

GLADSTONE CAPITAL CORP  
Form 10-Q  
February 05, 2018

**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, 2017**

**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)**  
**Fat-the**  
**1521 WESTBRANCH DRIVE, SUITE 100**

**54-2040781**  
**(I.R.S. Employer**  
**Identification No.)**

**MCLEAN, VIRGINIA**  
**(Address of principal executive office)**  
**(703) 287-5800**

**22102**  
**(Zip Code)**

**(Registrant's telephone number, including area code)**

**Not Applicable**

**(Former name, former address and former fiscal year,**  
**if changed since last report)**

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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the issuer's common stock, \$0.001 par value per share, outstanding as of February 2, 2018 was 26,632,182.

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**GLADSTONE CAPITAL CORPORATION**

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## GLADSTONE CAPITAL CORPORATION

## CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	December 31, 2017	September 30, 2017
<b>ASSETS</b>		
Investments, at fair value:		
Non-Control/Non-Affiliate investments (Cost of <b>\$357,481</b> and \$318,952, respectively)	\$ 330,297	\$ 290,860
Affiliate investments (Cost of <b>\$50,036</b> and \$49,868, respectively)	43,856	42,648
Control investments (Cost of <b>\$42,615</b> and \$42,615 respectively)	18,277	18,865
Cash and cash equivalents	4,503	5,012
Restricted cash and cash equivalents	228	258
Interest receivable, net	2,167	1,699
Due from custodian	7,418	3,086
Deferred financing fees	668	853
Other assets, net	2,308	2,579
<b>TOTAL ASSETS</b>	<b>\$ 409,722</b>	<b>\$ 365,860</b>
<b>LIABILITIES</b>		
Borrowings, at fair value (Cost of <b>\$130,500</b> and \$93,000, respectively)	\$ 130,833	\$ 93,115
Mandatorily redeemable preferred stock, \$0.001 par value per share, \$25 liquidation preference per share; <b>5,440,000</b> and 5,440,000 shares authorized, respectively, and <b>2,070,000</b> and 2,070,000 shares issued and outstanding, respectively	49,870	49,849
Accounts payable and accrued expenses	511	522
Interest payable	330	264
Fees due to Adviser <sup>(A)</sup>	1,291	1,292
Fee due to Administrator <sup>(A)</sup>	272	244
Other liabilities	898	924
<b>TOTAL LIABILITIES</b>	<b>\$ 184,005</b>	<b>\$ 146,210</b>
Commitments and contingencies <sup>(B)</sup>		
<b>NET ASSETS</b>		
Common stock, \$0.001 par value, <b>44,560,000</b> and 44,560,000 shares authorized, respectively, and <b>26,632,182</b> and 26,160,684 shares issued and outstanding, respectively	\$ 27	\$ 26
Capital in excess of par value	352,540	348,248
Cumulative net unrealized depreciation of investments	(57,702)	(59,062)
Cumulative net unrealized depreciation of other	(333)	(115)
Over distributed net investment income	(207)	(139)

Accumulated net realized losses	(68,608)	(69,308)
<b>TOTAL NET ASSETS</b>	<b>\$ 225,717</b>	<b>\$ 219,650</b>
<b>NET ASSET VALUE PER COMMON SHARE</b>	<b>\$ 8.48</b>	<b>\$ 8.40</b>

(A) Refer to Note 4 *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

(B) Refer to Note 10 *Commitments and Contingencies* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

## GLADSTONE CAPITAL CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended December 31,	
	2017	2016
<b>INVESTMENT INCOME</b>		
Interest income		
Non-Control/Non-Affiliate investments	\$ 7,684	\$ 5,809
Affiliate investments	1,111	1,162
Control investments	687	445
Cash and cash equivalents	12	2
Total interest income (excluding PIK interest income)	9,494	7,418
PIK interest income		
Non-Control/Non-Affiliate investments	1,106	997
Affiliate investments	70	218
Total PIK interest income	1,176	1,215
Total interest income	10,670	8,633
Success fee income		
Non-Control/Non-Affiliate investments		391
Affiliate investments		1,142
Total success fee income		1,533
Other income	189	(192)
Total investment income	10,859	9,974
<b>EXPENSES</b>		
Base management fee <sup>(A)</sup>	1,676	1,378
Loan servicing fee <sup>(A)</sup>	1,186	983
Incentive fee <sup>(A)</sup>	1,373	1,293
Administration fee <sup>(A)</sup>	272	300
Interest expense on borrowings	1,231	556
Dividend expense on mandatorily redeemable preferred stock	776	1,029
Amortization of deferred financing fees	248	273
Professional fees	255	236
Other general and administrative expenses	292	401
Expenses, before credits from Adviser	7,309	6,449
Credit to base management fee - loan servicing fee <sup>(A)</sup>	(1,186)	(983)

Credit to fees from Adviser - other <sup>(A)</sup>	(841)	(699)
Total expenses, net of credits	5,282	4,767
<b>NET INVESTMENT INCOME</b>	<b>5,577</b>	<b>5,207</b>
<b>NET REALIZED AND UNREALIZED GAIN (LOSS)</b>		
Net realized (loss) gain:		
Non-Control/Non-Affiliate investments	602	3,882
Affiliate investments		(2,330)
Control investments	(28)	(5,000)
Other	(133)	
Total net realized gain (loss)	441	(3,448)
Net unrealized appreciation (depreciation):		
Non-Control/Non-Affiliate investments	908	(5,867)
Affiliate investments	1,040	706
Control investments	(588)	4,106
Other	(218)	212
Total net unrealized appreciation (depreciation)	1,142	(843)
Net realized and unrealized gain (loss)	1,583	(4,291)
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 7,160</b>	<b>\$ 916</b>

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



**GLADSTONE CAPITAL CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

**(UNAUDITED)**

**BASIC AND DILUTED PER COMMON SHARE:**

Net investment income	\$	<b>0.21</b>	\$	0.21
Net increase in net assets resulting from operations	\$	<b>0.27</b>	\$	0.04
Distributions declared and paid per common share	\$	<b>0.21</b>	\$	0.21

**WEIGHTED AVERAGE SHARES OF COMMON STOCK**

<b>OUTSTANDING: Basic and Diluted</b>	<b>26,522,788</b>	24,778,970
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(A) Refer to Note 4 *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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**GLADSTONE CAPITAL CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****(IN THOUSANDS)****(UNAUDITED)**

	<b>Three Months Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>OPERATIONS</b>		
Net investment income	\$ 5,577	\$ 5,207
Net realized gain (loss) on investments	574	(3,448)
Realized loss on other	(133)	
Net unrealized appreciation (depreciation) of investments	1,360	(1,055)
Net unrealized (depreciation) appreciation of other	(218)	212
Net increase in net assets resulting from operations	7,160	916
<b>DISTRIBUTIONS</b>		
Distributions to common stockholders from net investment income	(5,577)	(5,207)
Net decrease in net assets from distributions	(5,577)	(5,207)
<b>CAPITAL TRANSACTIONS</b>		
Issuance of common stock	4,567	17,344
Discounts, commissions and offering costs for issuance of common stock	(83)	(875)
Net increase in net assets resulting from capital transactions	4,484	16,469
<b>NET INCREASE IN NET ASSETS</b>	<b>6,067</b>	<b>12,178</b>
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<b>219,650</b>	<b>201,207</b>
<b>NET ASSETS, END OF PERIOD</b>	<b>\$ 225,717</b>	<b>\$ 213,385</b>

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

**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(IN THOUSANDS)

(UNAUDITED)

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase in net assets resulting from operations	\$ 7,160	\$ 916
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchase of investments	(56,938)	(20,047)
Principal repayments on investments	18,569	42,234
Net proceeds from sale of investments	1,274	8,219
Increase in investments due to paid-in-kind interest or other	(983)	(1,095)
Net change in premiums, discounts and amortization	(45)	54
Net realized (gain) loss on investments	(574)	3,448
Net unrealized (appreciation) depreciation of investments	(1,360)	1,055
Net unrealized appreciation (depreciation) of other	218	(213)
Changes in assets and liabilities:		
Decrease in restricted cash and cash equivalents	30	355
Amortization of deferred financing fees	248	273
(Increase) decrease in interest receivable, net	(468)	380
Increase in due from custodian	(4,332)	(779)
Decrease (increase) in other assets, net	256	(3,495)
Decrease in accounts payable and accrued expenses	(11)	(405)
Increase (decrease) in interest payable	66	(91)
Decrease in fees due to Adviser <sup>(A)</sup>	(1)	(11)
Increase in fee due to Administrator <sup>(A)</sup>	28	18
(Decrease) increase in other liabilities	(26)	650
Net cash (used in) provided by operating activities	(36,889)	31,466
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	61,100	24,200
Repayments on borrowings	(23,600)	(67,300)
Deferred financing fees	(42)	
Proceeds from issuance of common stock	4,567	17,344
Discounts, commissions and offering costs for issuance of common stock	(68)	(875)
Distributions paid to common stockholders	(5,577)	(5,207)
Net cash provided by (used in) financing activities	36,380	(31,838)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(509)</b>	<b>(372)</b>

<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>5,012</b>	6,152
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 4,503</b>	\$ 5,780

<sup>(A)</sup> Refer to Note 4 *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**DECEMBER 31, 2017**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

Company and Investment <sup>(A)(B)(W)(Y)</sup>	Principal/ Shares/ Units <sup>(J)(X)</sup>	Cost	Fair Value
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS<sup>(M)</sup> 146.3%</b>			
<b>Secured First Lien Debt 74.8%</b>			
<b>Automobile 1.5%</b>			
Meridian Rack & Pinion, Inc. <sup>(S)</sup> Term Debt (L + 11.5%, 13.5% Cash, Due 12/2018) <sup>(C)</sup>	\$ 4,140	\$ 4,140	\$ 3,312
<b>Beverage, Food, and Tobacco 3.0%</b>			
Triple H Food Processors, LLC - Line of Credit, \$1,500 available (L + 6.8%, 8.3% Cash, Due 8/2018) <sup>(C)</sup>			
Triple H Food Processors, LLC Term Debt (L + 8.3%, 9.8% Cash, Due 8/2020) <sup>(C)</sup>	6,600	6,600	6,666
		<b>6,600</b>	<b>6,666</b>
<b>Buildings and Real Estate 0.9%</b>			
GFRC Holdings, LLC Line of Credit, \$165 available (L + 8.0%, 9.6% Cash, Due 9/2018) <sup>(E)</sup>	1,035	1,035	1,035
GFRC Holdings, LLC Term Debt (L + 8.0%, 9.6% Cash, Due 9/2018) <sup>(F)</sup>	1,000	1,000	1,000
		<b>2,035</b>	<b>2,035</b>
<b>Diversified/Conglomerate Service 19.7%</b>			
IA Tech, LLC Term Debt (L + 11.0%, 12.6% Cash, Due 6/2021) <sup>(G)</sup>	23,000	23,000	23,690
Travel Sentry, Inc. Term Debt (L + 8.0%, 9.7% Cash, Due 12/2021) <sup>(U)</sup>	8,902	8,902	9,192
Vision Government Solutions, Inc. Line of Credit, \$0 available (L + 8.8%, 10.3% Cash, Due 1/2019) <sup>(C)</sup>	1,450	1,450	1,431
Vision Government Solutions, Inc. Delayed Draw Term Loan, \$900 available (10.0% Cash, Due 1/2019) <sup>(C)(F)</sup>	1,600	1,600	1,511
Vision Government Solutions, Inc. Term Debt (L + 8.8%, 10.3% Cash, Due 1/2019) <sup>(C)</sup>	9,000	9,000	8,531
		<b>43,952</b>	<b>44,355</b>
<b>Healthcare, education, and childcare 8.7%</b>			
EL Academies, Inc. Line of Credit, \$2,000 available (L + 8.8%, 10.3% Cash, Due 8/2020) <sup>(C)</sup>			

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EL Academies, Inc.	Delayed Draw Term Loan, \$10,000 available (L + 8.8%, 10.3% Cash, Due 8/2022) <sup>(C)</sup>			
EL Academies, Inc.	Term Debt (L + 8.8%, 10.3% Cash, Due 8/2022) <sup>(C)</sup>	12,000	12,000	12,030
TWS Acquisition Corporation	Term Debt (L + 8.0%, 9.6% Cash, Due 7/2020) <sup>(C)</sup>	7,353	7,353	7,537
			<b>19,353</b>	<b>19,567</b>
<b>Machinery 3.0%</b>				
Arc Drilling Holdings LLC	Line of Credit, \$1,000 available (L + 8.0%, 9.6% Cash, Due 11/2020) <sup>(1)</sup>			
Arc Drilling Holdings LLC	Term Debt (L + 9.5%, 11.1% Cash, Due 11/2022) <sup>(1)</sup>	5,880	5,880	5,880
Precision International, LLC	Term Debt (10.0% PIK, Due 9/2021) <sup>(F)</sup>	830	830	822
			<b>6,710</b>	<b>6,702</b>
<b>Oil and Gas 16.9%</b>				
Impact! Chemical Technologies, Inc.	Line of Credit, \$2,164 available (L + 8.8%, 10.3% Cash, Due 12/2020) <sup>(1)</sup>	336	336	336
Impact! Chemical Technologies, Inc.	Term Debt (L + 8.8%, 10.8% Cash, Due 12/2020) <sup>(1)</sup>	20,000	20,000	20,000
WadeCo Specialties, Inc.	Line of Credit, \$2,425 available (L + 7.0%, 8.6% Cash, Due 4/2018) <sup>(C)</sup>	575	575	580
WadeCo Specialties, Inc.	Term Debt (L + 7.0% 8.6% Cash, Due 3/2019) <sup>(C)</sup>	10,191	10,191	10,292
WadeCo Specialties, Inc.	Term Debt (L + 9.0%, 12.0% Cash, Due 3/2019) <sup>(C)</sup>	7,000	7,000	7,035
			<b>38,102</b>	<b>38,243</b>
<b>Personal and Non-Durable Consumer Products (Manufacturing Only) 2.8%</b>				
Canopy Safety Brands, LLC	Line of Credit, \$500 available (L + 6.5%, 8.1% Cash, Due 9/2019) <sup>(C)</sup>			
Canopy Safety Brands, LLC	Term Debt (L + 9.5%, 11.1% Cash, Due 9/2021) <sup>(C)</sup>	6,500	6,500	6,598
			<b>6,500</b>	<b>6,598</b>
<b>Printing and Publishing 0.0%</b>				
Chinese Yellow Pages Company	Line of Credit, \$0 available (PRIME + 4.0%, 8.5% Cash, Due 2/2015) <sup>(E)(V)</sup>	107	<b>107</b>	
<b>Telecommunications 18.3%</b>				
Applied Voice & Speech Technologies, Inc.	Term Debt (L + 9.3%, 10.8% Cash, Due 10/2022) <sup>(1)</sup>	11,000	11,000	11,000
B+T Group Acquisition Inc. <sup>(S)</sup>	Term Debt (L + 11.0%, 13.0% Cash, Due 12/2019) <sup>(C)</sup>	6,000	6,000	5,978
NetFortris Corp.	Term Debt (L + 8.4%, 10.0% Cash, Due 2/2021) <sup>(F)</sup>	24,000	24,000	24,420
			<b>41,000</b>	<b>41,398</b>
<b>Total Secured First Lien Debt</b>			<b>\$ 168,499</b>	<b>\$ 168,876</b>

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

## GLADSTONE CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2017

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company and Investment <sup>(A)(B)(W)(Y)</sup>	Principal/ Shares/ Units <sup>(J)(X)</sup>	Cost	Fair Value
<b>Secured Second Lien Debt 65.1%</b>			
<b>Automobile 2.2%</b>			
Sea Link International IRB, Inc. Term Debt (11.3% Cash, Due 3/2023) <sup>(F)</sup>	\$ 5,000	\$ 4,976	\$ 5,031
<b>Beverage, Food, and Tobacco 3.0%</b>			
The Mochi Ice Cream Company Term Debt (L + 10.5%, 12.1% Cash, Due 1/2021) <sup>(C)</sup>	6,750	6,750	6,826
<b>Cargo Transportation 5.9%</b>			
AG Transportation Holdings, LLC. Term Debt (L + 10.0%, 13.3% Cash, Due 3/2020) <sup>(C)</sup>	13,000	13,000	13,098
<b>Chemicals, Plastics, and Rubber 0.4%</b>			
Vertellus Holdings LLC Term Debt (L + 12.0%, 13.6% Cash, Due 10/2021) <sup>(F)</sup>	1,099	1,099	922
<b>Diversified/Conglomerate Manufacturing 9.6%</b>			
Alloy Die Casting Co. <sup>(S)</sup> Term Debt (L + 11.5%, 13.5% Cash, Due 4/2021) <sup>(C)(H)</sup>	5,235	5,235	3,350
Alloy Die Casting Co. <sup>(S)</sup> Term Debt (L + 11.5%, 13.5% Cash, Due 4/2021) <sup>(C)(H)</sup>	75	75	48
Alloy Die Casting Co. <sup>(S)</sup> Term Debt (Due 4/2021) <sup>(P)</sup>	390	390	252
United Flexible, Inc. Term Debt (L + 9.5%, 11.1% Cash, 2.0% PIK, Due 2/2022) <sup>(C)</sup>	18,085	18,005	18,107
		<b>23,705</b>	<b>21,757</b>
<b>Diversified/Conglomerate Service 20.5%</b>			
DigiCert Holdings, Inc. Term Debt (L + 8.0%, 9.6% Cash, Due 10/2025) <sup>(P)</sup>	5,000	4,975	5,013
Gray Matter Systems, LLC Delayed Draw Term Loan, \$2,000 available (12.0% Cash, Due 11/2023) <sup>(F)(I)</sup>			
Gray Matter Systems, LLC Term Debt (12.0% Cash, Due 11/2023) <sup>(F)(I)</sup>	7,500	7,500	7,500
Keystone Acquisition Corp. Term Debt (L + 9.3%, 10.9% Cash, Due 5/2025) <sup>(D)(U)</sup>	4,000	3,924	3,980
LDiscovery, LLC Term Debt (L + 10.0%, 11.6% Cash, Due 12/2023) <sup>(P)</sup>	5,000	4,820	4,000
Red Ventures, LLC Term Debt (L + 8.0%, 9.6% Cash, Due 11/2025) <sup>(P)</sup>	3,625	3,566	3,625
TapRoot Partners, Inc. Term Debt (L + 10.3%, 11.8% Cash, Due 10/2022) <sup>(F)</sup>	22,000	22,000	22,220
		<b>46,785</b>	<b>46,338</b>



<b>Healthcare, education, and childcare 8.0%</b>			
Medical Solutions Holdings, Inc. Term Debt (L + 8.3%, 9.8% Cash, Due 12/2023) <sup>(D)</sup>	3,000	2,957	2,970
Merlin International, Inc. Term Debt (L + 10.0%, 11.6% Cash, Due 8/2022) <sup>(F)</sup>	10,000	10,000	10,225
NetSmart Technologies, Inc. Term Debt (L + 9.5%, 11.1% Cash, Due 10/2023) <sup>(D)</sup>	3,660	3,610	3,660
New Trident Holdcorp, Inc. Term Debt (L + 10.0%, 11.7% PIK, Due 7/2020) <sup>(D)(U)</sup>	4,000	4,000	1,191
		<b>20,567</b>	<b>18,046</b>
<b>Home and Office Furnishings, Housewares and Durable Consumer Products 4.5%</b>			
Belnick, Inc. Term Debt (11.0% Cash, Due 8/2023) <sup>(F)</sup>	10,000	<b>10,000</b>	<b>10,150</b>
<b>Hotels, Motels, Inns, and Gaming 3.2%</b>			
Vacation Rental Pros Property Management, LLC Term Debt (L + 10.0%, 11.6% Cash, 3.0% PIK, Due 6/2023) <sup>(C)</sup>	7,199	<b>7,199</b>	<b>6,938</b>
<b>Oil and Gas 7.0%</b>			
Francis Drilling Fluids, Ltd. Term Debt (L + 10.4%, 11.9% PIK, Due 4/2020) <sup>(C)</sup>	17,245	17,128	10,766
Francis Drilling Fluids, Ltd. Term Debt (L + 9.3%, 10.8% PIK, Due 4/2020) <sup>(F)</sup>	7,945	7,891	4,954
		<b>25,019</b>	<b>15,720</b>
<b>Telecommunications 0.4%</b>			
Neustar, Inc. Term Debt (L + 8.0%, 9.6% Cash, Due 8/2025) <sup>(D)</sup>	1,000	<b>1,000</b>	<b>1,008</b>
<b>Textiles and Leather 0.4%</b>			
ABG Intermediate Holdings 2 LLC Term Debt (L + 7.8%, 9.4% Cash, Due 9/2025) <sup>(D)(U)</sup>	1,000	<b>1,000</b>	<b>1,010</b>
<b>Total Secured Second Lien Debt</b>		<b>\$ 161,100</b>	<b>\$ 146,844</b>
<b>Unsecured Debt 1.5%</b>			
<b>Healthcare, education, and childcare 1.5%</b>			
Edmentum Ultimate Holdings, LLC Term Debt (10.0% PIK, Due 6/2020) <sup>(F)</sup>	\$ 3,352	\$ <b>3,352</b>	\$ <b>3,356</b>
<b>Preferred Equity 1.9%</b>			
<b>Automobile 0.1%</b>			
Meridian Rack & Pinion, Inc. <sup>(S)</sup> Preferred Stock <sup>(E)(G)</sup>	1,449	\$ <b>1,449</b>	\$ <b>161</b>
<b>Buildings and Real Estate 0.3%</b>			
GFRC Holdings, LLC Preferred Stock <sup>(E)(G)</sup>	1,000	<b>1,025</b>	<b>674</b>

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

## GLADSTONE CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2017

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company and Investment <sup>(A)(B)(W)(Y)</sup>	Principal/ Shares/ Units <sup>(J)(X)</sup>	Cost	Fair Value
<b>Diversified/Conglomerate Manufacturing 0.3%</b>			
Alloy Die Casting, Co. <sup>(S)</sup> Preferred Stock <sup>(E)(G)</sup>	2,192	2,192	
United Flexible, Inc. Preferred Stock <sup>(E)(G)</sup>	538	538	631
		<b>2,730</b>	<b>631</b>
<b>Diversified/Conglomerate Service 0.2%</b>			
Frontier Financial Group Inc. Preferred Stock <sup>(E)(G)</sup>	766	500	500
Frontier Financial Group Inc. Preferred Stock Warrant <sup>(E)(G)</sup>	168		
		<b>500</b>	<b>500</b>
<b>Oil and Gas 0.8%</b>			
Francis Drilling Fluids, Ltd. Preferred Equity Unit <sup>(E)(G)</sup>	1,656	1,215	
WadeCo. Specialties, Inc. Preferred Stock <sup>(E)(G)</sup>	1,000	618	2,098
		<b>1,833</b>	<b>2,098</b>
<b>Telecommunications 0.2%</b>			
B+T Group Acquisition, Inc. <sup>(S)</sup> Preferred Stock <sup>(E)(G)(J)</sup>	5,503	1,799	
NetFortris Corp. Preferred Stock <sup>(E)(G)</sup>	1,250,000	125	375
		<b>1,924</b>	<b>375</b>
<b>Total Preferred Equity</b>		<b>\$ 9,461</b>	<b>\$ 4,439</b>
<b>Common Equity 3.0%</b>			
<b>Aerospace and Defense 0.3%</b>			
FedCap Partners, LLC Class A Membership Units (\$0 Uncalled Commitment) <sup>(G)(K)(R)</sup>	80	\$ 1,634	\$ 751
<b>Automobile 0.2%</b>			
Sea Link International IRB, Inc. Common Equity Unit <sup>(E)(G)</sup>	494,902	495	378
<b>Beverage, Food, and Tobacco 0.2%</b>			
The Mochi Ice Cream Company Common Stock <sup>(E)(G)</sup>	450	450	
Triple H Food Processors, LLC Common Stock <sup>(E)(G)</sup>	250,000	250	442

			<b>700</b>	<b>442</b>
<b>Buildings and Real Estate 0.0%</b>				
GFRC Holdings, LLC	Common Stock Warrants <sup>(E)(G)</sup>	45.0%		
<b>Cargo Transportation 0.0%</b>				
AG Transportation Holdings, LLC	Member Profit Participation <sup>(E)(G)</sup>	18.0%	1,000	
AG Transportation Holdings, LLC	Profit Participation Warrants <sup>(E)(G)</sup>	12.0%	244	
			<b>1,244</b>	
<b>Chemicals, Plastics, and Rubber 0.2%</b>				
Vertellus Holdings LLC	Common Stock Units <sup>(E)(G)</sup>	879,121	<b>3,017</b>	527
<b>Diversified/Conglomerate Manufacturing 0.0%</b>				
Alloy Die Casting, Co. <sup>(S)</sup>	Common Stock <sup>(E)(G)</sup>	270	18	
United Flexible, Inc.	Common Stock <sup>(E)(G)</sup>	1,158	148	
			<b>166</b>	
<b>Healthcare, education, and childcare 1.1%</b>				
Edmentum Ultimate Holdings, LLC	Common Stock <sup>(E)(G)</sup>	21,429	2,636	
EL Academies, Inc.	Common Stock <sup>(E)(G)</sup>	500	500	432
Leeds Novamark Capital I, L.P.	Limited Partnership Interest (\$986 uncalled capital commitment) <sup>(G)(L)(R)</sup>	3.5%	2,010	2,098
			<b>5,146</b>	<b>2,530</b>
<b>Machinery 0.7%</b>				
Arc Drilling Holdings LLC	Common Stock <sup>(E)(G)</sup>	16.7%	1,500	1,500
Precision International, LLC	Membership Unit Warrants <sup>(E)(G)</sup>	33.3%		41
			<b>1,500</b>	<b>1,541</b>
<b>Oil and Gas 0.1%</b>				
Francis Drilling Fluids, Ltd.	Common Equity Units <sup>(E)(G)</sup>	1,656	1	
W3, Co.	Common Equity <sup>(D)(G)</sup>	435	499	131
			<b>500</b>	<b>131</b>
<b>Personal and Non-Durable Consumer Products (Manufacturing Only) 0.2%</b>				
Canopy Safety Brands, LLC	Participation Warrants <sup>(E)(G)</sup>	1	500	325
Funko Acquisition Holdings, LLC <sup>(S)</sup>	Common Units <sup>(G)(T)</sup>	67,873	166	157
			<b>666</b>	<b>482</b>
<b>Telecommunications 0.0%</b>				
NetFortris Corp.	Common Stock Warrants <sup>(E)(G)</sup>	1	1	
<b>Total Common Equity</b>			<b>\$ 15,069</b>	<b>\$ 6,782</b>
<b>Total Non-Control/Non-Affiliate Investments</b>			<b>\$ 357,481</b>	<b>\$ 330,297</b>

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

## GLADSTONE CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2017

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company and Investment <sup>(A)(B)(W)(Y)</sup>	Principal/ Shares/ Units <sup>(J)(X)</sup>	Cost	Fair Value
<b>AFFILIATE INVESTMENTS<sup>(N)</sup> 19.4%</b>			
<b>Secured First Lien Debt 8.9%</b>			
<b>Diversified/Conglomerate Manufacturing 8.9%</b>			
Edge Adhesives Holdings, Inc. <sup>(S)</sup> Term Debt (L + 10.5%, 12.5% Cash, Due 2/2019) <sup>(C)</sup>	\$ 6,200	\$ 6,200	\$ 5,781
Edge Adhesives Holdings, Inc. <sup>(S)</sup> Term Debt (L + 11.8%, 13.8% Cash, Due 2/2019) <sup>(C)</sup>	1,600	1,600	1,500
LWO Acquisitions Company LLC Cash, 2.0% PIK, Due 12/2019) <sup>(C)</sup> Line of Credit, \$0 available (L + 5.5%. 7.1%	2,762	2,761	2,555
LWO Acquisitions Company LLC Term Debt (L + 8.5%, 10.1% Cash, 2.0% PIK, Due 12/2019) <sup>(C)</sup>	10,998	10,979	10,173
		<b>21,540</b>	<b>20,009</b>
<b>Total Secured First Lien Debt</b>		<b>\$ 21,540</b>	<b>\$ 20,009</b>
<b>Secured Second Lien Debt 7.4%</b>			
<b>Diversified Natural Resources, Precious Metals and Minerals 7.4%</b>			
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) <sup>(S)</sup>	\$ 6,000	\$ 6,000	\$ 5,820
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) <sup>(S)</sup>	8,000	8,000	7,760
Lignetics, Inc. Term Debt (L + 9.0%, 12.0% Cash, Due 11/2022) <sup>(S)</sup>	3,300	3,300	3,201
		<b>17,300</b>	<b>16,781</b>
<b>Total Secured Second Lien Debt</b>		<b>\$ 17,300</b>	<b>\$ 16,781</b>
<b>Unsecured Debt 0.0%</b>			
<b>Diversified/Conglomerate Manufacturing 0.0%</b>			
LWO Acquisitions Company LLC Term Debt (Due 12/2019) <sup>(S)(P)</sup>	\$ 95	\$ 95	\$ 88
<b>Preferred Equity 0.5%</b>			
<b>Diversified/Conglomerate Manufacturing 0.2%</b>			
Edge Adhesives Holdings, Inc. <sup>(S)</sup> Preferred Stock <sup>(E)(G)</sup>	2,516	\$ 2,516	\$ 385
<b>Diversified Natural Resources, Precious Metals and Minerals 0.3%</b>			
Lignetics, Inc. Preferred Stock <sup>(E)(G)</sup>	40,000	<b>800</b>	<b>837</b>

<b>Total Preferred Equity</b>		<b>\$ 3,316</b>	<b>\$ 1,222</b>
<b>Common Equity 2.6%</b>			
<b>Diversified/Conglomerate Manufacturing 0.0%</b>			
LWO Acquisitions Company LLC Common Unit <sup>(E)(G)</sup>	921,000	\$ 921	\$
<b>Diversified Natural Resources, Precious Metals and Minerals 0.5%</b>			
Lignetics, Inc. Common Stock <sup>(E)(G)</sup>	152,603	1,855	1,126
<b>Textiles and Leather 2.1%</b>			
Targus Cayman HoldCo, Ltd. Common Stock <sup>(E)(G)</sup>	3,076,414	5,009	4,630
<b>Total Common Equity</b>		<b>\$ 7,785</b>	<b>\$ 5,756</b>
<b>Total Affiliate Investments</b>		<b>\$ 50,036</b>	<b>\$ 43,856</b>
<b>CONTROL INVESTMENTS<sup>(O)</sup> 8.2%</b>			
<b>Secured First Lien Debt 3.3%</b>			
<b>Machinery 1.8%</b>			
PIC 360, LLC Term Debt (14.0%, Due 12/2017) <sup>(F)(F)</sup>	\$ 4,000	\$ 4,000	\$ 4,000
<b>Printing and Publishing 1.5%</b>			
Sunshine Media Holdings Line of Credit, \$672 available (8.0% Cash, Due 5/2018) <sup>(E)(F)</sup>	1,328	1,328	1,328
Sunshine Media Holdings Term Debt (8.0% Cash, Due 5/2018) <sup>(F)(F)(H)</sup>	5,000	3,525	585
Sunshine Media Holdings Term Debt (L + 3.8%, 5.3% Cash, Due 5/2018) <sup>(F)(H)</sup>	11,948	8,401	1,397
Sunshine Media Holdings Term Debt (L + 4.0%, 5.6% Cash, Due 5/2018) <sup>(F)(H)</sup>	10,700	10,700	
		<b>23,954</b>	<b>3,310</b>
<b>Total Secured First Lien Debt</b>		<b>\$ 27,954</b>	<b>\$ 7,310</b>
<b>Secured Second Lien Debt 3.6%</b>			
<b>Automobile 3.6%</b>			
Defiance Integrated Technologies, Inc. Term Debt (L + 9.5%, 11.1% Cash, Due 8/2023) <sup>(E)</sup>	\$ 8,065	\$ 8,065	\$ 8,065

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

## GLADSTONE CAPITAL CORPORATION

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2017

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company and Investment <sup>(A)(B)(W)(Y)</sup>	Principal/ Shares/ Units <sup>(J)(X)</sup>	Cost	Fair Value
<b>Preferred Equity 0.0%</b>			
<b>Printing and Publishing 0.0%</b>			
Sunshine Media Holdings Preferred Stock <sup>(E)(G)(J)</sup>	15,270	\$ 5,275	\$
<b>Common Equity 1.3%</b>			
<b>Automobile 1.2%</b>			
Defiance Integrated Technologies, Inc. Common Stock <sup>(E)(G)</sup>	33,321	\$ 580	\$ 2,643
<b>Machinery 0.1%</b>			
PIC 360, LLC Common Equity Unit <sup>(E)(G)</sup>	1	1	259
<b>Printing and Publishing 0.0%</b>			
Sunshine Media Holdings Common Stock <sup>(E)(G)</sup>	1,867	740	
Sunshine Media Holdings Common Stock Warrant <sup>(E)(G)</sup>	72		
		740	
<b>Total Common Equity</b>		<b>\$ 1,321</b>	<b>\$ 2,902</b>
<b>Total Control Investments</b>		<b>\$ 42,615</b>	<b>\$ 18,277</b>
<b>TOTAL INVESTMENTS 173.9%</b>		<b>\$ 450,132</b>	<b>\$ 392,430</b>

(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 \$348.9 million at fair value, are pledged as collateral to our revolving line of credit, as described further in Note 5 *Borrowings*. Under the Investment Company Act of 1940, as amended, (the 1940 Act), we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of December 31, 2017, our investments in FedCap Partners, LLC ( FedCap ), Leeds Novamark Capital I, L.P. ( Leeds ), and Funko Acquisition Holdings, LLC ( Funko ) are considered non-qualifying assets under Section 55 of the 1940 Act. Such non-qualifying assets represent 0.8% of total investments, at fair value, as of December 31, 2017.

(B) Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate ( LIBOR or L ), which was 1.56% as of December 31, 2017. If applicable, paid-in-kind ( PIK ) interest rates are noted separately from the cash interest rate. Certain securities are subject to an interest rate floor. The cash interest rate is

the greater of the floor or LIBOR plus a spread. Due dates represent the contractual maturity date.

- (C) Fair value was based on an internal yield analysis or on estimates of value submitted by Standard & Poor's Securities Evaluations, Inc. ( SPSE ).
- (D) Fair value was based on the indicative bid price on or near December 31, 2017, offered by the respective syndication agent's trading desk.
- (E) 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.
- (F) Debt security has a fixed interest rate.
- (G) Security is non-income producing.
- (H) Debt security is on non-accrual status.
- (I) New investment valued at cost, as it was determined that the price paid during the quarter ended December 31, 2017 best represents fair value as of December 31, 2017.
- (J) Where applicable, aggregates all shares of a class of stock owned without regard to specific series owned within such class (some series of which may or may not be voting shares) or aggregates all warrants to purchase shares of a class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.
- (K) 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.
- (L) 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.
- (M) 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.
- (N) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.
- (O) 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.
- (P) Debt security does not have a stated interest rate that is payable thereon.
- (Q) Reserved.
- (R) Fair value was based on net asset value provided by the fund as a practical expedient.
- (S) One of our affiliated funds, Gladstone Investment Corporation, co-invested with us in this portfolio company pursuant to an exemptive order granted by the U.S. Securities and Exchange Commission.
- (T) Our investment in Funko was valued using Level 2 inputs within the ASC 820 fair value hierarchy. Our common units in Funko are convertible to class A common stock in Funko, Inc. upon the expiration of a lock-up agreement and meeting other requirements. Fair value was based on the closing market price of shares of Funko, Inc. as of the reporting date, less a discount for lack of marketability. Funko, Inc. is traded on the Nasdaq Stock Market under the trading symbol FNKO. Refer to Note 3 *Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.
- (U) The cash interest rate on this investment was indexed to 90-day LIBOR, which was 1.69% as of December 31, 2017.
- (V) The cash interest rate on this investment was indexed to the U.S. Prime Rate ( PRIME ), which was 4.50% as of December 31, 2017.
- (W) Unless indicated otherwise, all of our investments are valued using Level 3 inputs within the FASB Accounting Standard Codification ( ASC ) Topic 820, Fair Value Measurements and Disclosures ( ASC 820 ) fair value hierarchy. Refer to Note 3 *Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.
- (X) Represents the principal balance for debt investments and the number of shares/units held for equity investments. Warrants are represented as a percentage of ownership, as applicable.
- (Y) Category percentages represent the fair value of each category and subcategory as a percentage of net assets as of December 31, 2017.
- (Z) Investment formerly known as HB Capital Resources, Ltd.



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

**GLADSTONE CAPITAL CORPORATION**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**SEPTEMBER 30, 2017**

**(DOLLAR AMOUNTS IN THOUSANDS)**

<b>Company and Investment<sup>(A)(B)(W)(Z)</sup></b>	<b>Principal/ Shares/ Units<sup>(J)(X)</sup></b>	<b>Cost</b>	<b>Fair Value</b>
<b>NON-CONTROL/NON-AFFILIATE INVESTMENTS<sup>(M)</sup></b>	<b>132.4%</b>		
<b>Secured First Lien Debt</b>			
<b>Automobile</b>			
Meridian Rack & Pinion, Inc. <sup>(S)</sup> Term Debt (L + 11.5% 13.5% Cash, Due 12/2018) <sup>(C)</sup>	\$ 4,140	\$ 4,140	\$ 3,643