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):

x **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	**54-2040781**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1521 WESTBRANCH DRIVE, SUITE 100 MCLEAN, VIRGINIA	**22102**
(Address of principal executive office)	**(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 x 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 x
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 x

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	Nine Months Ended June 30, 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.

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GLADSTONE CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 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

				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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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):					
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

				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:					
Ameriqual Group, LLC	Beverage, food and tobacco	Secured First Lien Debt (9.0% and 1.3%	$ 7,358	$ 7,330	$ 6,990

		PIK, Due 3/2016)(E)			
Ardent Medical Services, Inc.	Healthcare, education and childcare	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

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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
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**
AFFILATE 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
AFFILATE 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

		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, $468 available (8.0%, Due 5/2016)(F)(G)	1,532	1,532	428
		Secured First Lien Debt (8.0%, Due 5/2016)(F)(G)	5,000	5,000	1,398
		Secured First Lien Debt (4.8%, Due 5/2016)(F)(I)	11,948	11,948	3,340
		Secured First Lien Debt (5.5%, Due 5/2016)(C)(F)(I)	10,700	10,700	2,991
		Preferred Stock (15,270 shares)(F)(H)(K)		5,275	
		Common Stock (1,867 shares)(F)(H)		740	
		Common Stock Warrants (72 shares) (F)(H)			
				35,195	8,157
Total Control Proprietary Investments (represented 6.6% of total investments at fair value)				**$ 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)

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

				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	Secured Second Lien Debt (10.4%, Due 12/2019)(D)(G)	7,500	7,500	7,350
	consumer products		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

		Common Stock (100 shares)(H)(J)			
				8,750	8,750
Sunburst Media Louisiana, LLC	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 Investments:					
Ameriqual Group, LLC	Beverage, food and tobacco	Secured First Lien Debt (9.0% and 1.5% PIK, Due 3/2016)(E)	$ 7,335	$ 7,283	$ 6,235
Ardent Medical Services, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (11.0%, Due 1/2019)(E)	7,143	7,135	7,224
Autoparts Holdings Limited	Automobile	Secured Second Lien Debt (10.5%, Due 1/2018)(E)	833	830	800
Blue Coat Systems, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 6/2020)(E)	3,000	2,974	3,038
Envision Acquisition Company, LLC	Healthcare, education and childcare	Secured Second Lien Debt (9.8%, Due 11/2021)(E)	2,500	2,454	2,500
First American Payment Systems, L.P.	Finance	Secured Second Lien Debt (10.8%, Due 4/2019)(E)	4,195	4,167	4,205
GTCR Valor Companies, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 11/2021)(E)	3,000	2,982	2,970
New Trident Holdcorp, Inc.			4,000	3,987	4,000

	Healthcare, education and childcare	Secured Second Lien Debt (10.3%, Due 7/2020)(E)			
PLATO Learning, Inc.	Healthcare, education and childcare	Secured Second Lien Debt (11.3%, Due 5/2019)(E)	5,000	4,925	5,000

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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):					
RP Crown Parent, LLC	Electronics	Secured Second Lien Debt (11.3%, Due 12/2019)(E)	$ 2,000	$ 1,967	$ 1,898
Sensus USA, Inc.	Electronics	Secured Second Lien Debt (8.5%, Due 5/2018)(E)	500	497	495
Targus Group International, Inc.	Textiles and leather	Secured First Lien Debt (11.0% and 1.0% PIK, Due 5/2016)(D)	9,034	8,956	8,171
The Active Network, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 11/2021)(E)	1,000	995	1,000
Vision Solutions, Inc.	Electronics	Secured Second Lien Debt (9.5%, Due 7/2017)(E)	11,000	10,953	10,972
Vitera Healthcare Solutions, LLC	Healthcare, education and childcare	Secured Second Lien Debt (9.3%, Due 11/2021)(E)	500	493	495
W3 Co.	Oil and Gas	Secured Second Lien Debt (9.3%, Due 9/2020)(E)	499	494	484
Subtotal Syndicated Investments				**$ 61,092**	**$ 59,487**
Total Non-Control/Non-Affiliate Investments (represented 70.7% of total investments at fair value)				**$ 225,845**	**$ 198,926**
AFFILIATE INVESTMENTS(Q) :					
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	7,053
		Preferred Equity Units (4,400 units)(F)(H)		440	206
		Common Equity Units (4,400 units)(F)(H)			
				7,440	7,259
Edge Adhesives Holdings, Inc.	Diversified/conglomerate manufacturing	Secured First Lien Line of Credit, $230 available (12.5%, Due 8/2015)(D)	770	770	768
		Secured First Lien Debt (12.5%, Due 2/2019)(D)	6,200	6,200	6,208
		Secured First Lien Debt (13.8%, Due 2/2019)(D)	1,600	1,600	1,604
		Secured First Lien Debt (13.8%, Due 11/2014)(J)	585	585	585
		Preferred Stock (2,316 shares)(F)(H)		2,316	2,885
				11,471	12,050
FedCap Partners, LLC	Private equity fund aerospace and defense	Class A Membership Units (80 units)(H)(N)		1,718	2,238
Lignetics, Inc.	Diversified natural resources, precious metals and minerals	Secured Second Lien Debt (12.0%, Due 3/2020)(D)	6,000	6,000	6,007
		Common Stock (100,000 shares)(F)(H)		1,000	1,169
				7,000	7,176
RBC Acquisition Corp.	Healthcare, education and childcare	Secured First Lien Line of Credit, $0 available (9.0%, Due 6/2014)(F)	4,000	4,000	4,000
		Mortgage Note (9.5%, Due 12/2014)(F)(G)	6,891	6,891	6,891
		Secured First Lien Debt (12.0%, Due 12/2014)(C)(F)	11,392	11,392	11,392
		Secured First Lien Debt (12.5%, Due 12/2014)(F)(G)	6,000	6,000	6,000
		Preferred Stock (4,999,000 shares)(F)(H)(M)		4,999	
				370	

		Common Stock (2,000,000 shares)(F)(H)			
				33,652	28,283
Total Affiliate Proprietary Investments (represented 20.3% of total investments at fair value)				**$ 61,281**	**$ 57,006**
CONTROL INVESTMENTS(R):					
Proprietary Investments:					
Defiance Integrated Technologies, Inc.	Automobile	Secured Second Lien Debt (11.0%, Due 4/2016)(F)	$ 6,545	$ 6,545	$ 6,545
		Common Stock (15,500 shares)(F)(H)		1	6,461
				6,546	13,006
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)			89
		Common Stock (100 shares)(F)(H)		317	
				317	89

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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
CONTROL INVESTMENTS(R) (Continued):					
Midwest Metal Distribution, Inc.	Mining, steel, iron and non-precious metals	Secured Second Lien Debt (12.0%, Due 7/2015)(F)(I)	$18,281	$ 17,720	$ 4,455
		Preferred Stock (2,000 shares)(F)(H)(M)		2,175	
		Common Stock (501 shares)(F)(H)		138	
				20,033	4,455
Sunshine Media Holdings	Printing and publishing	Secured First Lien Line of Credit, $400 available (4.8%, Due 5/2016)(D)(I)	1,600	1,600	424
		Secured First Lien Debt (4.8%, Due 5/2016)(D)(I)	16,948	16,948	4,491
		Secured First Lien Debt (5.5%, Due 5/2016)(C)(D)(I)	10,700	10,700	2,889
		Preferred Stock (15,270 shares)(F)(H)(M)		5,275	
		Common Stock (1,867 shares)(F)(H)		740	
		Common Stock Warrants (72 shares)(F)(H)			
				35,263	7,804
Total Control Proprietary Investments (represented 9.0% of total investments at fair value)				**$ 62,159**	**$ 25,354**
TOTAL INVESTMENTS(S)				**$ 349,285**	**$ 281,286**

(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 $222.0 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 1940 Act as of September 30, 2014.

(B) Percentages represent cash interest rates (which are generally indexed off of the 30-day LIBOR) in effect at September 30, 2014, and due dates represent the contractual maturity date. If applicable, PIK interest rates are noted separately from the cash interest rates. Secured first lien debt securities generally take the form of first priority liens on the assets of the underlying businesses.

(C) 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) Fair value was based on an internal yield analysis or on estimates of value submitted by SPSE.

(E) Fair value was based on the IBP on or near September 30, 2014, offered by the respective syndication agent s trading desk.

(F) Fair value was based on the 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) New or follow-on proprietary investment valued at cost, as it was determined that the price paid during the three months ended September 30, 2014 best represents fair value as of September 30, 2014.

(K) Subsequent to September 30, 2014, the debt interest rates on Francis Drilling Fluids, Ltd. were decreased to approximately 11.9% and 10.8%, respectively, based on a leverage grid.

(L) Subsequent to September 30, 2014, North American Aircraft Services, LLC debt and equity investment cost basis were paid off, resulting in a realized gain of $1.6 million and success fees of $0.6 million. As such, the fair value as of September 30, 2014 was based upon the payoff amount.

(M) 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.

(N) 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.

(O) 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.

(P) 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.

(Q) 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.

(R) 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.

(S) Cumulative gross unrealized depreciation for federal income tax purposes is $84.3 million; cumulative gross unrealized appreciation for federal income tax purposes is $15.6 million. Cumulative net unrealized depreciation is $68.7 million, based on a tax cost of $349.9 million.

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

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GLADSTONE CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2015

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA AND AS OTHERWISE INDICATED)

NOTE 1. ORGANIZATION

Gladstone Capital Corporation was incorporated under the General Corporation Law of the State of Maryland on May 30, 2001, and completed an initial public offering on August 23, 2001. The terms the Company, we, our, and us all refer to Gladstone Capital Corporation and its consolidated subsidiaries. We are an externally-managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, we have elected to be treated for federal income tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States (U.S.). Our investment objectives are to (1) achieve and grow current income by investing in debt securities of established small and medium-sized businesses in the U.S. that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation of the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell them for capital gains.

Gladstone Business Loan, LLC (Business Loan), a wholly-owned subsidiary of ours, was established on February 3, 2003, for the sole purpose of owning a portion of our portfolio of investments in connection with our revolving line of credit.

Gladstone Financial Corporation (Gladstone Financial), a wholly-owned subsidiary of ours, was established on November 21, 2006, for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone Financial acquired this license in February 2007. The license enables us to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies. As of June 30, 2015 and September 30, 2014, we held no investments through Gladstone Financial.

The financial statements of the foregoing two subsidiaries are consolidated with ours. We also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 12 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by our investment advisor, Gladstone Management Corporation (the Adviser), a Delaware corporation and a Securities and Exchange Commission (the SEC) registered investment adviser and an affiliate of ours, pursuant to an investment advisory and management agreement (the Advisory Agreement). Administrative services are provided by our affiliate, Gladstone Administration, LLC (the Administrator), a Delaware limited liability company, pursuant to an administration agreement (the Administration Agreement).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of Regulation S-X. Accordingly, we have omitted certain disclosures accompanying annual financial statements prepared in accordance with GAAP. The accompanying *Condensed Consolidated Financial Statements* include our accounts and those of our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Under Article 6 of Regulation S-X, and the authoritative accounting guidance provided by the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any portfolio company investments, including those in which we have a controlling interest. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and nine months ended June 30, 2015, are not necessarily indicative of results that ultimately may be achieved for the fiscal year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, as filed with the SEC on November 12, 2014, and subsequently amended on December 29, 2014.

Our accompanying fiscal year-end *Condensed Consolidated Statement of Assets and Liabilities* was derived from audited financial statements, but does not include all disclosures required by GAAP.

Reclassifications

Certain amounts in the prior year s financial statements have been reclassified to conform to the presentation for the nine months ended June 30, 2015, with no effect on our financial condition, results of operations or cash flows.

Investment Valuation Policy

Accounting Recognition

We record our investments at fair value in accordance with the Financial Accounting Standards Board (the FASB) Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (ASC 820) and the 1940 Act. Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and amortized cost basis of the investment, without regard to unrealized depreciation or appreciation previously recognized, and include investments charged off during the period, net of recoveries. Unrealized depreciation or appreciation primarily reflects the change in investment fair values, including the reversal of previously recorded unrealized depreciation or appreciation when gains or losses are realized.

Board Responsibility

In accordance with the 1940 Act, our board of directors (our Board of Directors) has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on our established investment valuation policy (the Policy). Our Board of Directors reviews valuation recommendations that are provided by professionals of the Adviser and Administrator with oversight and direction from the chief valuation officer (the Valuation Team). There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by the chief valuation officer, uses the Policy and each quarter our Board of Directors reviews the Policy to determine if changes thereto are advisable and also reviews whether the Valuation Team has applied the Policy consistently.

Use of Third Party Valuation Firms

The Valuation Team engages third party valuation firms to provide independent assessments of fair value of certain of our investments. Standard & Poor s Securities Evaluation, Inc. (SPSE) provides estimates of fair value on our proprietary debt investments. The Valuation Team generally assigns SPSE s estimates of fair value to our debt investments where we do not have the ability to effectuate a sale of the applicable portfolio company. The Valuation Team corroborates SPSE s estimates of fair value using one or more of the valuation techniques discussed below. The Valuation Team s estimates of value on a specific debt investment may significantly differ from SPSE s. When this occurs, our Board of Directors reviews whether the Valuation Team has followed the Policy and whether the Valuation Team s recommended value is reasonable in light of the Policy and other relevant facts and circumstances and then votes to accept or reject the Valuation Team s recommended valuation.

In addition, we began using a third party valuation firm starting with the March 31, 2015 quarter end to provide additional EBITDA multiple ranges, as well as other information, that may be incorporated into our total enterprise valuations of certain of our equity investments. Generally, at least once per year, we use an independent valuation firm to independently value or review our significant equity investments and provide additional information for us to consider in our total enterprise valuations. The Valuation Team reviews all information from the valuation firm and makes a recommendation to our Board of Directors as to valuations. Our Board of Directors then reviews the recommended value and whether it is reasonable in light of the Policy and other relevant facts and circumstances and then votes to accept or reject the Valuation Team s recommended valuation.

Valuation Techniques

In accordance with ASC 820, the Valuation Team uses the following techniques when valuing our investment portfolio:

Total Enterprise Value In determining the fair value using a total enterprise value (TEV), the Valuation Team first calculates the TEV of the portfolio company by incorporating some or all of the following factors: the portfolio company s ability to make payments and other specific portfolio company attributes; the earnings of the portfolio company (the trailing or projected twelve month revenue or earnings before interest, taxes, depreciation and amortization (EBITDA)); EBITDA or revenue multiples obtained from our indexing methodology whereby the original transaction EBITDA or revenue multiple at the time of our closing is indexed to a general subset of comparable disclosed transactions and EBITDA or revenue multiples from recent sales to third parties of similar securities in similar industries; a comparison to publicly traded securities in similar industries; and other pertinent factors. The Valuation Team generally references industry statistics and may use outside experts when gathering this information. Once the TEV is determined for a portfolio company, the Valuation Team then allocates the TEV to the portfolio company s securities in order of their relative priority in the capital structure. Generally, the Valuation Team uses TEV to value our equity investments and, in the circumstances where we have the ability to effectuate a sale of a portfolio company, our debt investments.

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TEV is primarily calculated using EBITDA or revenue multiples; however, TEV may also be calculated using a discounted cash flow (DCF) analysis whereby future expected cash flows of the portfolio company are discounted to determine a net present value using estimated risk-adjusted discount rates, which incorporate adjustments for nonperformance and liquidity risks. Generally, the Valuation Team uses the DCF to calculate the TEV to corroborate estimates of value for our equity investments where we do not have the ability to effectuate a sale of a portfolio company or for debt of credit impaired portfolio companies.

Yield Analysis The Valuation Team generally determines the fair value of our debt investments using the yield analysis, which includes a DCF calculation and the Valuation Team s own assumptions, including, but not limited to, estimated remaining life, current market yield, current leverage, and interest rate spreads. This technique develops a modified discount rate that incorporates risk premiums including, among other things, increased probability of default, increased loss upon default and increased liquidity risk. Generally, the Valuation Team uses the yield analysis to corroborate both estimates of value provided by SPSE and market quotes.

Market Quotes For our syndicate investments for which a limited market exists, fair value is generally based on readily available and reliable market quotations which are corroborated by the Valuation Team (generally by using the yield analysis explained above). In addition, the Valuation Team assesses trading activity for similar syndicated investments and evaluates variances in quotations and other market insights to determine if any available quoted prices are reliable. Typically, the Valuation Team uses the lower indicative bid price (IBP) in the bid-to-ask price range obtained from the respective originating syndication agent s trading desk on or near the valuation date. The Valuation Team may take further steps to consider additional information to validate that price in accordance with the Policy.

Investments in Funds For equity investments in other funds, the Valuation Team generally determines the fair value of our uninvested capital at par value and of our invested capital at the net asset value (NAV) provided by the fund. The Valuation Team may also determine fair value of our investments in other investment funds based on the capital accounts of the underlying entity.

In addition to the above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including, but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on proprietary debt and equity investments made during the most recently completed quarter are generally valued at original cost basis.

Fair value measurements of our investments may involve subjective judgments and estimates and due to the inherent uncertainty of determining these fair values, the fair value of our investments may fluctuate from period to period. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which it is recorded.

Refer to Note 3 *Investments* for additional information regarding fair value measurements and our application of ASC 820.

Interest Income Recognition

Interest income, adjusted for amortization of premiums, acquisition costs, and amendment fees and the accretion of original issue discounts (OID), is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan for financial reporting purposes until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when a loan s status significantly improves regarding the debtor s ability and intent to pay contractual amounts due, or past due principal and interest are paid and, in management s judgment, are likely to remain current, or, due to a restructuring, the interest income is deemed to be collectible. As of June 30, 2015, four portfolio companies were either fully or partially on non-accrual status with an aggregate debt cost basis of approximately $49.2 million, or 13.4% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately $10.7 million, or 3.5% of the fair value of all debt investments in our portfolio. As of September 30, 2014, three portfolio companies were on non-accrual status with an aggregate debt cost basis of approximately $51.4 million, or 16.1% of the cost basis of all debt investments in our portfolio, and an aggregate debt fair value of approximately $13.2 million, or 5.2% of the fair value of all debt investments in our portfolio.

We currently hold, and we expect to hold in the future, some loans in our portfolio that contain OID or paid-in-kind (PIK) provisions. We recognize OID for loans originally issued at discounts and recognize the income over the life of the obligation based on an effective yield calculation. PIK interest, computed at the contractual rate specified in a loan agreement, is added to the principal balance of a loan and recorded as income over the life of the obligation. Therefore, the actual collection of PIK income may be deferred until the time of debt principal repayment. To maintain our ability to be taxed as a RIC, we may need to pay out both of our OID and PIK non-cash income amounts in the form of distributions, even though we have not yet collected the cash on either.

As of June 30, 2015 and September 30, 2014, we had 17 original OID loans, primarily from the syndicated investments in our portfolio. We recorded OID income of $0.1 and $0.2 million for the three and nine months ended June 30, 2015, respectively, as compared to $59 and $0.2 million for the three and nine months ended June 30, 2014, respectively. The unamortized balance of OID investments as of June 30, 2015 and September 30, 2014, totaled $0.8 million and $0.6 million, respectively. As of June 30, 2015 and September 30, 2014, we had four and three investments, respectively, with a PIK interest component. We recorded PIK income of $0.3 and $0.5 million for the three and nine months ended June 30, 2015, respectively, as compared to $80 and $0.3 million for the three and nine months ended June 30, 2014, respectively. We collected $0 PIK interest in cash during the nine months ended June 30, 2015 and 2014, respectively.

Other Income Recognition

We generally record success fees upon our receipt of cash. Success fees are contractually due upon a change of control in a portfolio company, typically from an exit or sale. We recorded an aggregate of $1.7 million in success fees during the nine months ended June 30, 2015, which resulted from $0.6 million related to the early payoff of North American Aircraft Services, LLC (NAAS) at a realized gain, $0.3 million prepayment of success fees by Francis Drilling Fluids, LLC (FDF), $0.5 million prepayment of success fees by Defiance Integrated Technologies, Inc. (Defiance), $0.1 million prepayment of success fees by Southern Petroleum Laboratories, Inc. (SPL) and $0.2 million of success fees related to our sale of substantially all of the assets in Lindmark Acquisition, LLC (Lindmark) and the ensuing pay down of our debt investments in Lindmark at par in September 2013. We recorded an aggregate of $1.6 million in success fees during the nine months ended June 30, 2014, which resulted from $0.5 million related to the early payoff of Thibaut Acquisition Co. at par, $0.5 million prepayment by FDF and $0.6 million received as a result of our sale of substantially all of the assets in Lindmark in September 2013.

Dividend income on equity investments is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash. During the nine months ended June 30, 2015, we recorded an aggregate of $0.6 million of dividend income, which resulted from $0.1 million from our preferred equity investment in FDF, $0.2 from our preferred equity investment in Funko, LLC (Funko) and $0.3 million from our preferred equity investment in SPL. During the nine months ended June 30, 2014, we recorded an aggregate of $1.0 million of dividend income, net of estimated income taxes payable, which resulted from $0.2 million on our preferred equity investment in FDF, $0.7 million on our investment in FedCap Partners, LLC and $0.1 million on our preferred equity investment in Funko.

Success fees and dividend income are both recorded in other income in our accompanying *Condensed Consolidated Statements of Operations.*

Recent Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent)* (ASU 2015-07), which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measures at net asset value per share (or its equivalent) using the practical expedient in the FASB s fair value measurement guidance. We are currently assessing the impact of ASU 2015-07 and do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-07 is required to be adopted retrospectively and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, with early adoption permitted.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU-2015-03), which simplifies the presentation of debt issuance costs. We are currently assessing the impact of ASU 2015-03 and do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, with early adoption permitted.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* (ASU 2015-02), which amends or supersedes the scope and consolidation guidance under existing GAAP. The new standard changes the way a reporting entity evaluates whether a) limited partnerships and similar entities should be consolidated, b) fees paid to decision makers or service providers are variable interests in a variable interest entity (VIE), and c) variable interests in a VIE held by related parties require the reporting entity to consolidate the VIE. ASU 2015-02 also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. We are currently assessing the impact of ASU 2015-02 and do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, with early adoption permitted.

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In August 2014, the FASB issued ASU 2014 15, *Presentation of Financial Statements Going Concern (Subtopic 205 40): Disclosure of Uncertainties About an Entity s Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Since this guidance is primarily around certain disclosures to the financial statements, we anticipate no impact on our financial position, results of operations or cash flows from adopting this standard. We are currently assessing the additional disclosure requirements, if any, of ASU 2014-15. ASU 2014-15 is effective for the annual period ending after December 31, 2016 and for annual periods and interim periods thereafter, with early adoption permitted.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. We are currently assessing the impact of ASU 2014-09 and anticipate no impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2014-09 is effective for annual reporting periods that begin after December 15, 2017 and interim periods within those years, with early adoption not permitted.

NOTE 3. INVESTMENTS

Fair Value

In accordance with ASC 820, our investments fair value is determined to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between willing market participants on the measurement date. This fair value definition focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of a financial instrument as of the measurement date.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical financial instruments in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar financial instruments in active or inactive markets, and inputs that are observable for the financial instrument, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the financial instrument and can include the Valuation Team s assumptions based upon the best available information.

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement.

However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of June 30, 2015 and September 30, 2014, all of our investments were valued using Level 3 inputs and during the nine months ended June 30, 2015 and 2014, there were no investments transferred into or out of Levels 1, 2 or 3.

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The following table presents our investments carried at fair value as of June 30, 2015 and September 30, 2014, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type, all of which are valued using Level 3 inputs:

	Total Recurring Fair Value Measurements Reported in *Condensed Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3)	
	June 30, 2015	**September 30, 2014**
Non-Control/Non-Affiliate Investments		
Secured first lien debt	**$ 124,798**	$ 78,031
Secured second lien debt	**102,167**	106,869
Preferred equity	**26,201**	10,593
Common equity/equivalents	**2,878**	3,433
Total Non-Control/Non-Affiliate Investments	**$ 256,044**	$ 198,926
Affiliate Investments		
Secured first lien debt	**$ 50,324**	$ 43,915
Secured second lien debt	**11,970**	6,593
Preferred equity	**1,445**	3,091
Common equity/equivalents	**4,696**	3,407
Total Affiliate Investments	**$**	