

GLADSTONE CAPITAL CORP
Form 10-Q
February 02, 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 DECEMBER 31, 2014

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: 811-000000

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

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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 January 30, 2015 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, 2014	September 30, 2014
ASSETS		
Investments at fair value:		
Non-Control/Non-Affiliate investments (Cost of \$283,539 and \$225,845, respectively)	\$ 249,107	\$ 198,926
Affiliate investments (Cost of \$60,275 and \$61,281, respectively)	55,747	57,006
Control investments (Cost of \$42,046 and \$62,159, respectively)	21,770	25,354
Total investments at fair value (Cost of \$385,860 and \$349,285, respectively)	326,624	281,286
Cash and cash equivalents	6,380	6,314
Restricted cash and cash equivalents	974	675
Interest receivable	3,583	2,767
Due from custodian	1,999	6,022
Deferred financing fees	3,039	3,340
Other assets	1,382	1,025
TOTAL ASSETS	\$ 343,981	\$ 301,429
LIABILITIES		
Borrowings at fair value (Cost of \$83,500 and \$36,700, respectively)	\$ 84,078	\$ 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	590	462
Interest payable	207	146
Fees due to Adviser ^(A)	1,470	875
Fee due to Administrator ^(A)	281	218
Other liabilities	774	1,055
TOTAL LIABILITIES	\$ 148,400	\$ 101,769
Commitments and contingencies ^(B)		
NET ASSETS		
Common stock, \$0.001 par value per share, 46,000,000 shares authorized and 21,000,160 shares issued and outstanding	\$ 21	\$ 21

Capital in excess of par value	292,859	307,348
Note receivable from employee ^(A)	(100)	(100)
Cumulative net unrealized depreciation of investments	(59,236)	(67,999)
Cumulative net unrealized appreciation of other	(639)	(1,374)
Overdistributed net investment income	(3,873)	(1,928)
Accumulated net realized losses	(33,451)	(36,308)
TOTAL NET ASSETS	\$ 195,581	\$ 199,660
NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD	\$ 9.31	\$ 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 December 31,	
	2014	2013
INVESTMENT INCOME		
Interest income		
Non-Control/Non-Affiliate investments	\$ 6,343	\$ 6,399
Affiliate investments	1,121	219
Control investments	182	1,569
Other	2	4
Total interest income	7,648	8,191
Other income		
Non-Control/Non-Affiliate investments	1,078	1
Affiliate investments		
Control investments		200
Total other income	1,078	201
Total investment income	8,726	8,392
EXPENSES		
Base management fee ^(A)	1,597	1,456
Loan servicing fee ^(A)	832	884
Incentive fee ^(A)	922	974
Administration fee ^(A)	281	203
Interest expense on borrowings	678	615
Dividend expense on mandatorily redeemable preferred stock	1,029	686
Amortization of deferred financing fees	302	315
Professional fees	374	290
Other general and administrative expenses	264	321
Expenses before credits from Adviser	6,279	5,744
Credit to base management fee - loan servicing fee ^(A)	(832)	(884)
Credits to fees from Adviser - other ^(A)	(412)	(878)
Total expenses, net of credits	5,035	3,982
NET INVESTMENT INCOME	3,691	4,410

NET REALIZED AND UNREALIZED (LOSS) GAIN		
Net realized (loss) gain:		
Non-Control/Non-Affiliate investments	1,578	
Control investments	(14,459)	(10,732)
Escrows	23	(42)
Total net realized loss	(12,858)	(10,774)
Net unrealized appreciation (depreciation):		
Non-Control/Non-Affiliate investments	(7,513)	2,094
Affiliate investments	(252)	(155)
Control investments	16,528	14,938
Other	735	(7)
Total net unrealized appreciation	9,498	16,870
Net realized and unrealized (loss) gain	(3,360)	6,096
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		
	\$ 331	\$ 10,506
BASIC AND DILUTED PER COMMON SHARE:		
Net investment income	\$ 0.18	\$ 0.21
Net increase in net assets resulting from operations	\$ 0.02	\$ 0.50
Distributions declared and paid	\$ 0.21	\$ 0.21
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: Basic and Diluted		
	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
(IN THOUSANDS)
(UNAUDITED)

	Three Months Ended December 31,	
	2014	2013
OPERATIONS		
Net investment income	\$ 3,691	\$ 4,410
Net realized loss on investments	(12,858)	(10,774)
Net unrealized appreciation of investments	8,763	16,877
Net unrealized depreciation (appreciation) of other	735	(7)
Net increase in net assets resulting from operations	331	10,506
DISTRIBUTIONS		
Distributions to common stockholders	(4,410)	(4,410)
NET (DECREASE) INCREASE IN NET ASSETS	(4,079)	6,096
NET ASSETS, BEGINNING OF PERIOD	199,660	205,992
NET ASSETS, END OF PERIOD	\$ 195,581	\$ 212,088

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)

	Three Months Ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	\$ 331	\$ 10,506
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(61,465)	(44,881)
Principal repayments on investments	4,497	24,667
Net proceeds from sale of investments	7,713	
Increase in investment balance due to paid-in-kind interest	(70)	(53)
Net change in premiums, discounts and amortization	371	84
Interest payments received on non-accrual loans	(502)	
Net realized loss on investments	12,881	10,732
Net unrealized appreciation of investments	(8,763)	(16,877)
Net unrealized (depreciation) appreciation other	(735)	7
(Increase) decrease in restricted cash and cash equivalents	(299)	307
Amortization of deferred financing fees	302	315
(Increase) decrease in interest receivable	(816)	3
Decrease in due from custodian	4,023	14,344
(Increase) decrease in other assets	(357)	177
Increase (decrease) in accounts payable and accrued expenses	128	(2)
Increase (decrease) in interest payable	61	(22)
Increase (decrease) in fees due to Adviser ^(A)	595	(851)
Increase in fee due to Administrator ^(A)	63	77
(Decrease) increase in other liabilities	(281)	267
Net cash used in operating activities	(42,323)	(1,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	59,500	42,400
Repayments on borrowings	(12,700)	(41,600)
Deferred financing fees	(1)	
Distributions paid to common stockholders	(4,410)	(4,410)
Net cash provided by (used in) financing activities	42,389	(3,610)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	66	(4,810)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,314	13,900
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 6,380	\$ 9,090

^(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
CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2014

(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	Senior Subordinated Term Debt (13.3%, Due 3/2018) ^(D)	\$ 13,000	\$ 12,920	\$ 12,805
		Member Profit Participation (18.0% ownership) ^{(F) (H)}		1,000	
		Profit Participation Warrants (7.0% ownership) ^{(F) (H)}		244	
				14,164	12,805
Allison Publications, LLC	Printing and publishing	Line of Credit, \$0 available (8.3%, Due 9/2016) ^(D)	600	600	596
		Senior Term Debt (8.3%, Due 9/2018) ^(D)	2,875	2,875	2,853
		Senior Term Debt (13.0%, Due 9/2018) ^{(C) (D)}	5,400	5,400	5,366
				8,875	8,815
Alloy Die Casting Co.	Diversified/conglomerate Manufacturing	Senior Term Debt (13.5%, Due 10/2018) ^(D)	5,235	5,235	5,183
		Preferred Stock (1,742 units) ^{(F) (H)}		1,742	1,585
		Common Stock (270 units) ^{(F) (H)}		18	
				6,995	6,768
Behrens Manufacturing, LLC	Diversified/conglomerate manufacturing	Senior Term Debt (13.0%, Due 12/2018) ^(D)	4,275	4,275	4,232
		Preferred Stock (1,252 shares) ^{(F) (H) (K)}		1,253	1,203
				5,528	5,435
B+T Group Acquisition Inc.	Telecommunications		300	300	300

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		Line of Credit, \$300 available (10.0%, Due 6/2015) ^(J)			
		Senior Term Debt (13.0%, Due 12/2019) ^(J)	6,000	6,000	6,000
		Convertible Preferred Stock (5,503 units) ^{(H) (J) (K)}		1,799	1,799
				8,099	8,099
Chinese Yellow Pages Company	Printing and publishing	Line of Credit, \$0 available (7.3%, Due 2/2015) ^(D)	108	108	81
Circuitronics, Inc.	Diversified/conglomerate manufacturing	Line of Credit, \$1,500 available (6.5%, Due 12/2017) ^(J)	1,500	1,500	1,500
		Senior Term Debt (9.5%, Due 12/2019) ^(J)	11,000	11,000	11,000
		Common Stock (100 shares) ^{(H) (J)}		1,000	1,000
				13,500	13,500
Francis Drilling Fluids, Ltd.	Oil and gas	Senior Subordinated Term Debt (11.4%, Due 4/2020) ^(D)	15,000	15,000	14,025
		Senior Subordinated Term Debt (10.3%, Due 4/2020) ^(D)	7,000	7,000	6,545
		Preferred Equity Units (999 units) ^{(F) (H)}		648	747
		Common Equity Units (999 units) ^{(F) (H)}		1	206
				22,649	21,523
Funko, LLC	Personal and non-durable consumer products	Senior Subordinated Term Debt (9.5%, Due 5/2019) ^{(J)(G)}	7,500	7,500	7,500
		Senior Subordinated Term Debt (9.5%, Due 5/2019) ^{(J)(G)}		2,000	2,000
		Preferred Equity Units (1,305 units) ^{(F) (H)}		1,305	9,511
				10,805	19,011
GFRC Holdings, LLC	Buildings and real estate	Line of Credit, \$130 available (10.5%, Due 12/2014) ^(D)	270	270	134
		Senior Term Debt (10.5%, Due 6/2016) ^(D)	4,924	4,924	2,435
		Senior Subordinated Term Debt (13.0%, Due 6/2016) ^(D)	6,598	6,598	1,064
				11,792	3,633

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Heartland Communications Group	Broadcasting and entertainment	Line of Credit, \$0 available (5.0%, Due 9/2014) ^{(D) (G) (I)}	100	95	65
		Line of Credit, \$0 available (10.0%, Due 9/2014) ^{(D) (G) (I)}	100	91	65
		Senior Term Debt (5.0%, Due 9/2014) ^{(D) (G) (I)}	4,342	4,141	824
		Common Stock Warrants (8.8% ownership) ^{(F) (H)}		66	
			4,393	954	
J. America, Inc.	Personal and non-durable consumer products	Senior Subordinated Term Debt (10.4%, Due 12/2019) ^{(D)(G)}	7,500	7,500	7,125
		Senior Subordinated Term Debt (11.5%, Due 12/2019) ^{(D)(G)}	9,500	9,500	8,978
				17,000	16,103
Leeds Novamark Capital I, L.P.	Private equity fund healthcare, education and childcare	Limited Partnership Interest (3.5% ownership, \$2,778 uncalled capital commitment) ^{(H) (M)}		217	49

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS^(N) (Continued):					
Legend Communications of Wyoming, LLC	Broadcasting and entertainment	Senior Term Debt (11.0%, Due 11/2014) ^(D)	\$ 6,699	\$ 6,699	\$ 3,724
Meridian Rack & Pinion, Inc.	Automobile	Senior Term Debt (13.5%, Due 12/2018) ^(D)	4,140	4,140	4,114
		Convertible Preferred Stock (1,449 shares) ^(F) (H)		1,449	1,279
				5,589	5,393
Precision Acquisition Group Holdings, Inc.	Machinery	Equipment Note (9.0%, Due 3/2015) ^(D)	1,000	1,000	890
		Senior Term Debt (9.0%, Due 3/2015) ^(D)	4,125	4,125	1,096
		Senior Term Debt (9.0%, Due 3/2015) ^{(C) (D)}	4,053	4,053	457
				9,178	2,443
Saunders & Associates	Electronics	Line of Credit, \$0 available (11.3%, Due 5/2013) ^(D)	917	917	275
		Senior Term Debt (11.3%, Due 5/2013) ^(D)	8,947	8,947	2,684
				9,864	2,959
Southern Petroleum Laboratories, Inc.	Oil and gas	Senior Subordinated Term Debt (11.5%, Due 2/2020) ^(D)	8,000	8,000	7,940
		Common Stock (100 shares) ^{(F) (H)}		750	750
				8,750	8,690

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Sunburst Media - Louisiana, LLC	Broadcasting and entertainment	Senior Term Debt (8.5%, Due 2/2016) ^{(F) (G)}	6,026	6,026	1,600
Vision Government Solutions, Inc.	Diversified/conglomerate service	Line of Credit, \$1,000 available (7.5%, Due 12/2017) ^(J)	1,000	1,000	1,000
		Senior Term Debt (9.75%, Due 12/2019) ^(J)	9,000	9,000	9,000
				10,000	10,000
WadeCo Specialties, Inc.	Oil and gas	Line of Credit, \$3,526 available (8.0%, Due 3/2016) ^(D)	1,474	1,474	1,416
		Senior Term Debt (8.0%, Due 3/2019) ^(D)	13,000	13,000	12,480
		Senior Subordinated Term Debt (12.0%, Due 3/2019) ^(D)	7,000	7,000	6,685
		Convertible Preferred Stock (1,000 shares) ^{(F) (H)}		313	516
				21,787	21,097
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Senior Term Debt (7.5%, Due 4/2016) ^(D)	50	50	50
		Senior Term Debt (12.5%, Due 4/2016) ^(D)	4,000	4,000	3,728
		Common Stock (58,333 shares) ^{(F) (H)}		408	58
				4,458	3,836
Subtotal Proprietary Investments				\$ 206,476	\$ 176,518
Syndicated Investments:					
Ameriquel Group, LLC	Beverage, food and tobacco	Senior Term Debt (9.0% and 1.5% PIK, Due 3/2016) ^(E)	\$ 7,344	\$ 7,300	\$ 6,243
Ardent Medical Services, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (11.0%, Due 1/2019) ^(E)	7,143	7,135	7,107
Autoparts Holdings Limited	Automobile	Senior Term Debt (10.5%, Due 1/2018) ^(E)	700	697	684
Blue Coat Systems, Inc.	Electronics	Senior Subordinated Term Debt (9.5%, Due 6/2020) ^(E)	3,000	2,975	2,925
Envision Acquisition Company, LLC	Healthcare, education and childcare	Senior Subordinated Term Debt (9.8%, Due	2,500	2,455	2,463

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11/2021)^(E)

First American Payment Systems, L.P.	Finance	Senior Subordinated Term Debt (10.8%, Due 4/2019) ^(E)	4,195	4,168	4,158
GTCR Valor Companies, Inc.	Electronics	Senior Subordinated Term Debt (9.5%, Due 11/2021) ^(E)	3,000	2,982	2,880
New Trident Holdcorp, Inc.	Healthcare, education and childcare	Senior Subordinated Term Debt (10.3%, Due 7/2020) ^(E)	4,000	3,987	3,960

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(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	Senior Subordinated Term Debt (11.3%, Due 5/2019) ^(E)	\$ 5,000	\$ 4,928	\$ 4,250
PSC Industrial Holdings Corp	Oil and gas	Senior Subordinated Term Debt (10.5%, Due 12/2021) ^(E)	3,500	3,430	3,430
RP Crown Parent, LLC	Electronics	Senior Subordinated Term Debt (11.3%, Due 12/2019) ^(E)	2,000	1,968	1,660
Sensus USA, Inc.	Electronics	Senior Term Debt (8.5%, Due 5/2018) ^(E)	500	497	475
SourceHOV LLC	Finance	Senior Subordinated Term Debt (11.5%, Due 4/2020) ^(E)	5,000	4,803	4,762
Targus Group International, Inc.	Textiles and leather	Senior Term Debt (11.0% and 1.0% PIK, Due 5/2016) ^(E)	9,031	8,964	7,496
The Active Network	Electronics	Senior Subordinated Term Debt (9.5%, Due 11/2021) ^(E)	1,000	995	965
Vertellus Specialties, Inc.	Chemicals, plastics and rubber	Senior Term Debt (10.5%, Due 10/2019) ^(E)	3,990	3,853	3,751
Vision Solutions, Inc.	Electronics	Senior Term Debt (9.5%, Due 7/2017) ^(E)	11,000	10,957	10,559
Vitera Healthcare Solutions, LLC	Healthcare, education and childcare	Senior Subordinated Term Debt (9.3%, Due 11/2021) ^(E)	4,500	4,474	4,342

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W3, Co.	Oil and gas	Senior Subordinated Term Debt (9.3%, Due 9/2020) ^(E)	499	495	479
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Subtotal - Syndicated Investments			\$ 77,063	\$ 72,589	
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Total Non-Control/Non-Affiliate Investments (represented 76.3% of total investments at fair value)			\$ 283,539	\$ 249,107	
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**AFFILIATE
INVESTMENTS^(O) :**

Ashland Acquisition, LLC	Printing and publishing	Line of Credit, \$1,500 available (12.0%, Due 7/2016) ^{(D) (G)}	\$	\$	\$
		Senior Term Debt (12.0%, Due 7/2018) ^{(D) (G)}	7,000	7,000	7,018
		Preferred Equity Units (4,400 units) ^{(F) (H)}		440	205
		Common Equity Units (4,400 units) ^{(F) (H)}			
				7,440	7,223
Edge Adhesives Holdings, Inc.	Diversified/conglomerate manufacturing	Line of Credit, \$567 available (12.5%, Due 8/2015) ^(D)	433	433	431
		Senior Term Debt (12.5%, Due 2/2019) ^(D)	6,200	6,200	6,184
		Senior Subordinated Term Debt (13.8%, Due 2/2019) ^(D)	1,600	1,600	1,598
		Convertible Preferred Stock (2,316 shares) ^{(F) (H)}		2,316	2,613
				10,549	10,826
FedCap Partners, LLC	Private equity fund aerospace and defense	Class A Membership Units (80 units) ^{(H) (L)}		1,634	1,996
Lignetics, Inc.	Diversified natural resources, precious metals and minerals	Senior Subordinated Term Debt (12.0%, Due 3/2020) ^(D)	6,000	6,000	6,000
		Common Stock (100,000 shares) ^{(F) (H)}		1,000	1,419
				7,000	7,419
RBC Acquisition Corp.	Healthcare, education	Line of Credit, \$0	4,000	4,000	4,000

and childcare	available (9.0%, Due 12/2015) ^(F)			
	Mortgage Note (9.5%, Due 12/2015) ^{(F) (G)}	6,891	6,891	6,891
	Senior Term Debt (12.0%, Due 12/2015) ^{(C) (F)}	11,392	11,392	11,392
	Senior Subordinated Term Debt (12.5%, Due 12/2015) ^{(F) (G)}	6,000	6,000	6,000
	Preferred Stock (4,999,000 shares) ^{(F) (H) (K)}		4,999	
	Common Stock (2,000,000 shares) ^{(F) (H)}		370	
			33,652	28,283
Total Affiliate Investments (represented 17.0% of total investments at fair value)			\$ 60,275	\$ 55,747

CONTROL INVESTMENTS^(P):

Defiance Integrated Technologies, Inc.	Automobile	Senior Subordinated Term Debt (11.0%, Due 4/2016) ^{(C) (F)}	\$ 6,465	\$ 6,465	\$ 6,465
		Common Stock (15,500 shares) ^{(F) (H)}		1	7,855
				6,466	14,320

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
CONTROL INVESTMENTS^(P) (Continued):					
Lindmark Acquisition, LLC	Broadcasting and entertainment	Senior Subordinated Term Debt, \$3,120 available (25.0%, Due Upon Demand) ^{(F) (G)}	\$	\$	\$
		Success Fee on Senior Subordinated Term Debt ^(F)			84
		Common Stock (100 shares) ^{(F) (H)}		317	
				317	84
Sunshine Media Holdings	Printing and publishing	Line of Credit, \$400 available (4.8%, Due 5/2016) ^{(D) (I)}	1,600	1,600	400
		Senior Term Debt (4.8%, Due 5/2016) ^{(D) (I)}	16,948	16,948	4,237
		Senior Term Debt (5.5%, Due 5/2016) ^{(C) (D) (I)}	10,700	10,700	2,729
		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)}			
				35,263	7,366
Total Control Investments (represented 6.7% of total investments at fair value)				\$ 42,046	\$ 21,770
TOTAL INVESTMENTS				\$ 385,860	\$ 326,624

- (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 \$268.6 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 December 31, 2014.
- (B) Percentages represent cash interest rates (which are generally indexed off of the 30-day London Interbank Offered Rate (LIBOR)) in effect at December 31, 2014, and due dates represent the contractual maturity date. If applicable, paid-in-kind (PIK) interest rates are noted separately from the cash interest rates. Senior debt securities generally take the form of first priority liens on the assets of the underlying businesses.
- (C) Last out tranche (LOT) of debt, meaning if the portfolio company is liquidated, the holder of the LOT is paid after all other debt holders.
- (D) 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 on or near December 31, 2014, offered by the respective syndication agent's trading desk.
- (F) Fair value was based on the total enterprise value 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) New or follow-on proprietary investment valued at cost, as it was determined that the price paid during the three months ended December 31, 2014 best represents fair value as of December 31, 2014.
- (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	Senior Subordinated Term 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	Line of Credit, \$0 available (8.3%, Due 9/2016) ^(D)	600	600	598
		Senior Term Debt (8.3%, Due 9/2018) ^(D)	2,875	2,875	2,864
		Senior Term Debt (13.0%, Due 9/2018) ^{(C) (D)}	5,400	5,400	5,380
				8,875	8,842
Alloy Die Casting Co.	Diversified/conglomerate manufacturing	Senior Term Debt (13.5%, Due 10/2018) ^(D)	5,235	5,235	5,228
		Preferred Stock (1,742 units) ^{(F) (H)}		1,742	1,122
		Common Stock (270 units) ^{(F) (H)}		18	
				6,995	6,350
Behrens Manufacturing, LLC	Diversified/conglomerate manufacturing	Senior Term 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

			5,528	5,430	
Chinese Yellow Pages Company	Printing and publishing	Line of Credit, \$0 available (7.3%, Due 2/2015) ^(D)	108	108	95
Francis Drilling Fluids, Ltd.	Oil and gas	Senior Subordinated Term Debt (12.4%, Due 11/2017) ^(D)	15,000	15,000	14,550
		Senior Subordinated Term Debt (11.3%, Due 11/2017) ^(J)	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	Senior Subordinated Term 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	Line of Credit, \$130 available (10.5%, Due 12/2014) ^(D)	270	270	149
		Senior Term Debt (10.5%, Due 6/2016) ^(D)	4,924	4,924	2,708
		Senior Subordinated Term Debt (13.0%, Due 6/2016) ^(D)	6,598	6,598	3,761
			11,792	6,618	
Heartland Communications Group	Broadcasting and entertainment	Line of Credit, \$0 available (5.0%, Due 9/2014) ^{(D) (G) (I)}	100	97	65
		Line of Credit, \$0 available (10.0%, Due 9/2014) ^{(D) (G) (I)}	100	93	65
		Senior Term 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	Senior Subordinated Term Debt (10.4%, Due	7,500	7,500	7,350

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		12/2019) ^{(D)(G)} Senior Subordinated Term Debt (11.5%, Due 12/2019) ^{(D)(G)}	9,500	9,500	9,298
				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	Senior Term 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	Senior Term Debt (13.5%, Due 12/2018) ^(D)	\$ 4,140	\$ 4,140	\$ 4,135
		Convertible Preferred Stock (1,449 shares) ^{(F) (H)}		1,449	1,549
				5,589	5,684
North American Aircraft Services, LLC	Aerospace and defense	Senior Subordinated Term Debt (12.5%, Due 8/2016) ^{(F) (L)}	2,115	2,115	2,115
		Success Fee on Senior Subordinated Term 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
		Senior Term Debt (9.0%, Due 3/2015) ^(D)	4,125	4,125	485
		Senior Term Debt (9.0%, Due 3/2015) ^{(C) (D)}	4,053	4,053	457
				9,178	1,823
Saunders & Associates	Electronics	Line of Credit, \$0 available (11.3%, Due 5/2013) ^(D)	917	917	413
		Senior Term Debt (11.3%, Due 5/2013) ^(D)	8,947	8,947	4,026
				9,864	4,439
Southern Petroleum Laboratories, Inc.	Oil and gas	Senior Subordinated Term Debt (11.5%, Due 2/2020) ^(J)	8,000	8,000	8,000

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		Common Stock (100 shares) ^{(H) (J)}		750	750
				8,750	8,750
Sunburst Media - Louisiana, LLC	Broadcasting and entertainment	Senior Term Debt (8.5%, Due 2/2016) ^{(F) (G)}	6,026	6,026	1,600
WadeCo Specialties, Inc.	Oil and gas	Line of Credit, \$526 available (8.0%, Due 3/2015) ^(D)	1,474	1,474	1,452
		Senior Term Debt (8.0%, Due 3/2019) ^(D)	4,500	4,500	4,433
		Senior Subordinated Term Debt (12.0%, Due 3/2019) ^(D)	4,500	4,500	4,421
		Convertible Preferred Stock (1,000 shares) ^{(F) (H)}		250	454
				10,724	10,760
Westland Technologies, Inc.	Diversified/conglomerate manufacturing	Senior Term Debt (7.5%, Due 4/2016) ^(D)	50	50	46
		Senior Term Debt (12.5%, Due 4/2016) ^(D)			