

GLADSTONE CAPITAL CORP
Form 10-Q
July 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one):

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

OR

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
incorporation or organization)**

54-2040781
**(I.R.S. Employer
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 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares of the issuer's common stock, \$0.001 par value per share, outstanding as of July 28, 2015 was 21,131,622.

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GLADSTONE CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	June 30, 2015	September 30, 2014
ASSETS		
Investments at fair value:		
Non-Control/Non-Affiliate investments (Cost of \$266,122 and \$225,845, respectively)	\$ 256,044	\$ 198,926
Affiliate investments (Cost of \$80,525 and \$61,281, respectively)	68,435	57,006
Control investments (Cost of \$54,406 and \$62,159, respectively)	22,737	25,354
Total investments at fair value (Cost of \$401,053 and \$349,285, respectively)	347,216	281,286
Cash and cash equivalents	7,823	6,314
Restricted cash and cash equivalents	496	675
Interest receivable, net	5,174	2,767
Due from custodian	2,975	6,022
Deferred financing fees	4,339	3,340
Other assets, net	1,238	1,025
TOTAL ASSETS	\$ 369,261	\$ 301,429
LIABILITIES		
Borrowings at fair value (Cost of \$104,600 and \$36,700, respectively)	\$ 104,600	\$ 38,013
Mandatorily redeemable preferred stock, \$0.001 par value per share, \$25 liquidation preference per share; 4,000,000 shares authorized and 2,440,000 shares issued and outstanding	61,000	61,000
Accounts payable and accrued expenses	417	462
Interest payable	231	146
Fees due to Adviser ^(A)	1,218	875
Fee due to Administrator ^(A)	235	218
Other liabilities	918	1,055
TOTAL LIABILITIES	\$ 168,618	\$ 101,769
Commitments and contingencies ^(B)		
NET ASSETS		
Common stock, \$0.001 par value per share, 46,000,000 shares authorized; 21,131,622 shares issued and outstanding as of June 30, 2015 and 21,000,160 shares issued and outstanding as of September 30, 2014	\$ 21	\$ 21
Capital in excess of par value	294,144	307,348

Note receivable from employee ^(A)		(100)
Cumulative net unrealized depreciation of investments	(53,837)	(67,999)
Cumulative net unrealized (depreciation) (appreciation) of other	(61)	(1,374)
Overdistributed net investment income	(3,873)	(1,928)
Accumulated net realized losses	(35,751)	(36,308)
TOTAL NET ASSETS	\$ 200,643	\$ 199,660
NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD	\$ 9.49	\$ 9.51

(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 June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	\$ 7,003	\$ 6,105	\$ 20,199	\$ 18,831
Affiliate investments	1,793	1,519	4,492	2,570
Control investments	310	556	800	3,133
Other	1	4	4	12
Total interest income	9,107	8,184	25,495	24,546
Other income				
Non-Control/Non-Affiliate investments	578	670	1,656	1,631
Affiliate investments		701		701
Control investments	250	625	733	1,025
Total other income	828	1,996	2,389	3,357
Total investment income	9,935	10,180	27,884	27,903
EXPENSES				
Base management fee ^(A)	1,859	1,461	5,257	4,421
Loan servicing fee ^(A)	1,015	917	2,802	2,628
Incentive fee ^(A)	1,021	1,266	2,866	3,361
Administration fee ^(A)	235	219	784	635
Interest expense on borrowings	1,033	710	2,735	1,994
Dividend expense on mandatorily redeemable preferred stock	1,029	937	3,087	2,309
Amortization of deferred financing fees	253	314	857	944
Professional fees	315	98	899	725
Other general and administrative expenses	222	179	893	828
Expenses before credits from Adviser	6,982	6,101	20,180	17,845
Credit to base management fee loan servicing fee ^(A)	(1,015)	(917)	(2,802)	(2,628)
Credits to fees from Adviser other ^(A)	(868)	(67)	(1,714)	(1,272)
Total expenses, net of credits	5,099	5,117	15,664	13,945

NET INVESTMENT INCOME	4,836	5,063	12,220	13,958
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss):				
Non-Control/Non-Affiliate investments	(1,143)	54	435	(2,556)
Control investments			(14,459)	(10,733)
Escrows	68		(491)	30
Extinguishment of debt		(1,297)		(1,297)
Total net realized loss	(1,075)	(1,243)	(14,515)	(14,556)
Net unrealized appreciation (depreciation):				
Non-Control/Non-Affiliate investments	7,920	(3,203)	8,682	9,034
Affiliate investments	(7,465)	(18,246)	(7,815)	(24,741)
Control investments	(1,602)	(1,400)	13,295	5,795
Other	693	(1,146)	1,313	(1,261)
Total net unrealized (depreciation) appreciation	(454)	(23,995)	15,475	(11,173)
Net realized and unrealized (loss) gain	(1,529)	(25,238)	960	(25,729)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS				
	\$ 3,307	\$ (20,175)	\$ 13,180	\$ (11,771)
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	\$ 0.23	\$ 0.24	\$ 0.58	\$ 0.66
Net increase (decrease) in net assets resulting from operations	\$ 0.16	\$ (0.96)	\$ 0.63	\$ (0.56)
Distributions declared and paid	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.63
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic and Diluted	21,123,202	21,000,160	21,045,014	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
(IN THOUSANDS)
(UNAUDITED)

	Nine Months Ended June 30,	
	2015	2014
OPERATIONS		
Net investment income	\$ 12,220	\$ 13,958
Net realized loss on investments	(14,515)	(13,259)
Realized loss on extinguishment of debt		(1,297)
Net unrealized appreciation (depreciation) of investments and escrows	14,162	(9,912)
Net unrealized depreciation (appreciation) of other	1,313	(1,261)
Net increase (decrease) in net assets resulting from operations	13,180	(11,771)
DISTRIBUTIONS		
Distributions to common stockholders	(13,261)	(13,230)
CAPITAL TRANSACTIONS		
Repayment of principal on employee note ^(A)	100	
Issuance of common stock	1,169	
Offering costs for issuance of common stock	(205)	
Net increase in net assets resulting from capital transactions	1,064	
NET INCREASE (DECREASE) IN NET ASSETS	983	(25,001)
NET ASSETS, BEGINNING OF PERIOD	199,660	205,992
NET ASSETS, END OF PERIOD	\$ 200,643	\$ 180,991

^(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

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets resulting from operations	\$ 13,180	\$ (11,771)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(93,765)	(83,161)
Principal repayments on investments	10,060	47,333
Net proceeds from sale of investments	18,541	4,700
Increase in investment balance due to paid-in-kind interest	(463)	(208)
Net change in premiums, discounts and amortization	219	(70)
Cost adjustments on non-accrual loans	(384)	
Net realized loss on investments	14,024	13,289
Net unrealized (appreciation) depreciation of investments	(14,162)	9,912
Realized loss on extinguishment of debt		1,297
Net unrealized (depreciation) appreciation other	(1,313)	1,261
Decrease in restricted cash and cash equivalents	179	378
Amortization of deferred financing fees	857	944
Increase in interest receivable	(2,407)	(322)
Decrease in due from custodian	3,047	14,658
(Increase) decrease in other assets	(213)	323
(Decrease) increase in accounts payable and accrued expenses	(45)	56
Increase (decrease) in interest payable	85	(25)
Increase in fees due to Adviser ^(A)	343	247
Increase in fee due to Administrator ^(A)	16	93
(Decrease) increase in other liabilities	(137)	265
Net cash used in operating activities	(52,338)	(801)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of mandatorily redeemable preferred stock		61,000
Redemption of previously issued mandatorily redeemable preferred stock		(38,497)
Proceeds from borrowings	109,000	91,000
Repayments on borrowings	(41,100)	(102,800)
Deferred financing fees	(1,856)	(2,797)
Proceeds from issuance of common stock	1,169	
Offering costs for issuance of common stock	(205)	
Distributions paid to common stockholders	(13,261)	(13,230)

Receipt of principal on employee note	100	
Net cash provided by (used in) financing activities	53,847	(5,324)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,509	(6,125)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,314	13,900
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 7,823	\$ 7,775

(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 SCHEDULE OF INVESTMENTS

JUNE 30, 2015

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(N):					
Proprietary Investments:					
AG Transportation Holdings, LLC	Cargo transport	Secured Second Lien Debt (13.3%, Due 3/2018) ^(D)	\$ 13,000	\$ 13,000	\$ 13,000
		Member Profit Participation (18.0% ownership) ^{(F)(H)}		960	293
		Profit Participation Warrants (7.0% ownership) ^{(F)(H)}		244	
				14,204	13,293
Allison Publications, LLC	Printing and publishing	Secured First Lien Line of Credit, \$150 available (8.3%, Due 9/2016) ^(D)	450	450	449
		Secured First Lien Debt (8.3%, Due 9/2018) ^(D)	2,552	2,552	2,548
		Secured First Lien Debt (13.0%, Due 9/2018) ^{(C) (D)}	5,400	5,400	5,400
				8,402	8,397
Alloy Die Casting Corp.	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.5%, Due 10/2018) ^(D)	5,235	5,235	5,170
		Preferred Stock (1,742 shares) ^{(F)(H)}		1,742	1,223
		Common Stock (270 shares) ^{(F)(H)}		18	
				6,995	6,393
Behrens Manufacturing, LLC	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.0%, Due 12/2018) ^(D)	4,275	4,275	4,275
		Preferred Stock (1,253 shares) ^{(F)(H)(K)}		1,253	1,764

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				5,528	6,039
B+T Group Acquisition Inc.	Telecommunications	Secured First Lien Debt (13.0%, Due 12/2019) ^(D)	6,000	6,000	5,970
		Preferred Stock (5,503 shares) ^{(H)(F)(K)}		1,799	
				7,799	5,970
Chinese Yellow Pages Company	Printing and publishing	Secured First Lien Line of Credit, \$0 available (7.3%, Due 2/2015) ^(D)	108	108	46
Francis Drilling Fluids, Ltd.	Oil and gas	Secured Second Lien Debt (11.4%, Due 4/2020) ^(D)	15,000	15,000	14,175
		Secured Second Lien Debt (10.3%, Due 4/2020) ^(D)	7,000	7,000	6,580
		Preferred Equity Units (999 units) ^{(F)(H)}		648	747
		Common Equity Units (999 units) ^{(F)(H)}		1	206
				22,649	21,708
Funko, LLC	Personal and non-durable consumer products	Secured First Lien Debt (9.3%, Due 5/2019) ^{(D)(G)}	7,500	7,500	7,744
		Secured First Lien Debt (9.3%, Due 5/2019) ^{(D)(G)}	2,000	2,000	2,065
		Preferred Equity Units (1,305 units) ^{(F)(H)}		1,305	21,412
				10,805	31,221
Heartland Communications Group	Broadcasting and entertainment	Secured First Lien Line of Credit, \$0 available (5.0%, Due 6/2015) ^{(D)(G)(I)}	100	93	65
		Secured First Lien Line of Credit, \$0 available (10.0%, Due 6/2015) ^{(D)(G)(I)}	100	86	65
		Secured First Lien Debt (5.0%, Due 6/2015) ^{(D)(G)(I)}	4,342	4,031	980
		Common Stock Warrants (8.8% ownership) ^{(F)(H)}		66	
				4,276	1,110
J.America, Inc.	Personal and non-durable consumer products	Secured Second Lien Debt (10.4%, 2.0% PIK, Due 12/2019) ^{(D)(G)}	7,500	7,500	7,331
		Secured Second Lien Debt (11.5%, 2.0% PIK, Due 12/2019) ^{(D)(G)}	9,500	9,500	9,239
				17,000	16,570
Leeds Novamark Capital I, L.P.	Private equity fund healthcare,	Limited Partnership Interest (3.5% ownership,		633	411

education and childcare	\$2,362 uncalled capital commitment) ^{(H)(M)}
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Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(N) (Continued):					
Legend Communications of Wyoming, LLC	Broadcasting and entertainment	Secured First Lien Debt (11.0%, Due 11/2014) ^(D)	\$ 6,699	\$ 6,699	\$ 3,822
Meridian Rack & Pinion, Inc.	Automobile	Secured First Lien Debt (13.5%, Due 12/2018) ^(D)	4,140	4,140	4,124
		Preferred Stock (1,449 shares) ^{(F)(H)}		1,449	800
				5,589	4,924
Precision Acquisition Group Holdings, Inc.	Machinery	Equipment Note (11.0%, Due 4/2016) ^(D)	1,000	1,000	575
		Secured First Lien Debt (11.0%, Due 4/2016) ^(D)	4,125	4,125	2,351
		Secured First Lien Debt (11.0%, Due 4/2016) ^{(C)(D)}	4,053	4,053	2,290
				9,178	5,216
Saunders & Associates	Electronics	Secured First Lien Line of Credit, \$0 available (11.3%, Due 5/2013) ^{(D)(I)}	917	917	110
		Secured First Lien Debt (11.3%, Due 5/2013) ^{(D)(I)}	8,947	8,947	1,074
				9,864	1,184
Southern Petroleum Laboratories, Inc.	Oil and gas	Secured Second Lien Debt (11.5%, Due 2/2020) ^(D)	8,000	8,000	7,950
		Common Stock (100 shares) ^{(F)(H)}		750	1,301

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			8,750	9,251	
United Flexible, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$4,000 available (7.0%, Due 2/2018) ^(D)			
		Secured First Lien Debt (9.3%, Due 2/2020) ^(D)	21,000	21,000	21,000
		Preferred Stock (245 shares) ^{(F)(H)}		245	254
		Common Stock (500 shares) ^{(F)(H)}		5	80
			21,250	21,334	
Vision Government Solutions, Inc.	Diversified/conglomerate service	Secured First Lien Line of Credit, \$250 available (7.5%, Due 12/2017) ^(D)	1,750	1,750	1,754
		Secured First Lien Debt (9.75%, Due 12/2019) ^(D)	9,000	9,000	9,023
			10,750	10,777	
WadeCo Specialties, Inc.	Oil and gas	Secured First Lien Line of Credit, \$2,525 available (8.0%, Due 3/2016) ^(D)	2,475	2,475	2,400
		Secured First Lien Debt (8.0%, Due 3/2019) ^(D)	13,000	13,000	12,610
		Secured First Lien Debt (12.0%, Due 3/2019) ^(D)	7,000	7,000	6,720
		Preferred Stock (1,000 shares) ^{(F)(H)}		313	443
			22,788	22,173	
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Debt (12.5%, Due 4/2016) ^(D)	4,000	4,000	3,995
		Common Stock (58,333 shares) ^{(F)(H)}		408	144
			4,408	4,139	
Subtotal Non-Control/Non-Affiliate Proprietary Investments			\$ 197,675	\$ 193,978	
Syndicated Investments:					
Ameriquel Group, LLC	Beverage, food and tobacco	Secured First Lien Debt (9.0% and 1.3%)	\$ 7,358	\$ 7,330	\$ 6,990

Ardent Medical Services, Inc.	Healthcare, education and childcare	PIK, Due 3/2016) ^(E) Secured Second Lien Debt (11.0%, Due 1/2019) ^(J)	7,143	7,136	7,223
Autoparts Holdings Limited	Automobile	Secured Second Lien Debt (11.0%, Due 1/2018) ^(E)	700	698	637
First American Payment Systems, L.P.	Finance	Secured Second Lien Debt (10.8%, Due 4/2019) ^(D)	4,195	4,171	4,146
GTCR Valor Companies, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 11/2021) ^(E)	3,000	2,983	2,910
New Trident Holdcorp, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.3%, Due 7/2020) ^(E)	4,000	3,988	3,800

Table of Contents**GLADSTONE CAPITAL CORPORATION****CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****JUNE 30, 2015****(DOLLAR AMOUNTS IN THOUSANDS)****(UNAUDITED)**

Company^(A)	Industry	Investment^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(N) (Continued):					
PLATO Learning, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (10.0% PIK, Due 6/2020) ^(F)	\$ 2,652	\$ 2,596	\$ 1,750
		Common Stock (21,429 shares) ^{(F)(H)}		2,636	
				5,232	1,750
PSC Industrial Holdings Corp.	Diversified/conglomerate service	Secured Second Lien Debt (9.3%, Due 12/2021) ^(E)	3,500	3,434	3,465
RP Crown Parent, LLC	Electronics	Secured Second Lien Debt (11.3%, Due 12/2019) ^(E)	2,000	1,970	1,840
SourceHOV LLC	Finance	Secured Second Lien Debt (11.5%, Due 4/2020) ^(E)	5,000	4,815	4,400
Targus Group International, Inc.	Textiles and leather	Secured First Lien Debt (12.8% and 2.0% PIK, Due 5/2016) ^(E)	8,953	8,917	7,431
The Active Network, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 11/2021) ^(E)	1,000	995	948
Vertellus Specialties Inc.	Chemicals, plastics and rubber	Secured First Lien Debt (10.5%, Due 10/2019) ^(E)	3,970	3,844	3,752
Vision Solutions, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 7/2017) ^(E)	8,000	7,964	7,960
Vitera Healthcare Solutions, LLC	Healthcare, education and childcare	Secured Second Lien Debt (9.3%, Due 11/2021) ^(E)	4,500	4,475	4,410
W3 Co.	Oil and gas	Secured Second Lien Debt (9.3%, Due	499	495	404

9/2020)^(E)**Subtotal Syndicated
Investments**

\$ 68,447 \$ 62,066

**Total Non-Control/Non-Affiliate Investments (represented 73.7% of total
investments at fair value)**

\$ 266,122 \$ 256,044

**AFFILIATE
INVESTMENTS^(O) :****Proprietary Investments:**

Ashland Acquisition LLC	Printing and publishing	Secured First Lien Line of Credit, \$1,500 available (12.0%, Due 7/2016) ^{(D)(G)}	\$	\$	\$
		Secured First Lien Debt (12.0%, Due 7/2018) ^{(D)(G)}	7,000	7,000	7,044
		Preferred Equity Units (4,400 units) ^{(F)(H)}		440	557
		Common Equity Units (4,400 units) ^{(F)(H)}			63
				7,440	7,664
Edge Adhesives Holdings, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$7 available (12.5%, Due 2/2016) ^(D)	993	993	987
		Secured First Lien Debt (12.5%, Due 2/2019) ^(D)	6,200	6,200	6,169
		Secured First Lien Debt (13.8%, Due 2/2019) ^(D)	1,600	1,600	1,594
		Preferred Stock (2,516 shares) ^{(F)(H)}		2,516	967
				11,309	9,717
FedCap Partners, LLC	Private equity fund aerospace and defense	Class A Membership Units (80 units) ^{(H)(L)}		1,634	1,647
Lignetics, Inc.	Diversified natural resources, precious metals and minerals	Secured Second Lien Debt (12.0%, Due 2/2021) ^(D)	6,000	6,000	5,985
		Secured Second Lien Debt (12.0%, Due 2/2021) ^(D)	6,000	6,000	5,985
		Common Stock (139,330 shares) ^{(F)(H)}		1,590	1,946
				13,590	13,916
			1,400	1,400	1,416

LWO Acquisitions Company LLC	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, \$1,600 available (6.5%, Due 12/2017) ^(D)			
		Secured First Lien Debt (9.5%, Due 12/2019) ^(D)	10,579	10,579	10,698
		Common Stock (921,000 shares) ^{(F)(H)}		921	961
				12,900	13,075

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2015

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
AFFILIATE INVESTMENTS^(O) (Continued):					
RBC Acquisition Corp.	Healthcare, education and childcare	Secured First Lien Line of Credit, \$0 available (9.0%, Due 12/2015) ^(F)	4,000	4,000	4,000
		Mortgage Note (9.5%, Due 12/2015) ^{(F)(G)}	6,891	6,891	6,891
		Secured First Lien Debt (12.0%, Due 12/2015) ^{(C)(F)}	11,392	11,392	11,392
		Secured First Lien Debt (12.5%, Due 12/2015) ^{(F)(G)}	6,000	6,000	133
		Preferred Stock (4,999,000 shares) ^{(F)(H)(K)}		4,999	
		Common Stock (2,000,000 shares) ^{(F)(H)}		370	
				33,652	22,416
Total Affiliate Proprietary Investments (represented 19.7% of total investments at fair value)				\$ 80,525	\$ 68,435
CONTROL INVESTMENTS^(P):					
Proprietary Investments:					
Defiance Integrated Technologies, Inc.	Automobile	Secured Second Lien Debt (11.0%, Due 4/2016) ^(F)	\$ 6,385	\$ 6,385	\$ 6,385
		Common Stock (15,500 shares) ^{(F)(H)}		1	6,106
				6,386	12,491
GFRC Holdings, LLC	Buildings and real estate	Secured First Lien Line of Credit, \$0 available (10.5%, Due 12/2014) ^{(F)(I)}	986	986	160
		Secured First Lien Debt (10.5%, Due 6/2016) ^{(F)(I)}	4,924	4,924	797
			6,598	6,598	1,068

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Secured First Lien Debt
(13.0%, Due 6/2016)^{(F)(I)}

			12,508	2,025
Lindmark Acquisition, LLC	Broadcasting and entertainment	Secured First Lien Debt, \$3,120 available (25.0%, Due Upon Demand) ^{(F)(G)}		
		Success Fee on Secured Second Lien Debt ^(F)		64
		Common Stock (100 shares) ^{(F)(H)}	317	
			317	64
Sunshine Media Holdings	Printing and publishing	Secured First Lien Line of Credit, \$468 available (8.0%, Due 5/2016) ^{(F)(G)}	1,532	1,532
		Secured First Lien Debt (8.0%, Due 5/2016) ^{(F)(G)}	5,000	5,000
		Secured First Lien Debt (4.8%, Due 5/2016) ^{(F)(I)}	11,948	11,948
		Secured First Lien Debt (5.5%, Due 5/2016) ^{(C)(F)(I)}	10,700	10,700
		Preferred Stock (15,270 shares) ^{(F)(H)(K)}		5,275
		Common Stock (1,867 shares) ^{(F)(H)}		740
		Common Stock Warrants (72 shares) ^{(F)(H)}		
			35,195	8,157
Total Control Proprietary Investments (represented 6.6% of total investments at fair value)			\$ 54,406	\$ 22,737
TOTAL INVESTMENTS			\$ 401,053	\$ 347,216

- (A) Certain of the securities listed in this schedule are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling \$292.3 million at fair value, are pledged as collateral to our Credit Facility, as described further in Note 5 *Borrowings*. Additionally, two of our investments (FedCap Partners, LLC and Leeds Novamark Capital I, L.P.) are considered non-qualifying assets under Section 55 of the Investment Company Act of 1940, as amended, (the 1940 Act) as of June 30, 2015.
- (B) Percentages represent cash interest rates (which are generally indexed off of the 30-day London Interbank Offered Rate (LIBOR)) in effect at June 30, 2015, and due dates represent the contractual maturity date. If applicable, paid-in-kind (PIK) interest rates are noted separately from the cash interest rates and any unused line of credit fees are excluded. Secured first lien debt securities generally take the form of first priority liens on the assets of the underlying businesses.
- (C) Last out tranche (LOT) of secured first lien debt, meaning if the portfolio company is liquidated, the holder of the LOT is generally paid after the other secured first lien debt holders but before all other debt and equity holders.
- (D)

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- Fair value was based on an internal yield analysis or on estimates of value submitted by Standard & Poor's Securities Evaluations, Inc. (SPSE).
- (E) Fair value was based on the indicative bid price (IBP) on or near June 30, 2015, offered by the respective syndication agent's trading desk.
 - (F) Fair value was based on the total enterprise value (TEV) of the portfolio company, which was then allocated to the portfolio company's securities in order of their relative priority in the capital structure.
 - (G) Debt security has a fixed interest rate.
 - (H) Investment is non-income producing.
 - (I) Investment is on non-accrual status.
 - (J) Investment was exited subsequent to June 30, 2015, and, as such, was valued based on the exit price.

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GLADSTONE CAPITAL CORPORATION
CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
JUNE 30, 2015
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

- (K) Aggregates all shares of such class of stock owned without regard to specific series owned within such class, some series of which may or may not be voting shares.
- (L) There are certain limitations on our ability to transfer our units owned, withdraw or resign prior to dissolution of the entity, which must occur no later than May 3, 2020.
- (M) There are certain limitations on our ability to withdraw our partnership interest prior to dissolution of the entity, which must occur no later than May, 9, 2024 or two years after all outstanding leverage has matured.
- (N) Non-Control/Non-Affiliate investments, as defined by the 1940 Act, are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.
- (O) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between 5.0% and 25.0% of the issued and outstanding voting securities.
- (P) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.

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

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(P):					
Proprietary Investments:					
AG Transportation Holdings, LLC	Cargo transport	Secured Second Lien Debt (13.3%, Due 3/2018) ^(D)	\$ 13,000	\$ 12,899	\$ 12,838
		Member Profit Participation (18.0% ownership) ^{(F)(H)}		1,000	
		Profit Participation Warrants (7.0% ownership) ^{(F)(H)}		244	
				14,143	12,838
Allison Publications, LLC	Printing and publishing	Secured First Lien Line of Credit, \$0 available (8.3%, Due 9/2016) ^(D)	600	600	598
		Secured First Lien Debt (8.3%, Due 9/2018) ^(D)	2,875	2,875	2,864
		Secured First Lien Debt (13.0%, Due 9/2018) ^{(C)(D)}	5,400	5,400	5,380
				8,875	8,842
Alloy Die Casting Corp.	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.5%, Due 10/2018) ^(D)	5,235	5,235	5,228
		Preferred Stock (1,742 shares) ^{(F)(H)}		1,742	1,122
		Common Stock (270 shares) ^{(F)(H)}		18	
				6,995	6,350
Behrens Manufacturing, LLC	Diversified/conglomerate manufacturing	Secured First Lien Debt (13.0%, Due 12/2018) ^(D)	4,275	4,275	4,280
		Preferred Stock (1,253 shares) ^{(F)(H)(M)}		1,253	1,150

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			5,528	5,430	
Chinese Yellow Pages Company	Printing and publishing	Secured First Lien Line of Credit, \$0 available (7.3%, Due 2/2015) ^(D)	108	108	95
Francis Drilling Fluids, Ltd.	Oil and gas	Secured Second Lien Debt (12.4%, Due 11/2017) ^{(D)(K)}	15,000	15,000	14,550
		Secured Second Lien Debt (11.3%, Due 11/2017) ^{(J)(K)}	7,000	7,000	7,000
		Preferred Equity Units (999 units) ^{(F)(H)}		983	1,081
		Common Equity Units (999 units) ^{(F)(H)}		1	206
			22,984	22,837	
Funko, LLC	Personal and non-durable consumer products	Secured First Lien Debt (12.0% and 1.5% PIK, Due 5/2019) ^(D)	7,645	7,645	7,817
		Preferred Equity Units (1,305 units) ^{(F)(H)}		1,305	5,691
			8,950	13,508	
GFRC Holdings, LLC	Buildings and real estate	Secured First Lien Line of Credit, \$130 available (10.5%, Due 12/2014) ^(D)	270	270	149
		Secured First Lien Debt (10.5%, Due 6/2016) ^(D)	4,924	4,924	2,708
		Secured First Lien Debt (13.0%, Due 6/2016) ^(D)	6,598	6,598	3,761
			11,792	6,618	
Heartland Communications Group	Broadcasting and entertainment	Secured First Lien Line of Credit, \$0 available (5.0%, Due 9/2014) ^{(D)(G)(I)}	100	97	65
		Secured First Lien Line of Credit, \$0 available (10.0%, Due 9/2014) ^{(D)(G)(I)}	100	93	65
		Secured First Lien Debt (5.0%, Due 9/2014) ^{(D)(G)(I)}	4,342	4,196	809
		Common Stock Warrants (8.8% ownership) ^{(F)(H)}		66	
			4,452	939	
J.America, Inc.	Personal and non-durable consumer products	Secured Second Lien Debt (10.4%, Due 12/2019) ^{(D)(G)}	7,500	7,500	7,350
			9,500	9,500	9,298

Secured Second Lien Debt (11.5%, Due 12/2019) ^{(D)(G)}					
				17,000	16,648
Leeds Novamark Capital I, L.P.	Private equity fund healthcare, education and childcare	Limited Partnership Interest (3.5% ownership, \$2,827 uncalled capital commitment) ^{(H)(O)}		173	36
Legend Communications of Wyoming, LLC	Broadcasting and entertainment	Secured First Lien Debt (12.0%, Due 1/2014) ^(D)	6,699	6,699	3,757

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(P) (Continued):					
Meridian Rack & Pinion, Inc.	Automobile	Secured First Lien Debt (13.5%, Due 12/2018) ^(D)	\$ 4,140	\$ 4,140	\$ 4,135
		Preferred Stock (1,449 shares) ^{(F)(H)}		1,449	1,549
				5,589	5,684
North American Aircraft Services, LLC	Aerospace and defense	Secured Second Lien Debt (12.5%, Due 8/2016) ^{(F)(L)}	2,115	2,115	2,115
		Success Fee on Secured Second Lien Debt ^{(F)(L)}			639
		Common Stock Warrants (35,000 shares) ^{(F)(H)(L)}		350	1,928
				2,465	4,682
Precision Acquisition Group Holdings, Inc.	Machinery	Equipment Note (9.0%, Due 3/2015) ^(D)	1,000	1,000	881
		Secured First Lien Debt (9.0%, Due 3/2015) ^(D)	4,125	4,125	485
		Secured First Lien Debt (9.0%, Due 3/2015) ^{(C)(D)}	4,053	4,053	457
				9,178	1,823
Saunders & Associates	Electronics	Secured First Lien Line of Credit, \$0 available (11.3%, Due 5/2013) ^(D)	917	917	413
		Secured First Lien Debt (11.3%, Due 5/2013) ^(D)	8,947	8,947	4,026
				9,864	4,439
Southern Petroleum Laboratories, Inc.	Oil and gas	Secured Second Lien Debt (11.5%, Due 2/2020) ^(J)	8,000	8,000	8,000
				750	750

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			Common Stock (100 shares) ^{(H)(J)}		
				8,750	8,750
Sunburst Media LLC	Louisiana, Broadcasting and entertainment	Secured First Lien Debt (8.5%, Due 2/2016) ^{(F)(G)}	6,026	6,026	1,600
WadeCo Specialties, Inc.	Oil and gas	Secured First Lien Line of Credit, \$526 available (8.0%, Due 3/2015) ^(D)	1,474	1,474	1,452
		Secured First Lien Debt (8.0%, Due 3/2019) ^(D)	4,500	4,500	4,433
		Secured First Lien Debt (12.0%, Due 3/2019) ^(D)	4,500	4,500	4,421
		Preferred Stock (1,000 shares) ^{(F)(H)}		250	454
				10,724	10,760
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Debt (7.5%, Due 4/2016) ^(D)	50	50	46
		Secured First Lien Debt (12.5%, Due 4/2016) ^(D)	4,000	4,000	3,699
		Common Stock (58,333 shares) ^(H)		408	58
				4,458	3,803
Subtotal Non-Control/Non-Affiliate Proprietary Investments				\$ 164,753	\$ 139,439

Syndicated Investm