post-venture small-cap public companies. Management believes that cash and cash equivalents together with proceeds from investments will provide the Company with the liquidity necessary to pay operating expenses of the Company and make follow-on investments. At March 31, 2001, the Company had stockholders' equity of \$52,106,878, resulting in a net asset value per share of \$13.67.

Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley Partners IV, L.P. (collectively, the “Partnerships”) hold, in the aggregate, approximately \$200 million of venture capital private equity investments. The Partnerships are related to the Investment Adviser in a manner that required the receipt, from the Commission, of an exemption from certain provisions of the Act in order to permit, under certain circumstances, the Company, the Investment Adviser and the Partnerships to invest in the same portfolio companies. As a result, the Company and the Partnerships filed an application on March 6, 1997 with the Commission seeking an exemptive order permitting the Company, under certain circumstances, to invest in securities of issuers in which one of the Partnerships also intends to invest. The staff of the Commission granted the exemptive order on November 18, 1997.

Consistent with the Company’s current long-term objectives, the Board of Directors has asked Brantley Capital Management LLC, the Company’s Investment Adviser, to recommend measures to maximize stockholder value in the event that the net asset value of the Company has not appreciated by a minimum of 15% per annum for the seven-year period ending December 31, 2003. Such measures could include, but are not limited to, actions designed to provide stockholders with the opportunity to realize the value of the Company’s investment portfolio. Management has been pleased with the performance of the Company’s portfolio companies since inception and believes that liquidity opportunities that generally start presenting themselves several years into a portfolio of this nature may create gains for the Company over the next few years. Since the Company is just beginning to enter this period of possible liquidity events, it is appropriate to renew, and convey to stockholders, the Company’s planned goals and objectives and to reassure stockholders that management intends to take action if those goals and objectives are not met. However, this is no indication that management does not expect to meet the Company’s goals. In fact, management believes that the portfolio will continue to perform at a level sufficient to meet the Company’s net asset valuation target.

At March 31, 2001, the cost of equity and equity-linked debt security investments made by the Company to date was \$27.0 million and their aggregate market value was \$41.5 million, for an aggregate fair market value appreciation of 54%. Management believes the companies invested in have significant potential for long-term growth in sales and earnings. Since the completion of the Company’s initial public offering, management has focused its investment activities on securing new investments for the Company’s portfolio. However, given the current nature of the portfolio and the fact that the portfolio as a whole is maturing, management is entering into a phase of the business plan which emphasizes positioning the more mature portfolio companies for appropriate liquidity events. As a result, the Company is continuously monitoring portfolio company results and evaluating opportunities to maximize the valuation of its investments. In that regard, the Company periodically evaluates potential acquisitions, financing transactions, initial public offerings, strategic alliances, and sale opportunities involving its portfolio companies. These transactions and activities are generally not disclosed to the Company’s stockholders and the investing public until such time as the transactions are publicly announced or completed, as the case may be. Any such transaction could have an impact on the valuation of the Company’s investments, however, valuations would generally not be adjusted until the transaction is publicly announced or completed.

The individually significant equity and equity-linked debt security holdings of the Company at March 31, 2001 were comprised of the following investments:

Disposable Products Company, LLC

On August 10, 1998, the Company entered into an investment led by Banc One Capital to provide \$1.0 million of a \$3.0 million subordinated debt facility with warrants for Disposable Products Company, LLC (“DPC”). DPC is an acquisition strategy company in the business of manufacturing and converting paper and non-woven materials into wiping products for sale to commercial, institutional, industrial and government markets. In addition, DPC is a converter and reseller of other safety and industrial/janitorial products. Proceeds of the transaction were used to complete the first acquisition. The terms of the debt facility call for a 12% interest rate per annum with a final maturity in 2003. The Company also received a detachable capital stock purchase warrant exercisable into 5% of the fully-diluted capital stock of DPC at the time of exercise at a nominal exercise price. On January 26, 2001 the Company funded an additional \$166,667, 12% promissory note of Disposable Products Company, LLC.

Fitness Quest, Inc.

On December 16, 1997, the Company funded a \$1.35 million commitment to invest with Brantley Venture Partners III, L.P. in a \$3.85 million preferred stock issue for Fitness Quest, Inc. ("Fitness Quest"). As a result, the Company purchased approximately 788,961 shares of Fitness Quest Series A 10% Convertible Preferred Stock at \$1.71 per share. Fitness Quest is a direct marketing and distribution company. A portion of the proceeds were used by Fitness Quest for a management buy-out of the company from its previous owner, The Time Warner Music Group (a 100% wholly owned subsidiary of Time Warner, Inc.) and the remainder was used for acquisitions. Fitness Quest has been in the fitness promotional products business since 1994 and, at the time of the purchase, had revenues at a \$100 million annual sales rate level.

During 1997, Fitness Quest grew to \$120 million in sales and improved its operating margins and profits. After a complete evaluation, the Company's Board of Directors re-valued its Fitness Quest investment to \$5,440,000, resulting in a 1997 unrealized gain of \$4,090,000. This evaluation was based on price to earnings ratios, cash flow multiples and other appropriate financial measurements of similar private companies. In 1998, the operating results of Fitness Quest were adversely impacted by the cyclical nature of its business and one-time expenses resulting from several acquisition transactions. Consequently, 1998 sales were approximately \$90 million, resulting in lower than expected profit margins. Since 1998, the Company has shown significant improvement in its core operating results with 2000 annual sales of approximately \$145 million.

In addition to the above Series A 10% Convertible Preferred Stock, the Company has funded \$1,751,300 to invest with Brantley Venture Partners III, L.P. in a \$ 3.5 million 10% senior subordinated debt investment in Fitness Quest. In addition, the Company received a warrant to purchase 181,172 shares of Fitness Quest common stock for \$.01 per share.

The proceeds of the investment were used to fund Fitness Quest's working capital needs. During the fourth quarter of 2000, the Company exchanged the senior subordinated debt investment and related unpaid interest for 679,641 of Fitness Quest, Inc. common stock.

Flight Options International, Inc. (Formerly Corporate Wings, Inc.)

On December 23, 1997, the Company completed a \$2.1 million investment with Brantley Venture Partners III, L.P. to purchase a \$6.0 million preferred stock issue for Flight Options, Inc. ("Flight Options"). The Company's investment consists of approximately 2,576,000 shares of Flight Options Series A 8% Convertible Preferred Stock at \$0.8152 per share. Flight Options provides complete private air travel service through the sale of fractional interests in pre-owned jet aircraft. The proceeds of the transaction were used by Flight Options to continue to execute an acquisition strategy. Flight Options has been in business since 1978 and had sales of approximately \$40 million at the time of the Company's investment.

On December 29, 1998, the Company announced the completion of a second private equity investment in Flight Options. As a result, the Company purchased \$962,500 of a \$5.5 million preferred stock transaction led by The Provident Bank. The Company's purchase represents approximately 260,135 shares of a Class A 8% Convertible Preferred Stock at \$3.70 per share. Proceeds were used to fund the expansion of the Flight Options program and to continue to execute their acquisition strategy. During 1998, Flight Options completed the acquisition of Miller Aviation. As a result of the price of this subsequent financing and the operating performance of Flight Options during 1998, the market value of the Company's original investment was increased to \$9,531,760, resulting in an unrealized gain of \$7,431,760. This valuation was based on the \$3.70 per share price negotiated by The Provident Bank and approved by the Company's Board of Directors.

On August 31, 1999, the Company announced the completion of a third private equity investment in Flight Options. As a result, Flight Options sold \$20 million of Series B 8% Preferred Stock to a third party private equity group at \$4.365 per share. Consistent with the Company's investment procedures, this transaction resulted in a valuation increase on the Flight Options investment of \$1,886,030 or \$0.50 per share.

On July 11, 2000, the Company guaranteed a portion of Flight Options' third-party borrowings. As a result, the Company was issued a warrant to purchase 36,000 shares of common stock of Flight Options at a price of \$0.01 per share. Management believes, based on current facts and circumstances and Flight Options' financial position, that the likelihood of a payment pursuant to such guarantee is remote.

On December 12, 2000 the Company purchased \$2.5 million, or 469,925 shares, of Class C 8% Preferred Stock at \$5.32 per share. Proceeds of the transaction were used to fund the continued expansion of the fractional ownership program.

At March 31, 2001, the financial statement value of the investment in Flight Options was \$15,036,511, representing over a 170% increase from its original purchase price. The commentary above reflects a four-for-one stock split executed in 2000. All share and per share amounts have been adjusted to reflect such stock split.

Health Care Solutions, Inc.

On September 30, 1997, the Company funded a \$1.5 million convertible junior subordinated promissory note facility for Health Care Solutions, Inc. (“Health Care Solutions”). Health Care Solutions is an acquisition strategy company in the home healthcare services market with a strong presence in the Midwest and Great Lakes region. The terms of the notes called for an 18% interest rate per annum during the first year and 12% per annum thereafter, with final maturity two years from the closing. After the first year, the notes were convertible into common stock at a price of \$3.50 per share. In connection with its commitment to provide this facility, the Company received warrants to purchase up to \$450,000 of common stock valued at an exercise price of 10% of an initial public offering (“IPO”) price completed during the term of the notes, or at \$3.50 per share should the warrants be exercised other than in connection with an IPO. The warrants are currently exercisable. The proceeds of the notes were used by Health Care Solutions to help finance acquisitions.

Health Care Solutions, has completed a re-capitalization plan, including a two-for-one reverse stock split. As a result, the Company has agreed to exchange its convertible junior subordinated promissory note and accrued interest thereon for 246,994 shares of Series C 8% Convertible Preferred Stock at an exchange rate of \$7.50 per share. The warrants to purchase up to \$450,000 of common stock at an exercise price of 10% of an IPO price or at \$3.50 per share will remain outstanding and will be adjusted to reflect the reverse stock split.

In addition to the above Series C 8% Convertible Preferred Stock, the Company has funded a \$500,000 and a \$299,000 12% Convertible Subordinated Note. As part of this transaction, the Company received a warrant to purchase up to \$50,000 of Health Care Solutions, Common Stock at an exercise price equal to the lower of a price as determined by an initial public offering or \$7.50 per share. On March 7, 2001, the Company agreed to exchange the \$500,000 Convertible Subordinated Note for 71,880 shares of Series D Convertible Preferred Stock.

The Holland Group, Inc.

On July 13, 2000, the Company closed on a \$2.1 million commitment to invest with Brantley Partners IV, L.P. in a \$8.5 million preferred stock issue of The Holland Group, Inc. (“Holland”). Holland is a provider of temporary staffing and human resource management services that currently operates 35 branches in five states. As a result of this transaction, the Company purchased 282,530 shares of Series A 8% Convertible Preferred Stock.

National Rehab Partners, Inc.

On August 10, 1999, the Company announced the completion of a \$1.5 million commitment to invest with Brantley Partners IV, L.P. in a \$12.0 million preferred stock issue for National Rehab Partners, Inc. (“NRP”). NRP is a Brentwood, Tennessee rehabilitation management service company providing rehabilitation services through acute care hospitals and hospital systems throughout the United States. NRP is the only national rehabilitation company focused exclusively on helping hospitals develop their outpatient rehabilitation services. The first \$8.0 million of the commitment was funded to complete the acquisition of a group of rehabilitation management service providers. The remaining commitments are being funded upon the successful closing of additional acquisitions. As a result of this commitment, the Company purchased 2.2 million shares of Class A 8% Convertible Preferred Stock. On January 10, 2001, the Company funded a \$26,126 10% promissory note of NRP.

Pediatric Physicians Alliance, Inc.

On January 28, 1999, the Company announced the completion of a \$3.2 million commitment to invest with Brantley Venture Partners III, L.P. in a \$7.9 million preferred stock issue for Pediatric Physicians Alliance, Inc. (“Pediatric Physicians Alliance”). Pediatric Physicians Alliance is a physician practice management company

that develops integrated pediatric networks of care. The company's objective is to develop the leading physician-based integrated pediatric organization in the United States. The proceeds of the transaction were used to complete the acquisition of a number of physician practices. As a result of this commitment, the Company purchased 793,000 shares of Class A-2 10% Convertible Preferred Stock. In addition to the above Class A-2 10% Convertible Preferred Stock, the Company funded \$267,448 to invest with Brantley Venture Partners III, L.P. in \$668,619 of promissory notes, with detachable warrants, in Pediatric Physicians Alliance. The notes have a maturity date of September 29, 2001. The detachable warrants are for the purchase of 30,000 shares of Pediatric Physicians Alliance common stock at \$4.00 per share.

Prime Office Products, Inc. (Formerly Business Essentials, Inc.)

On April 22, 1999, the Company entered into a \$1.7 million commitment to invest with Brantley Partners IV, L.P. and Massey Burch Capital Corp. in a \$10.0 million preferred stock issue for Prime Office Products, Inc. ("Prime"). Prime is an office products marketing and distribution company based in Nashville, Tennessee. The first \$6.0 million of the commitment was funded to launch an acquisition strategy focused on office distribution companies serving primarily commercial and industrial customers. The remaining commitment will be funded upon the closing of additional acquisitions. As a result of the initial closing, the Company purchased 510,000 shares of Class A 8% Convertible Preferred Stock at \$2.00 per share.

Value Creation Partners, Inc.

On June 14, 2000, the Company completed a \$2.1 million commitment to invest with Brantley Partners IV, L.P. in a \$23.8 million preferred stock issue for Value Creation Partners, Inc. ("VCP"). VCP is an acquisition strategy investment in the food and beverage industry. The proceeds of the transaction were used to complete the acquisition of Best Brands, Inc., one of the six largest manufacturers and distributors of a complete line of premium ingredients, mixes and products, including equipment, for all segments of the baking industry. Its products are sold primarily to retail bakeries, bakery distributors, supermarket in-store bakeries, food wholesalers and food service establishments. As a result of this transaction, the Company has purchased approximately 35,000 and 269,989 shares of 8% Convertible Preferred stock at \$5.00 and \$7.30 per share, respectively.

Impact of Inflation

The Company does not believe that its business is materially affected by inflation, other than the impact which inflation may have on the securities markets, the valuations of business enterprises and the relationship of such valuations to underlying earnings, all of which will influence the value of the Company's investments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A business development company is required to describe the risk factors involved in an investment in the securities of a business development company due to the nature of the company's investment portfolio and capital structure. Accordingly, the Company states that its objective is to achieve capital appreciation through investments in businesses believed to have favorable growth potential. Such businesses are often small, undercapitalized companies that can lack management depth and have not yet attained consistent levels of profitability. The Company's private equity and equity-linked debt security investments often include securities that are subject to legal or contractual restrictions on resale, that adversely affect the liquidity and marketability of such securities.

The Company considers the management of equity price risk essential to conducting its business and maintaining its profitability. The Company manages this risk by maintaining a diverse portfolio of equity and equity-linked debt securities. A portion of the Company's investment portfolio consists of equity and equity-linked debt securities in private companies. The Company anticipates no impact on these investments from modest changes in public market equity prices. However, should significant changes in market prices occur, there could be a long-term effect on valuations of private companies, which could affect the carrying value and the amount and timing of gains realized on these investments. A portion of the Company's investment portfolio also consists of common stock and warrants to purchase common stock in publicly traded companies. These investments are directly exposed to equity price risk, in that a hypothetical ten percent change in these equity prices would result in a similar percentage change in the fair market value of these investments.

The portion of the Company's investment portfolio consisting of equity and equity-linked debt securities in private companies is also subject to valuation risk. Investments are stated at "fair value" as defined in the Act and in the applicable regulations of the Commission. All assets are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors. Because there is typically no public market for the equity and equity-linked debt securities in which the Company invests, the valuation of the equity interests in the Company's portfolio is subject to the estimates of the Company's Board of Directors in accordance with the Company's Investment Valuation Guidelines. In the absence of a readily ascertainable market value, the estimated value of the Company's portfolio of equity and equity-linked debt securities may differ significantly from the values that would be placed on the portfolio if a ready market for the investments existed. Any changes in valuation are recorded in the Company's consolidated statements of operations as "Net unrealized gain (loss) on investments".

Because of the speculative nature of the Company's investments and the lack of any market for the securities initially purchased by the Company, there is a significantly greater risk of loss than is the case with traditional investment securities. The high-risk, long-term nature of the Company's private equity investment activities may prevent stockholders of the Company from achieving price appreciation and dividend distributions.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- a. Exhibits
Reference is made to the Exhibit Index that is found on page 16 of this Form 10-Q.
- b. Reports on Form 8-K
During the quarter ended March 31, 2001, the Company filed no reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRANTLEY CAPITAL CORPORATION

Date: May 15, 2001

By: /s/ ROBERT P. PINKAS

Robert P. Pinkas
Chairman of the Board and
Chief Executive Officer

Date: May 15, 2001

By: /s/ TAB A. KEPLINGER

Tab A. Keplinger
Vice President and
Chief Financial Officer

EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934. (Asterisk denotes exhibits filed with this report.)

- Exhibit 3** Articles of Incorporation and By-laws
- (1) Articles of Amendment and Restatement of the Charter of the Company (Exhibit 3.1 to the Annual Report on Form 10-K filed on March 31, 1999, which exhibit is incorporated herein by reference)
 - (2) Amended and Restated Bylaws of the Company (Exhibit 3.2 to the Annual Report on Form 10-K filed on March 31, 1999, which exhibit is incorporated herein by reference)
- Exhibit 4** Form of Share Certificate (Exhibit 2.d to amendment No. 1 to the Registration Statement filed on October 31, 1996, which exhibit is incorporated herein by reference)
- Exhibit 10** Material Contracts
- (1) Dividend Reinvestment and Cash Purchase Plan (Exhibit 2.e to Amendment No. 3 to the Registration Statement filed on November 27, 1996, which exhibit is incorporated herein by reference)
 - (2) Form of Investment Advisory Agreement between the Company and the Investment Adviser (Exhibit 2.g to Amendment No. 3 to the Registration Statement filed on November 27, 1996, which exhibit is incorporated herein by reference)
 - (3) Stock Option Plan and Form of Option Grants (Exhibit 2.i.1 to Amendment No. 2 to the Registration Statement filed on November 22, 1996, which exhibit is incorporated herein by reference)
 - (4) Disinterested Director Option Plan and Form of Option Grants (Exhibit 2.i.2 to Amendment No. 2 to the Registration Statement filed on November 22, 1996, which exhibit is incorporated herein by reference)
 - (5) Form of Custodian Contract (Exhibit 2.j to Amendment No. 2 to the Registration Statement filed on November 22, 1996, which exhibit is incorporated herein by reference)
 - (6) Form of Registrar, Transfer Agency and Service Agreement (Exhibit 2.k.1 to Amendment No. 2 to the Registration Statement filed on November 22, 1996, which exhibit is incorporated herein by reference)
 - (7) Form of Administration Agreement (Exhibit 2.k.2 to Amendment No. 2 to the Registration Statement filed on November 22, 1996, which exhibit is incorporated herein by reference)
 - (8) Form of Indemnification Agreement for Directors and Officers (Exhibit 2.s to Amendment No. 2 to the Registration Statement filed on November 22, 1996, which exhibit is incorporated herein by reference)